

# Commonwealth Grants Commission 2015 Methodology Review

Tasmanian Government Submission in Response to  
Staff Discussion Paper CGC 2013-06S

January 2014



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## Preamble

Tasmania finds the commission position as expressed in *CGC 2013-05 Equalisation Objectives and Supporting Principles* to be broadly in line with Tasmania's own views on principles and architecture for the 2015 Review as canvassed in our July 2013 submission. To the extent that we may have issues we wish to raise – for example – the PNFC treatment of urban transit and housing – we address these in our response to the staff discussion paper *CGC 2013-06S Implementation and Methodological Issues* (refer below) and/or our separate submission response to staff discussion paper *CGC 2013-07S Proposed Assessments*.

## Measures of Fiscal Capacity and the Simplified and Integrated Framework

The GST Distribution Review recommended replacing the current capital assessment with an alternative simplified and integrated framework.

The alternative approach favoured a return to an assessed budget based on an operating statement (i.e. Net Operating Balance) rather than the current net lending/borrowing statement which includes the net acquisition of capital.

The GST Distribution Review also recommended as part of the simplified and integrated framework:

1. the inclusion of subsidised PNFCs (public housing and transport) within the assessments of General Government activities rather than as a General Government subsidy to the PNFC sector;
2. replacing Investment and Net lending assessments with an adjusted Depreciation assessment that “scales up” the depreciation rate to account for capital holding charges such as interest on loans; and
3. retaining the population dilution disability. However applied to Net Worth (rather than Net Financial Worth)<sup>1</sup>

In their responses to commission's request for States' views on principles and architecture for the 2015 Review, the majority of States supported, to varying degrees, a move away from the current capital assessment. South Australia supported the GST Distribution Review's approach. New South Wales, the ACT and Tasmania also supported the GST Distribution Review's approach however did not support the population dilution disability factor. Victoria supported removing the capital assessment altogether from the adjusted budget. Western Australia supported the current approach but noted it would also consider a holding cost approach if an appropriate holding cost rate could be derived.

However, commission staff state in their discussion paper that they are not convinced the simplified and integrated framework offers advantages that warrant moving away from the current approach. The staff view is that there are key disadvantages with the simplified model, being: the requirement

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<sup>1</sup> Net Financial Worth is total financial assets less total liabilities. Net Worth is total assets (financial and non-financial ie physical and other non-financial assets) less total liabilities.

for the commission to use judgement about a suitable holding cost rate, the holding cost approach being an artificial construct and therefore less transparent and that the approach is less contemporary by not fully recognising capital needs in the current year.

The GST Distribution Review Panel recommended that urban transport and public housing PNFCs be included in the capital assessments as the current approach through net lending does not fully recognise States' capital needs from these entities. Net lending only recognises population growth disability.

The commission proposes to adopt part of the GST Review Panel's recommendations by changing the coverage of State activities to include public housing and urban transport PNFCs within the General Government sector, as it considers these activities are similar to a Government department than a commercial activity. This will mean that the infrastructure requirements of these entities will be assessed through the Investment and Depreciation assessments and not part of Net Financial Worth. (Commission Paper CGC 2013-05 page 5).

However, Tasmania continues to have concerns with the current and proposed changes to the capital assessment methodology. Specifically, the commission's approach of recognising capital needs immediately through the adjustment for population dilution of the average stock of infrastructure and net financial worth. Tasmania does not agree that full recognition of population dilution is required for equalisation, and that this is disability factor is overstated. For example, Tasmania is of the view that population growth has positive as well as negative impacts for a State's fiscal capacity, such as equity growth of PNFCs which are not captured in the assessments.

Tasmania is also concerned that the proposal to include public housing and public transport PNFCs within the General Government sector assessments of Infrastructure will introduce greater volatility as the disability factors are applied to a larger base (assessed capital stock).

These concerns are discussed in more detail in Tasmania's response to *Staff Discussion Paper CGC 2013-07S, 2015 Review Proposed Assessments*.

## **Implementation Issues for What States Collectively Do**

### **Revenue and Expense standards**

Tasmania endorses the commission continuing to base revenue and expense standards on population, revenue or service base weighted averages of "what States collectively do", rather than simple averages from both a principle and practical perspective. In our July 2013 submission, we opposed arguments for discounted or otherwise modified revenue and expenditure standards as a means of encouraging efficiency or economic development incentives.

### **Determining Average Policy**

The staff paper argues that this approach will be simpler, more inclusive and less likely to suffer from policy neutrality problems than the test used in the 2010 Review.

While Tasmania sees merit in the proposed approach, we would make the following points.

Tasmania accepts this revised “average policy” approach would be more inclusive and therefore, in principle, should move the assessment closer to an HFE outcome. Whether this will occur in practice will depend on the 2015 Review materiality threshold ultimately adopted.

We agree this will be simpler in the sense that the commission staff will only need to test for materiality and no longer for whether the majority of the base/majority of the States rule is simultaneously satisfied. Related to this we also agree that the proposed policy is better able to deal with participating/non-participating State challenges. However, we would anticipate potential additional computational challenges arising from the need to infer notional tax or service bases in States where the tax or service in question is not delivered. Whether it will be simpler overall therefore remains unclear.

Tasmania questions how real this purported policy neutrality issue is. A State can only control its own policy decision. It has no capacity to influence the decision of other States. In this context there are arguably up to five “marginal” States at a given point in time.

More fundamentally, Tasmania queries whether the purported policy neutrality issue is resolved or simply shifted elsewhere, potentially with an enhanced capacity for issues to arise as a result of the higher proposed materiality threshold for the 2015 Review.

That is, under the proposed approach, it could be argued that every State, not simply the marginal State(s) would now have an incentive to actively consider the potential GST consequences of all unilateral tax or service policy decisions. Furthermore, with the proposed higher materiality threshold, a State may arguably be more able to actively structure its policy decisions to impact its GST outcome. For example, set a tax rate to ensure that the revenue collected “fails” to meet the materiality threshold. The higher the materiality threshold is set, arguably, the stronger the incentive to do this as the greater the potential gain to that State in terms of retention of that non-equalised revenue. In this context it could be argued that contrary to the commission’s stated focus on minimizing the impacts on of HFE on the operations of government and economies generally, the enhanced focus on materiality actually increases this risk, at least with respect to the operations of government.

Tasmania questions how real these behavioural risks would be in practice. In response to various claims by certain States the GST Distribution Review Panel thoroughly examined concerns that HFE encourages States to manipulate tax or spending policies to maximise GST share.

The Panel concluded that while the current system can and does create perverse incentives in theory, there is little evidence of those incentives having any effect in practice. Conversely, there are many recent examples of States acting in spite of them.

On balance, Tasmania supports the proposed policy on the basis of its enhanced in-principle inclusiveness and ease of administration benefits. However, we find the assertion of either net simplification benefits or improved policy neutrality to be unproven.

## Equalisation of costs on a ‘spend gradient’ basis

Consistent with the argument we advanced in our July 2013 submission, Tasmania endorses the staff proposed recommendation that the commission not pursue a ‘spend gradient’ assessment, as it is inconsistent with the HFE principle.

## Implementation Issues for Policy Neutrality

### Policy neutral or policy free equalisation?

Tasmania has been a long term supporter of both the average policy and policy neutrality principles and considers these to be mutually reinforcing pillars of the current horizontal equalisation approach.

While certain States made assertions to the GST Distribution Review about the capacity of States to selectively distort their (revenue) policies in order to gain a GST advantage, it is noted that the GST Distribution Panel found no evidence to support this as a real issue.

However, Tasmania acknowledges that in relation to mining revenue, the use of an external standard may merit consideration given the specific problems with deriving a policy neutral mining revenue assessment. This is developed further in our response to the Mining Revenue chapter in *Staff Discussion Paper 2013-07S Proposed Assessments*.

### Equalisation of Past Policy

Western Australia has argued that policy neutrality is focussed on reducing any immediate effects of State policies, rather than on longer term incentives to vary (or not) behaviours. It said that current circumstances should be recognised as the aggregate outcome of underlying disabilities and past State policies, not just taken at face value. It said that one way to address this issue is to apply a general discount across assessments, particularly the revenue assessments.

The staff paper notes that to operationalise an approach to recognising past policy effects on current revenue bases, the commission would have to develop ways to identify the effect of each State’s policies over time on its respective revenue bases. The staff consider that it is not clear that the commission could do this in a reliable and comparable way across States, nor that a general discount would lead to an improved HFE outcome.

Tasmania agrees with the commission staff’s reservations about such an approach. Equalising fiscal capacities because of past investment decisions by States by for example applying a general discount on mining revenue is arbitrary, and inconsistent with the principles and intent of HFE which aims to equalise fiscal capacities in the present. This is addressed in Tasmania’s response to Mining Related Expenditure in the *Staff Discussion Paper 2013-07S Proposed Assessments*.

### Elasticity Adjustments

Tasmania accepts that in principle, material elasticity effects could arise in relation to particular revenue bases.

Tasmania notes the staff's efforts to quantify how large an elasticity factor would have to be within each of the revenue bases before it would become material for commission's purposes and hence trigger a commission elasticity adjustment assessment.

On the basis of the staff analysis as reported in paragraphs 42-58 of the staff discussion paper, Tasmania supports the staff proposal to recommend that elasticity adjustments to State revenue bases not be applied within the 2015 Review. However, should the commission adopt a different materiality threshold to that currently proposed by staff (\$10 per capita for data adjustments), this recommendation may need to be re-evaluated.

## Implementation Issues for Practicality

### Materiality thresholds

The staff rationale cited for the proposed threefold increase from the current thresholds of \$10 and \$3, to \$30 and \$10 respectively, is that the staff considers the commission "should set out to constrain complexity and so set thresholds above a business as usual level" in order to "preserve simplification".

Tasmania would support the real indexation of the existing thresholds (or an effective doubling of the 2010 Review thresholds). However, the threshold increases as proposed would not in fact simply "preserve" simplification but rather materially increase it. This would come at the cost of diminished equalisation.

Tasmania opposes changes in materiality thresholds above real indexation as part of the 2015 Review.

We acknowledge that terms of reference 2(a) require the commission to consider the appropriateness of the current materiality thresholds (flowing from recommendation 3.1 of the GST Distribution Review final report).

However, Tasmania notes the staff rationale as cited (refer paragraph 66) appears to be in the nature of an assertion of a belief rather than the outcome of an evidence-based argument necessitating greater simplification.

In the related discussion (refer paragraphs 61-67 and table 2) the commission staff do not present a case to support a real increase in materiality thresholds.

Notably, no evidence has been presented to demonstrate that the existing thresholds were ineffective in achieving simplification in 2010-11 or have been ineffective in terms of preserving the degree of simplification achieved through the implementation of the 2010 methodology in subsequent updates. Provided materiality thresholds are indexed in real terms, erosion of simplification does not appear to be a real threat in the context of this time-constrained 2015 Review where the existing category structure is the default option.

Consistent with our July 2013 submission, Tasmania opposes arbitrarily increasing these thresholds. We do not agree that the commission's assessments are "falsely precise", that the existing

materiality provisions are inadequate, or that a robust case for further simplification has been made in this context.

In addition, a real terms increase in the materiality thresholds such as the threefold increase in the proposed staff recommendation would not only further erode the achievement of equalisation, it also risks setting a poor precedent for future reviews.

As previously noted in our July 2013 submission, Tasmania accepted the 2010 Review structural changes, and the related materiality and data reliability assessment guidelines, as a necessary impost for enduring simplification and preservation of HFE into the future.

However, we do not accept this justifies an ongoing incremental simplification process leading to the longer term progressive erosion of the horizontal equalisation system. Tasmania is concerned by the precedent this staff proposal would appear to set, particularly in the absence of supporting evidence as to the necessity for such a measure.

Given that the 2010 Review category structures remain the default structures for the 2015 Review, Tasmania accepts that the 2010 Review category structure and redistribution assessment guidelines cease to apply for the 2015 Review. However, consistent with our previous argument (refer July 2013 submission) we consider that real increases to materiality thresholds need to be considered as part of a more holistic system wide consideration rather than determined in isolation.

### **Materiality thresholds for Commonwealth payments**

Tasmania does not consider that there is an asymmetry that needs to be addressed by applying materiality guidelines to Commonwealth payments in the 2015 Review.

In effect, while individual Commonwealth payments – for example- a specific national partnership payment – may “fail” a materiality threshold test, in aggregate there is no question as to the materiality of Commonwealth payments in totality.

It is also the case that both SPPs and NPs support provision of services assessed by the commission and the differential per capita distribution of individual NPs often reflect similar considerations to those that the commission takes into account in assessing expenditure needs.

In this context, Tasmania has always supported the principle of treating Commonwealth payments on an “impact” basis as offsets to assessed expenditures needs (except where terms of reference direct or commission guidelines establish otherwise).

Tasmania considers attempting to determine the materiality of individual NP payments, whether on either an individual or grouped-by-category basis, would result in arbitrary consequences for different States and a diminishment of equalization overall.

Rather, in the same way that the materiality of a disability is assessed on the totality of its impact, Tasmania considers Commonwealth payments as being similar to a consolidated expenditure offset disability. This reflects the way that these payments are currently treated within the commission

assessment process - absorbed within the category specific expenditure standards on the expenditure side but with a default APC treatment on the revenue side.

Tasmania sees this consolidated expenditure offset as similar in concept to the principle underpinning aggregation in a land tax assessment context. That is, in the absence of aggregation, if land tax was assessed on an individual holding basis, a land owner with six smaller valued properties would pay less tax than a land owner with one property having the same value as the six smaller properties in aggregate. This is inherently wrong in a taxation principles context and would also, in Tasmania's view, be inherently wrong in an equalisation context.

Tasmania acknowledges this requires the commission to assess the individual merits of every NP in terms of whether an APC or EPC treatment is appropriate from a first principle basis rather than using a simple EPC rule for those below a certain threshold value. However, Tasmania considers this to be the approach most consistent with equalisation principles.

### **Rounding Relativities**

Consistent with arguments previously advanced in our July 2013 submission Tasmania opposes the further rounding of relativities for reporting purposes and queries the benefits this would achieve.

The original recommendation of the GST Distribution Review Panel was for rounding to two decimal places "to ensure that the system does not appear to be falsely precise". The staff proposal is for rounding to three decimal places on the grounds of materiality.

Rather than reiterate previous arguments, Tasmania refers the staff to points made in our previous submission with respect to both the false premise and the ill-conceived cosmetic nature of the GST Distribution Review Panel recommendation 3.2.

Tasmania also queries the compounding impact of further rounding relativities, on the grounds of materiality, when materiality considerations are already embedded in the calculation of these relativities to begin with. It is not clear to Tasmania how this can result in anything other than the arbitrary truncation of what are already materiality-adjusted relativity factors. In Tasmania's view this risks further undermining rather than enhancing the structural integrity of the equalisation calculations.

### **Discounting**

Tasmania supports in principle the continued application of a uniform set of discounts within the 2015 Review.

With respect to the specific wording of the staff proposal, Tasmania notes that in addition to reviewing where discounts have previously been applied as to their continued appropriateness the commission will also need to consider new application contexts.

It is our understanding that the specific application of discounts within individual assessment contexts will be considered later in the review process.

## Implementation Issues for Contemporaneity

### Backcasting

Tasmania endorses the staff's proposed continued application of backcasting but only if the changes can be made reliably and they are material.

One State has criticised the backcasting of the phased IGA taxes removal as inconsistent with the treatment of other revenue measures.

In contrast, Tasmania's recollection is that the rationale for backcasting the phased removal of the IGA taxes was that the 2000 IGA and its related tax reform commitments represented a major change in Commonwealth–State financial arrangements.

The staff response, correctly, in Tasmania's view, identifies the real issue has been the reliability of States commitment to the removal of these taxes. The proposed recommendation seeks to address this by adopting reliability as a critical consideration in future decisions to backcast.

### Use of non-annual and lagged data

Consistent with our July 2013 submission position on the use of non-annual and lagged data, Tasmania endorses the staff proposal to continue to use data which best reflects States' likely circumstances in the year of application.

### A Global Revenue Assessment

Tasmania strongly endorses the staff proposal to not adopt a global revenue assessment for the 2015 Review. We agree that a tax by tax approach better captures States revenue capacities.

The tax by tax approach is consistent with the assessment principle "what States collectively do". While detailed in its application, it relies on a simple concept. It also reflects the general conceptual approach to revenue equalisation in federations globally.

Tasmania also agrees that global indicators do not reflect States relative capacities to raise revenue. Specifically, the practical, legal and constitutional constraints that States face in accessing their implied tax base in combination with the interstate differences in industry structure (such as mining activity), income distribution, wealth or the extent to which non-residents pay State taxes.

Further, while there have been a number of assertions made, there is no convincing evidence that the current assessment of State revenue on a tax by tax base has a material impact on State behaviour, decision making or tax policy. Hence, there appears to be little justification to mandate the use of a global indicator on policy neutrality grounds.

### Broad indicator Assessments

Tasmania endorses the staff's proposed approach to use the broadest indicator consistent with the legal tax base and what States collectively do as providing an internally consistent and balanced response to the choice of assessment basis for revenue bases.

Pragmatically, since at least the 1999 Review, each CGC methodology review has evaluated options for broader indicators to replace State own source revenue bases with mixed results. Typically, this has come down to a judgment as to the better of two “second-best” alternatives within the given revenue category context.

Past reviews have canvassed a range of broad revenue measures, including: Gross State Product; household disposable income, ABS housing finance data, and elements of business income as alternatives to current or past revenue bases in use.

Broader indicators have been adopted within individual revenue categories where they have been found viable. For example, the ABS Compensation of Employees data, subject to certain adjustments, is now used within the payroll tax assessment and household disposable income was used in the gambling revenue assessment prior to the 2010 Review. However, other measures, such as the use of ABS housing finance data as an indicator of conveyance duty revenue capacity have previously been rejected as less reliable, on balance, than the State-sourced conveyance data.

Tasmania also agrees with the commission observation that the “what States collectively do” principle requires that the commission reflect on how States raise taxes, including where average policy is to provide exemptions, tax free thresholds or progressive tax regimes. Tasmania endorses the continuation of these adjustments where material and reflective of average policy.

## **Treatment of Commonwealth Payments**

Tasmania endorses the staff proposed treatment of Commonwealth payments. This reflects the broad approach developed for the 2010 Review with the exception of the removal of the previous “no impact” treatment for “payments implemented at the behest of the Australian Government and which lead to above average or unique State outcomes”.

Tasmania previously argued that this guideline was not working effectively and, consistent with this, supports its omission from the above 2015 Review recommendation.

## **Assessment Guidelines**

Staff propose the commission again adopt assessment guidelines for this review but modified relative to those adopted for 2010 Review. Specifically, reflecting that the 2015 Review is not a “clean slate” review, staff propose that guidelines relating to scope and structure be removed along with some other minor changes.

The staff discussion paper notes that while the guidelines will be used to inform the commission’s decision making processes, the commission will retain the right to exercise judgment if it has good reasons for not following the guidelines. Such reasons will be provided to States.

Tasmania supports the modified assessment guidelines as proposed except in relation to the specific materiality thresholds proposed of \$30 for disabilities and \$10 for data adjustments. Tasmania’s position on the proposed materiality thresholds is set out in the section on Materiality Thresholds earlier in this submission.

Tasmania has always supported the role of commission judgement in the commission's decision making processes and continues to do so for the 2015 Review.

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## Chapter I Payroll Tax

Tasmania supports the commission staff proposal to continue the Payroll tax assessment method adopted in the 2010 Review, which assesses States' payroll tax revenue capacity using ABS Compensation of Employee data.

Tasmania supports the retention of the tax free threshold adjustment. It reflects what States do, and the commission staff appear satisfied that the ABS CoE data are of sufficient quality for the commission's purpose.

## Chapter 2 Land Tax

Tasmania supports the commission staff proposal to continue the Land tax assessment method adopted in the 2010 Review.

### 2.1 Treatment of metropolitan levies

Assuming that the proposed new method for determining average policy is adopted, Tasmania does not have any concerns regarding the proposal to include metropolitan levies in the land tax assessment.

### 2.2 Source of land value data

Tasmania supports the commission staff proposal to continue to source land data from State Revenue Offices.

As indicated in Table 2-1 of the paper, titled, *2015 Review Proposed Assessments Staff Discussion Paper CGC 2013-07S*, both Valuers-General data and National Accounts data are deficient in a number of areas that mean that an assessment based on such data would be less reflective of what States do than the current assessment.

The only area in which these data sources are claimed to be superior to SRO data is with regards to the policy neutrality of data. Tasmania rejects the concerns put forward by Western Australia that the use of SRO land tax base data creates an incentive for States not to put effort into compliance activities that may increase their assessed land tax base. It is certainly not the Tasmanian experience that the SRO's investigation and compliance policies are in any way influenced by their potential to impact on the commission's assessments. SROs are highly motivated to collect the correct amount of tax and are unlikely to forego immediate additional land tax revenue because of the potential impact on the commission's future land tax assessment.

In answer to the commission staff question in Chapter 2, paragraph 18, of the proposed assessments staff discussion paper, the Tasmanian Valuer-General's data have not changed since the 2010 Review, and do not identify principal places of residence and do not aggregate landholdings by owner. Use of the Valuer-General's data would result in a poorer assessment of Tasmania's land tax base than is possible from Tasmania's SRO data.

### 2.3 Comparability of SRO data

In the 2010 Review, the commission elected to apply a 25 per cent discount to the land tax assessment because of residual concerns about the comparability of SRO data.

Given that the commission has now had four additional years use of SRO land tax data, Tasmania suggests that the commission review the current comparability of SRO data with a view to discontinuing the 25 per cent discount.

## 2.4 Clarification - Pensioners

As a matter of clarification, the statement at the end of paragraph one in Chapter 2 of the proposed assessments staff discussion paper that Tasmania exempts land owned by pensioners is not quite correct.

Since 1 July 2011, Tasmania has treated pensioner-owned land in the same manner as non-pensioner land.

Tasmania specifically exempts Pensioner-owned Principal Residence and Primary Production Land (which is consistent with the treatment of non-pensioner-owned PPR and PPL land), but taxes pensioner-owned general land (which is also consistent with the treatment of non-pensioner-owned general land).

## Chapter 3 Stamp Duty on Conveyances

Tasmania supports the commission staff proposal to continue the Stamp duty on conveyances assessment method adopted in the 2010 Review, subject to the following comments on data adjustments.

### 3.1 Transfer of entities that own land

For the 2010 Review, the commission applied a two per cent adjustment to increase the revenue bases of Victoria and Tasmania because they levied duty on the transfer of shares in entities that owned land only when the land component was more than a prescribed portion of the entity's assets (the ratio test).

Transactions that did not meet the ratio test were not reported to the commission by Tasmania and Victoria because they were not dutiable and the respective SRO's held no data – these States were therefore considered to have under-reported their potential revenue base. To reflect the average policy of not applying a ratio test, the commission adjusted these States' tax bases upwards by two per cent.

The quantum of the adjustment is based on Western Australia's estimates of the impact on conveyance duty revenue of abolishing its ratio test in 2008. However, the landholder/land rich provisions primarily apply to companies with large or high value land holdings. Western Australia's proportion of revenue raised from the transfer of shares in such companies is likely to be significantly larger than Tasmania's because of Western Australia's large pastoral holdings and high value mining holdings, which are those typically captured by land rich/landholder provisions. It is doubtful that Tasmania and Victoria's ratio tests restrict their revenue bases to the extent implied by the Western Australian experience.

Tasmania recommends that the commission discontinue the two per cent adjustment to Tasmania and Victoria's conveyance duty base.

Further, there is a second test that States apply to the transfer of shares in entities that own land – the land value threshold. This threshold varies from nil in the ACT to \$2 million in New South Wales and Western Australia. If an entity holds land valued at less than the land value threshold, the transfer of shares in the entity is not dutiable, regardless of any other tests applied.

Tasmania's land value threshold is significantly lower than all States except the ACT (nil) and Northern Territory (also \$500 000).

Jurisdiction	Entity	Threshold test	Significant interest test	Goods included
NSW	Unlisted company	\$2 million*	50%	Yes
	Unlisted trust	\$2 million*	50%	Yes
	Listed company	\$2 million*	90%	Yes
	Listed trust	\$2 million*	90%	Yes
Vic (proposed)	Unlisted company	\$1 million	50%	No
	Unlisted trust	\$1 million	20%	No
	Listed company	\$1 million	90%	No
	Listed trust	\$1 million	90%	No
WA	Unlisted company	\$2 million	50%	Yes
	Unlisted trust	\$2 million	50%	Yes
	Listed company	\$2 million	90%	Yes
	Listed trust	\$2 million	90%	Yes
NT	Unlisted company	\$0.5 million	50%	No
	Unlisted trust	\$0.5 million	50%	No
	Listed company	\$0.5 million	90%	No
	Listed trust	\$0.5 million	90%	No
ACT	Unlisted company	No threshold	50%	No
	Unlisted trust	No threshold	20%	No
	Listed company	N/A	N/A	No
	Listed trust	N/A	N/A	No
QLD	Unlisted company	\$2 million	50%	No
	Unlisted trust	N/A	N/A	No
	Listed company	\$2 million	90%	No
	Listed trust	\$2 million	90%	No
SA	Unlisted company	\$1 million	50%	Yes
	Unlisted trust	\$1 million	50%	Yes
	Listed company	\$1 million	90%	Yes
	Listed trust	\$1 million	90%	Yes
TAS	Unlisted company	\$0.5 million	50%	No
	Unlisted trust	\$0.5 million	50%	No
	Listed company	N/A	N/A	No
	Listed trust	N/A	N/A	No

\*NSW threshold test is based on vacant land (i.e. unimproved) land value.

The consequence of the higher land value threshold in South Australia, Queensland, Victoria, Western Australia and New South Wales is that these states only report transactions where the entity has land valued at twice or four times the minimum threshold at which Tasmania reports. Therefore, Tasmania, the ACT and the Northern Territory over-report their revenue bases with regards to the transfer of shares in entities that hold land compared to the larger States.

Tasmania recommends that the commission seek data from the States that would allow it to exclude from assessed revenue bases the transactions that are reported by the smaller states because of their lower land value thresholds. If this information is not available, Tasmania recommends that the commission review the decision to apply a two per cent adjustment to Tasmania's conveyance duty revenue base to counteract the impact of its ratio test. Abolishing this adjustment would compensate for the over-reporting as a result of Tasmania's significantly lower than average policy land value test.

### 3.2 Non-real property

Tasmania, Victoria and the ACT have each abolished duty on non-real property transfers in accordance with the *Intergovernment Agreement on the Reform of Commonwealth-State Financial Relations 1999* and subsequent *Intergovernmental Agreement on Federal Financial Relations 2008*.

The remaining States have subsequently deferred the abolition of duty on non-real property transfers indefinitely.

In the 2010 Review and subsequent updates (with the exception of the 2013 Update) the commission has considered the application of duty on such transfers to be average policy and the revenue bases of Tasmania, Victoria and the ACT were increased to reverse the impact of their "policy" decision to abolish the duty. Adjustments were six per cent for Tasmania and Victoria, and one per cent for the ACT.

Although not discussed in Chapter 3, it appears likely that the commission may again consider that the application of duty in these cases is average policy and adjust the revenue bases of these states again.

However, Tasmania, Victoria and the ACT, having complied with the terms of the IGAs by abolishing this duty, are prevented from reintroducing it by clause B2 to Schedule B of the 2008 IGA.

In reality, Tasmania, Victoria and the ACT do not have access to the non-real property revenue base, by virtue of the instrument that forms the fundamental basis of the GST distribution. While other States have failed to uphold their commitment to abolish this tax and have not been penalised, it is not politically feasible to reintroduce the tax in contravention of the IGA.

Tasmania contends that Tasmania, Victoria and the ACT do not have access to this revenue base and no adjustment should be made in the 2015 review.

### 3.3 Tasmanian-specific policy

In response to the commission staff question, Tasmania's policy with regard to the current adjustments in scope is set out below.

**Off-the-plan purchases** are subject to the general rate of duty in Tasmania.

The transfer of **unlisted entities and unlisted unit trusts that own land** are subject to duty in Tasmania if the entities are considered “land-rich”, and the transfer is a relevant transaction.

To be considered land rich:

- the entity has land holdings in Tasmania valued at \$500 000 or more; and
- the entity’s land holdings (whether within or outside of Australia) make up 60 per cent or more of the value of its assets.

To be a relevant transaction, the transaction results in the transfer of a majority interest in the entity, or results in the acquisition of a further interest which, when combined with the transferee’s other holdings, results in a majority being held by the transferee or associated entities.

The transfer of **listed entities and unit trusts that own land** is not dutiable.

The transfer of **non-real property** is not dutiable.

## Chapter 4 Insurance Tax

Tasmania supports the retention of the Insurance tax assessment.

### 4.1 Workers compensation

Assuming that the proposed new method for determining average policy is adopted, Tasmania does not have any concerns regarding the proposal to include workers compensation premiums in the insurance tax assessment.

### 4.2 Public insurer premiums

Tasmania does not anticipate any difficulty in providing public insurer premium data.

### 4.3 Materiality

Tasmania does not support the assessment of insurance duty revenue under the Other revenue category.

As per the 2010 Review, the Other revenue category is a residual revenue category, comprising revenues that the commission decided should not influence States' GST distributions.

These are:

- revenues for which a reliable and material assessment could not be developed; and
- revenues collected from taxes that are not part of average revenue raising policies, such as taxes on business that are being phased out but which remain in some States.

Clearly, insurance duty is a revenue line for which a reliable assessment has been developed, and the tax is average policy. Given the relative simplicity and consistency of insurance duty across jurisdictions, the Insurance tax assessment would appear to be one of the simpler tax revenue assessments. The staff proposal to cease the separate assessment of insurance duty and transfer it to the residual Other revenue category would seem to be a case of pursuing marginal gains in simplicity at a cost to the principle of Horizontal Fiscal Equalisation.

Tasmania has raised its concerns regarding the proposal to increase the materiality threshold from \$10 per capita to \$30 per capita in more detail in its response to the paper, titled, *2015 Review Implementation and Methodological Issues Staff Discussion Paper CGC 2013-06S*.

## Chapter 5 **Motor Taxes**

Tasmania supports the commission staff proposal to continue the Motor taxes assessment method adopted in the 2010 Review.

## Chapter 6 Priority Issue Mining Revenue

### 6.1 How likely are States to act on the incentives that would be inherent in a mineral-by-mineral assessment?

Tasmania considers that there are issues that uniquely affect the assessment of mining revenue, and that it will always be both problematic and contentious. Unlike other revenue sources, the mining revenue base is distributed very unequally among states. The policies of states which have a very large share of the mining revenue base, such as Western Australia, have a greater capacity to impact on the assessment results than is normally the case within the commission's revenue assessments.

Tasmania recognises that this creates greater scope and incentive for some states to alter their behaviour to affect their GST share than is the case for any other assessment. Further, Tasmania acknowledges that the “gaming incentives” that are inherent within this assessment would increase under a mineral-by-mineral based assessment. However, in practice, Tasmania considers the risk of states acting on these “incentives” to be negligible when balanced against the influence of other factors considered in such policy decisions, and the need to effectively equalise mining revenue to ensure HFE outcomes.

There are many more important considerations affecting tax policy, including the very significant economic and political impacts of any tax change. For example, in the case of mining tax policy, as well as raising revenue, a State government might be seeking to promote economic development and growth, to encourage regional development and to provide employment opportunities, including for workers leaving less buoyant sectors, such as manufacturing. The specific objectives of a State government's taxation policy will be heavily influenced by the preferences of the electorate. These considerations directly influence the living standards and wellbeing of a State's residents, and therefore drive tax policy.

The GST impacts of policy changes are thereby just one of many considerations pertinent to a State government's tax policy decisions, and it is unlikely to sway States in the face of other important policy considerations. This is supported by the findings of the recent 2011 GST Distribution Review, which found little hard evidence to support material effects on State decision making with respect to the willingness of States to undertake reforms, disincentives for reform, or States gaming the equalisation system by making policy choices for specific tax reforms that would result in favourable GST treatment.

Further, if a State government did engage in “gaming” behaviour, we note that there would be a delay of three to five years before the commission's methodology would “reward” such behaviour – a period longer than the electoral cycle. Moreover, there is no certainty that this gaming would be successful because of the many unpredictable factors which influence the calculation of a State's GST distribution.

## 6.2 What lessons can the commission draw from the recent decision by some States to raise their royalty rates?

The recent decision of some States to raise their royalty rates despite facing a corresponding decrease in GST revenue demonstrates that any perceived incentives within the mining revenue assessment are not a key factor in determining royalty rates. It shows that, in practice, States consider a wide range of issues when setting royalty rates, and that the potential for negative GST impacts will not necessarily prevent or greatly influence State decisions on taxation policy. Tasmania considers it likely that States will continue to consider a wide range of factors in setting royalty rates, regardless of whether the commission chose to adopt a mineral-by-mineral assessment, or another method that could provide a distribution incentive.

Western Australia has previously cited its decision to remove the concessional royalty rate on iron ore ‘fines’ in 2010 as an example of the flaws within the current two-tiered mining revenue assessment methodology. They noted that the change would have resulted in a loss in GST grants three times the amount of the additional royalty revenue raised had the CGC reclassified iron ore ‘fines’ from the low royalty rate group to the high rate group.

Tasmania acknowledges that the assessment is currently structured in a way that the scale of the impact of a specific policy choice can be extreme due to the two-tiered high/low royalty assessment method. However, it is important to note that despite the apparent magnitude of the GST impact, Western Australia was not dissuaded from removing the concession and increasing their royalty rates. In practice, they made these decisions despite recognising that the changes could have a large negative impact on their GST outcomes through this assessment.

Despite the probability that “gaming” is unlikely in practice, Tasmania acknowledges that it is theoretically possible within the assessment, and that this would increase under a mineral-by-mineral assessment.

Tasmania notes that this creates a perception that States can and will act on incentives to “game” the distribution methodology. We feel it is important to distinguish that it is this perception that has allowed this issue to come to prominence, rather than the reality. Whilst Tasmania does not consider that there is evidence to validate the idea that possible assessment outcomes will greatly influence State government taxation policy decisions, we support the commission investigating options of how to restructure the mining revenue assessment in such a way as to diminish theoretical gaming incentives.

However, it is important that this is not at the expense of HFE. The very uneven distribution of natural resource endowments across the States emphasises the importance of undertaking a mining revenue assessment. Indeed, mining revenue is the single greatest source of differences in State fiscal capacity. As such, Tasmania reiterates its view that, whilst a reduction in “gaming incentives” is desirable, it should not be at the expense of the effective assessment of mining revenue, which is essential if States are to have equal capacity to provide services and infrastructure to their residents.

### 6.3 Advantages and disadvantages of a grouping approach

As mentioned above, Tasmania notes that the commission's ability to effectively assess States mining revenue raising capacity is affected by unique issues due to the uneven distribution of mining resources across States and the policy neutrality issues this creates. Tasmania recognises the difficulty this inherent issue causes in constructing an assessment that is compatible with both of the commission's principles of "what States do" and "policy neutrality". Tasmania notes that the appropriate method of balancing these two core principles has been the source of much conjecture throughout the two previous Reviews, and also in the 2011 GST Distribution Review.

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 considers that HFE would be most closely achieved through a mineral-by-mineral assessment, with little or no grouping. The more disaggregated the treatment of differing minerals, the better the method will capture the relative revenue raising capacities of different states based on their individual mineral bases.

However, we recognise 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.

Tasmania notes that the two-group assessment structure implemented in the 2010 Review was preferred by the commission because "it provided a balance between the competing issues of accurately capturing states relative revenue raising capacity and policy neutrality". Following consultation with States regarding a range of mineral groupings, a grouping split of high and low royalty rate minerals was implemented by the commission. It was ostensibly chosen on the basis that the royalty rates of some States on some minerals were considerably higher than on others, and the distribution of these different mineral groups differed greatly across States.

Tasmania believes that the nature of the mining revenue base means that a certain level of policy non-neutrality, or "grant design inefficiency", is inherent and unavoidable. It is Tasmania's view that to attempt to remove the capacity for policy influence entirely from the mining revenue assessment is not feasible or practical. We note that the two-tier structure of the current assessment was selected to alleviate the issue somewhat. However, recent royalty policy decisions in some States appear to have highlighted other, arguably more pertinent, inadequacies of this assessment structure in practice. Specifically, the two-tiered assessment structure does not deal with changes in State royalty policies that result in a mineral type "spilling over" from the low royalty mineral group to the high royalty mineral group. To use a commonly cited example, in considering how to treat the recent changes Western Australia made to their royalty concession policies relating to iron ore 'fines', it was noted that such a reassignment would result in a large redistribution in GST that would exceed the direct revenue raised through such a policy change. Tasmania notes that the magnitude of this outcome is directly attributable to the two-tiered royalty rate structure of the assessment.

Tasmania also considers the current assessment structure to be potentially ineffective in situations where the royalty rates of grouped minerals move in different directions due to opposing market conditions. As seen with iron ore and export coal in recent years, the two-tiered approach can inaccurately inflate the assessed worth of a mineral when it is actually decreasing in value, to the detriment of specific States. That is, when a specific mineral is decreasing in value (such as export coal), but is grouped with other minerals that are increasing in value (such as lump iron ore), the average royalty rate for the group may be increasing in cases where the royalty rate of a specific mineral is in fact declining. Tasmania notes that this issue is also the direct result of the current grouping structure within the assessment.

For these reasons, Tasmania considers the two-tier, royalty-based groupings developed during the 2010 Review is no longer “fit for purpose”, and supports the pursuit of a more effective assessment structure to address these issues in a way that most effectively achieves HFE.

#### **6.4 Criteria to use to determine the classification of minerals**

In considering potential alternative assessment structures, Tasmania considers that the accurate assessment of the relative revenue raising capacity of States should be the fundamental criteria for all revenue assessments. Whilst we recognise that policy neutrality is of particular concern in this assessment, given that it will always be present to some extent we consider that simplification or structuring of the assessment for the sole purpose of avoiding policy non-neutrality should only be pursued if it is complementary to the principle of accurately assessing “what States do”.

As discussed in section 6.1 and 6.2 above, there is little evidence to support the argument that potential GST distribution outcomes will, in practice, affect States’ behaviour in setting royalties and related policies. As such, Tasmania considers that weighting of the “what States do” criteria above the “policy neutrality” criteria to be the most appropriate for ensuring that the assessment most effectively achieves HFE.

#### **6.5 Groupings to be used and number of groups**

Based on the above considerations, Tasmania supports a broad, disaggregated assessment structure based on mineral type (rather than royalty rate), with a separate assessment of any minerals where disaggregation will have a material effect.

Tasmania considers 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.

Tasmania is opposed to a single tier assessment, or any other aggregated method that would diminish the capacity of the mining revenue assessment to effectively recognise these differences. For example, a single tier assessment would average the royalty rate to all minerals, materially overstating the revenue raising capacities of a State such as Tasmania, while understating that of the large mining states such as Queensland and WA. Tasmania does not consider this outcome consistent with HFE.

Tasmania suggests that, where necessary for materiality, minerals should be aggregated into groups of like mineral types, with secondary consideration given to the royalty approach applied by States to the minerals within a mineral grouping.

Based on analysis of mineral royalty rates undertaken for *Australia's Future Tax System Review*, Tasmania considers that there is a certain level of consistency in States' internal royalty policies for mineral types, providing a practical grouping rationale.

Tasmania notes that when minerals are grouped by "mineral type" groupings shown in Table 6.1, based on recognised mineral classifications, there are broad consistencies between the royalty rates applied by each State to the minerals within each classification (see Appendix I for a summary of royalty rates charged by States). Further, grouping in this way avoids the design flaw of the current assessment in that any changes to a royalty rate of a mineral will not result in the need to reconsider the treatment of that mineral. The grouping of minerals by mineral type, rather than with those of a like royalty rate, ensures there is ongoing validity in the groupings despite any future state policy changes.

In general terms, Tasmania considers that there is broad consistency in royalty treatment within these mineral type groupings, and any differences in the treatment of grouped minerals would be smoothed based on the averaging applied within each group.

## **6.6 Should groupings be "fixed" for the duration of the Review?**

Tasmania does not believe the groupings necessarily need to be "fixed" between reviews, but is open to the idea if the commission can explain the value of doing so from a methodological perspective once an assessment approach has been agreed upon. At a minimum, groups can be reviewed as part of each five-year review, and where the minerals within these groupings are considered no longer well-aligned or are now material for separate assessment, new group configurations or further disaggregation could be debated.

**Table 6.1: Tasmania's suggested treatment of minerals by Mineral type<sup>1</sup>**

Mineral type	Sub-group	Minerals with similarities in royalty treatment	Tasmania's suggested treatment
Energy minerals		Coal – different states split as either: <ul style="list-style-type: none"> <li>• Black and Brown coal;</li> <li>• Export and non-export coal; or</li> <li>• Open cut or underground coal.</li> </ul>	Separate assessments for 'black coal' and 'All other coal' (incorporating brown and other low value coal). Only one state charges different royalty rates for export and non-export (WA). Same for open cut vs underground coal (NSW). QLD charges price-based royalty and is largest producer of black coal, whereas Vic, the largest producer of brown coal, charges standard rate + CPI.
		Gas (on-shore only)	Separate assessment
		Oil (on-shore only)	Separate assessment
		Uranium	Separate assessment
Metallic minerals	Ferrous metals	Iron ore – Lump and fines	Assess as one category (WA undertakes 97% of iron ore production, and there is no longer a policy difference between their royalty rates for iron ore Lump or 'fines').
		Niobium, Tantalum, Titanium	Assess separately where material. Could be assessed as a group based on type 'Other ferrous metals'
	Precious metals	Gold, Silver, Platinoids	Assess separately where material. Could be assessed as a group based on type 'Precious metals'
	Base metals	Bauxite/Alumina	Separate assessment
		Cobalt, Copper, Lead, Magnesium, Nickel, Zinc, Tungsten	Assess separately where material. Could be assessed as a group based on type 'Other base metals'

Non-metallic minerals	Construction minerals	Brick, building stone, sand and gravel, aggregate, clay, gypsum, limestone, slate etc.	Assess separately where material. Could be assessed as a group based on type 'Construction minerals'
	Industrial minerals	Kaolin, silica, carbonates, magnesia, salt, sand, sulphur, etc	Assess separately where material. Could be assessed as a group based on type 'Industrial minerals'
	Precious stones	Diamonds, Gemstones	Assess separately where material. Could be assessed as a group based on type 'Precious stones'

<sup>1</sup> Table includes an indicative selection of minerals of each type. It is not intended to provide a conclusive list and may not include all minerals relevant to each sub-group.

## 6.7 Adjustment for profitability

Tasmania reiterates its previously stated concerns regarding the method by which the mining revenue base is calculated for the assessment. Prior to the 2004 Review, mining revenue assessments were based on “estimated profitability” (value added less recognised costs with varying degrees of cost disaggregation and other amendments through time), rather than value of production. This was replaced with a value of production approach from the 2004 Review because it was considered to have fewer data issues and was simpler and better reflected “what States do”.

Tasmania continues to be concerned that the value of production method of calculating 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. While an assessment based on value of production data tends to reflect what States do currently in imposing royalties (with the exceptions of the Northern Territory and Tasmania to a more limited extent), it does not recognise interstate differences in underlying extraction cost structures relative to a profitability based measure. We request the commission consider this issue in the context of this Review.

The majority of Tasmania’s mining activity takes place at aging mines, 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.

In the 2011 GST Distribution Review, the Review Panel considered the mining revenue assessment in detail and noted that a profit based approach would be the preferred assessment structure. However, they also acknowledged the difficulties that exist in obtaining the necessary data to support an assessment constructed on this basis.

Tasmania recognises 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, we reiterate our concerns that the 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 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.

A 35 per cent discount was thereby applied to Tasmania’s revenue base for value-based minerals for the first four years included in the assessment (1998–99 - 2001–02), with a 70 per cent discount in the 2002–03 year.

Despite Tasmania reiterating these issues in its submissions to the “clean slate” 2010 Review, the commission opted not to address this issue within the 2010 Review assessment methodology.

Tasmania contends that these issues are still evident in Tasmania’s mining sector, and that the mining revenue assessment fails to recognise the effect of these factors on Tasmania’s revenue raising capacity. Tasmania welcomes discussion of how this issue could be addressed, including exploration of options such as the implementation of an adjustment based on a measure of profitability for those States where mine profitability is demonstrably low.

Data evidencing the profitability of Tasmania’s mining operations can be compiled for the commission’s consideration if required.

## 6.8 Adoption of an external standard

In principle, Tasmania is open to the idea of an external standard because it offers an opportunity to address at least some of the policy “non-neutrality” present within the mining revenue assessment. However, it adds a layer of complexity and Tasmania is not convinced it is a better approach than a disaggregated mineral-by-mineral approach. We consider that an external standard would need significant further analysis before we would be in a position to endorse a specific standard for use. However, we support the commission’s consideration of external standards as a potential option upon which to base this assessment.

As outlined in Section 6.2 above, on a first principles basis Tasmania considers a broad assessment based primarily on the criteria of “what States do” is most likely to effectively achieve HFE.

Tasmania considers that an external standard based on Australian States historical royalty rates is effectively a reflection of “what States did”, albeit with a time delay. On this basis, Tasmania considers this option may have merit if the standard is based on a period prior to the start of the review period (e.g. up to 2012). However, Tasmania notes that policy “non-neutrality” is not really addressed by this approach and would remain a concern. Also, lack of contemporaneity would be an issue, as the assessment would capture historical and not current revenue raising capacities. Further, there will still be a perception that states may “game” future assessments by setting royalty rates at a level that would be beneficial in future. Again, Tasmania considers the likelihood of States setting policies based on anticipated GST effects some years into the future highly improbable, particularly given that it assumes that the commission would not make changes to the assessment methodology in future reviews and, as with the current methodology, that States would change royalties with only the equalisation system in consideration.

Tasmania considers it unlikely that an external standard which is based on international experience would be a better reflection of “what States do” than the other alternatives discussed in this submission. Further, it is difficult to see how the commission could establish an external standard that is broadly reflective of mining activity in an Australian context across the full range of minerals, particularly given the differences in the comparative institutional structures within other countries.

## Chapter 7 Other Revenue

### 7.1 Gambling taxes

Tasmania does not have any suggestions regarding the construction of a reliable and material assessment of gambling revenue.

### 7.2 Fire and emergency services levies

The Tasmanian Fire Service Levy is comprised of:

- the Fire Service Contribution, a levy on property ownership (see below);
- the Motor Vehicle Fire Levy of \$17.00 (\$11.00 concessional) on most vehicle types collected via motor vehicle registrations; and
- the Insurance Fire Levy of two per cent on marine cargo insurance, 14 per cent on aviation hull insurance, and 28 per cent on other classes of commercial and industrial insurance having a fire insurance content, other than exempted classes of general insurance.

The 2012–13 revenue by component are set out below:

	\$ 000	Percentage
Fire service contribution	33 581	60.0
Insurance fire levy	15 541	27.8
Motor vehicle fire levy	6 821	12.2
Total	55 943	100.0

The Fire Service Contribution (based on property ownership) is levied on local government. The share paid by each council is based on its share of total State assessed annual value and brigade district ratings within the municipality. Councils pass amounts onto individual property owners. The amount applied to each individual property is a function of its AAV and the brigade district ratings (permanent, composite or volunteer). A minimum Fire Service Contribution per property applies, which is indexed to CPI (\$36 for 2012–13).

The proportion of the total State AAV located in a municipality may vary from year-to-year because of heterogeneous regional changes in property prices or major property developments in the municipality.

Governments tend to prefer to characterise emergency service levies as user charges or levies, rather than taxes, due to the negative connotations associated with “taxes”. However, in Tasmania at least, while they are called levies, they are considered to be taxes. They are neither temporary (levies) nor optional fees payable in return for a service (user charges). Tasmanians are unable to avoid payment of each component (if they own land, a motor vehicle or take out a relevant insurance product).

The majority of States raise some form of land-based emergency service levy, and each State has access to a land tax base. Therefore, it appears that a land-based emergency service levy is likely to be average policy for which a reliable assessment could be made (or combined with the land tax assessment as is proposed for metropolitan levies). Tasmania would not be opposed to incorporation of land-based emergency services levies into the land tax assessment. However, given the wide variation in calculation methods, determining an average tax rate and tax base may be problematic.

In Tasmania, the Fire Service Levy is not wholly equivalent to a land tax. As discussed above, 40 per cent of revenue raised comes from non-land sources. Approximately 28 per cent of revenue is raised from the levy on insurance premiums that are not wholly related to the insurance of land and fixed improvements, and 12 per cent of revenue is raised from the registration of motor vehicles, which has no relationship to land. Most States (but not Tasmania) also impose some form of ambulance fee for service, general levy, or ambulance membership program.

Given the broad variety of non-land funding models, revenues obtained from these sources may need to remain assessed under the Other revenue assessment, or be incorporated into other categories (such as revenues related to hospitals). The diversity of emergency service funding models (including user charges for ambulance services) would make it difficult to define average policy across all sources.

With regards to Tasmania’s data, the Valuer-General assesses the capital value of land, which may be used in any proposed land-based assessment of emergency services levy.

### 7.3 User charges

Tasmania does not have any suggestions regarding how a reliable and material assessment of user charges could be constructed.

Given the commission staff concerns about the reliability of an assessment of user charges based on either GSP or household income, Tasmania does not support such an assessment.

### 7.4 Other issues considered and settled

Tasmania supports the proposal to continue the residual revenue assessment adopted in the 2010 Review.

## Chapter 8 Schools Education

Tasmania is broadly supportive of the proposed approach to developing the Schools education assessment. However, there are a number of deficiencies in the proposed methodology that should be addressed.

### 8.1 Actual enrolments

Tasmania supports the use of actual of enrolments for students in years prep to 10. However, Tasmania considers that there are still material policy differences between States that impact on post-compulsory year 11 and 12 enrolments.

While Tasmania recognises there are non-policy influences on the number of post-compulsory enrolments, it does not agree with commission staff that there are no policy influences, or very little policy influences.

Tasmania's education policy for year 11 and 12 students is different to other states:

- Unlike all other jurisdictions (except the ACT) Tasmania's college system is based on a separation of years 11 and 12 from the initial secondary education years (e.g. years 7 to 10).
- Tasmania's small dispersed population means that to create economies of scale, it has decided to operate a separate, more centralised year 11 and 12 school system. This means that students in more remote locations must travel long distances or leave home if they are to continue onto years 11 and 12 (leaving aside some District High Schools where the State has judged that distances are too large and there must be some year 11 and 12 options available – hence years 7 to 12 are offered). While these arrangements are a response to Tasmania's population circumstances, it does represent a different policy to other states and it does have an impact on participation in post-compulsory school years.
- Tasmania's commencement age for each year of schooling is typically later than other jurisdictions. As a result, students completing year 10 have generally passed the age of 16 and schooling is no longer compulsory at the commencement of year 11. This later starting age results in lower retention rates into year 11 than in other jurisdictions.

To ignore these policy differences would reduce the policy neutrality of the education needs assessment.

Tasmania recommends that the commission retain the 2010 Review methodology for determining policy neutral post-compulsory enrolments.

## 8.2 My Schools regression

Tasmania has two primary concerns regarding the use of cost weights from ACARA My School data:

- the large unexplained State variations in per student funding; and
- the reliability of the data.

Of primary concern is the large State-specific unexplained component illustrated in Table 8-2 in the proposed assessments staff discussion paper that is attributed to State policy. The commission staff seem unsure whether this unexplained element relates to non-comparable ACARA data, policy differences, or unidentified non-policy differences.

It does not seem reasonable to conclude that, for example, the Northern Territory makes a policy decision to spend \$3 454 (or 37.5 per cent) more per standard student than Victoria does.

As acknowledged by commission staff at the end of paragraph 30 of Chapter 8, there is the possibility that the regression model does not capture all non-policy differences between the States. It is evident from Figure 8-1 that those States that provide greater funding per student (even after controlling for known non-policy related drivers) are those States with the lowest populations and the lowest student enrolments. It seems likely that there are economies of scale experienced by the larger States that are not being fully accounted for by the service delivery scale or administrative scale factors.

It appears likely that there may be significant differences in how States compile data for inclusion in the ACARA dataset, as acknowledged by the commission staff.

Tasmania is concerned that the ACARA dataset at 2010 and 2011 was not sufficiently mature to provide a reliable basis for the proposed cost weight regression. There are likely to be significant differences in how States compile and submit data, which may go some way to explaining differences attributed to State policy.

For example, financial information for four of the eight Tasmanian Government secondary colleges (years 11 and 12) was not reported in 2010.

My School data deficiencies is an area of significant concern and Tasmania suggests that the commission will need to complete a comprehensive data checking and cleaning exercise in order to undertake a reliable and defensible regression analysis and resulting cost weightings if the ACARA data is to be used. Further work should also be undertaken to identify non-policy drivers of the unexplained State component so that the commission can reliably attribute this unexplained component to policy choices.

Tasmania recommends that before the proposed use of ACARA My Schools data and the regression weightings are adopted by the commission, a comprehensive comparison with State government centralised data and the ABS Schools Census Collection should be conducted.

### 8.3 Average State policy for funding non-government schools after the introduction of NERA

Prior to 1 January 2014, Tasmania funded non-government school students at a rate of 18.15 per cent of the average Tasmanian government school student recurrent cost.

From 1 January 2014, Tasmania will fund non-government school students in accordance with its NERA requirements.

Under the NERA Heads of Agreement, Tasmania will ensure that its existing funding to non-government schools is escalated by three per cent per annum, subject to phase-in arrangements (1.09 per cent in 2014, 2.0 per cent in 2015 and 3.0 per cent in 2016 and thereafter).

In addition, by 2019 Tasmania will contribute 35 per cent of the additional investment required to transition all schools that are below the Schooling Resource Standard toward the SRS, subject to phase-in arrangements over the period 2014–19. Some of this additional funding will be directed to non-government schools.

As per the Heads of Agreement, Tasmania's implementation plan will include details of Tasmania's use of the SRS funding model for distributing funding to non-government schools.

As the Heads of Agreement for other initial signatory States are no longer published by the Commonwealth Government, and details of agreements reached by the new government with the other States have not been published, it is difficult to comment on average State policy for funding non-government schools after NERA.

Assuming that other States are required to meet similar conditions for funding non-government schools, Tasmania considers that the 2010 Review method of determining average policy with regards to State funding of non-government schools is no longer adequate. Tasmania recommends that the commission develop a holistic education assessment that incorporates a needs-based assessment for State expenditure on both government and non-government schools.

### 8.4 How should average State policy for funding non-government schools be assessed?

There has been a fundamental shift in state funding of non-government schools under the new NERA funding arrangements. Where, previously, average State policy was to fund non-government students at a proportion of recurrent funding for government students, States will now be required to base funding to non-government schools on the SRS standard as it applies to the needs characteristics of individual non-government schools.

The 2010 Review treatment of non-government schools assumed that States' expenditure needs with regard to non-government schools mirrored the needs assessed for government schools, albeit at a lower rate per student. It is unlikely that such a simplistic approach can be applied under the NERA arrangements. The SRS needs characteristics of non-government schools are likely to be quite different from that of government schools.

The NERA funding arrangements will ultimately lead to a significant increase in State governments' funding to non-government schools. In addition to any State contributions required to bring non-government schools up to the SRS standard, each State's funding to non-government schools is to be escalated from their current starting base. Given differing starting bases, it is likely that individual State funding to non-government schools will increasingly vary from the current average policy determined by the commission in the 2010 Review.

In this context, the commission should consider its overall treatment of needs-related education funding and expenditure, not just that of States' needs-related expenditure on government schools. Tasmania considers that the commission will need to develop a holistic education assessment that incorporates a needs-based assessment for State expenditure on both government and non-government schools.

The subtraction method raised in Tasmania's July 2013 submission on principles, architecture and priority issues may provide an appropriate approach to capture needs across the entire education sector, and determine residual State government expenditure needs.

That is, a subtraction method would assess each State's total education expenditure need and then deduct amounts funded from non-State government sources, including the Commonwealth Government, to determine the residual GST funding needs of each State government.

The available data capacity to support such an approach remains to be established, but Tasmania stands by its July 2013 submission position as to the conceptual merits of a subtraction approach.

### **8.5 State non-government school expenses and the “no unwinding” provision**

At this stage, it is not clear how the commission proposes to interpret the “no unwinding” requirement with regards to NERA funding for either government or non-government schools. Tasmania has addressed this issue in its response to Chapter 9.

### **8.6 Treatment of Commonwealth Government payments to non-government schools under NERA**

The Staff proposal to continue to assess the Commonwealth Government payments for non-government schools under NERA so they will not affect the relativities appears to be predicated on a continuation of the existing method of assessing schools education expenditure and revenue.

Tasmania does not consider that the 2010 Review treatment will adequately reflect State government expenditure needs in relation to non-government schools under the NERA arrangements. Flowing from this, the appropriate treatment of Commonwealth Government payments to non-government schools will need to be reassessed as part of a holistic assessment of the education assessment under NERA.

### 8.7 School transport

Tasmania does not have any concerns regarding the proposal to update the school transport assessment with 2011 Census data.

## Chapter 9 Priority Issue National Education Reform Agreement

The Terms of Reference constrain the commission by requiring that the GST distribution process not have the effect of unwinding the recognition of educational disadvantage embedded in the NERA funding arrangements, and that no State receives a windfall gain from their non-participation in NERA.

In interpreting ToR 6, commission staff have postulated that the recognition of educational disadvantage relates to SRS loadings, and not to base funding. Tasmania agrees with that interpretation.

The commission staff also consider that the “no unwinding” requirement relates to the fiscal impact of the SRS loadings in Commonwealth Government payments for government schools, not the loadings used by States in their own allocation models.

Tasmania agrees with that interpretation, but believes that consideration also potentially extends to the fiscal impact of the SRS loadings in Commonwealth Government payments for non-government schools. Whether the commission will need to explicitly consider the fiscal impact of SRS loadings in Commonwealth Government payments for non-government schools will depend on the specifics of the methodology adopted to assess State government needs funding for non-government schools. However, as discussed in Chapter 8, Tasmania does not consider that the 2010 Review assessment approach for State government expenditure in relation to non-government schools is sustainable under the NERA arrangements and that the treatment of Commonwealth Government payments to non-government schools will also require re-evaluation in that context.

The commission staff have outlined three options for assessing schools education under NERA that are consistent with different interpretations of the no unwinding clause, and asked which option most appropriately achieves HFE and satisfies the no unwinding clause.

### 9.1 Option 3 – NERA model based on the SRS standard

This option appears to satisfy the most literal interpretation of the no unwinding clause. However, the SRS standard is seriously flawed, and the adoption of the SRS standard neither reflects “what States do”, nor is truly reflective of educational funding needs.

The SRS standard is flawed in a number of ways:

- while the base per student funding and disadvantage loadings were initially based on the recommendations of the Gonski Review, they were significantly modified during the NERA negotiation processes with the States, and no longer directly reflect the assessment of costs and needs determined in that review;
- the loadings include categories which the commission has previously found immaterial or lacking reliable data on which to base a loading; and
- the loadings exclude schools transport, administrative scale and regional costs categories, for which the commission has developed reliable and material assessments.

Consequently, the recognition of educational disadvantage embedded in the NERA funding arrangements is less reflective of State's cost drivers than the commission's 2010 Review and proposed 2015 Review education assessment.

Adoption of the SRS standard in calculating States education costs would significantly undermine the principles of HFE and limit the ability of the commission to perform its equalisation role.

Tasmania does not support this option.

## **9.2 Option 2 – Equalisation model based on what States do**

Under this approach, the commission would assess States' schools education expenses based on the assessment and regression model described in Chapter 8 (or the 2010 Review assessment if the proposed 2015 Review assessment is not adopted).

Tasmania considers that this approach best achieves the commission's primary purpose of distributing GST revenue in accordance with the principle of HFE.

While some States may argue that such an approach would have the effect of unwinding the recognition of educational disadvantage embedded in the NERA funding arrangements, Tasmania contends that commission staff have developed a proposed schools education assessment that is broadly similar to the recognition of education disadvantage contained in the SRS standard, while better reflecting "what States do". As a result, this option would result in minimal unwinding while preserving HFE to the maximum extent possible under the 2015 Review Terms of Reference.

Tasmania recommends that the commission pursue this option.

## **9.3 Option 1 – Exclusion model**

Under this approach, the commission would apply its own assessment of education needs to States' own education expenses, and Commonwealth Government base funding, while excluding Commonwealth Government payments attributable to the SRS loadings.

While the adoption of this model may be difficult to implement (because of the requirements to separate States' base funding from educational disadvantage funding), it appears to better preserve HFE than option 3.

While, Tasmania considers that this option may allow the commission to achieve a balance between the extremes of interpretation brought about between the apparent inconsistency between ToR 1(a) and ToR 6, it is not our first preference.

### 9.4 Windfall gains

The commission is required by ToR 6 to ensure that no state or territory receives a windfall gain from their non-participation in NERA funding arrangements.

It appears that the Commonwealth Government's December 2013 announcement of agreements with the remaining non-NERA states (WA, Queensland and the NT), has obviated the need for this requirement. However, Tasmania would welcome additional analysis of this requirement from the commission in the light of the finalised funding arrangements for all States.

### 9.5 Further consideration

Tasmania recommends that the commission undertake further consideration of options 1 and 2, with option 2 preferred as the option that best preserves the commission's primary purpose of distributing GST revenue in accordance with the principle of HFE.

Given the significance of the schools education assessment to the distribution of GST, the commission should ensure that the development of its assessment methodology is robust and well considered.

Tasmania has previously suggested the adoption of a subtraction model in its July 2013 submission. This approach assumes the commission will need to develop a more global education assessment that includes State's needs based expenditure on non-government schools, rather than the previous 2010 Review method of allocating a percentage of government school funding to non-government schools.

Tasmania reserves the right to make a further detailed submission on the treatment of NERA funding and the Schools education assessment when further details on the NERA arrangements for the late signing states have been released by the Commonwealth Government, the implications of the Commonwealth Government's proposal to remove the "command and control" provisions from the Australian Education Act are known, and the commission has provided more details on its proposed treatment options. It is noted that the Schools education assessment and treatment of NERA funding were scheduled to be discussed in the multilateral telepresence of 28 November 2013, but that discussion was deferred.

## Chapter 10 Post-Secondary Education

### 10.1 Non-TAFE provided VET

Tasmania does not have any concerns regarding the proposal to move non-TAFE provided VET expenses in the Services to industry category (those provided by registered training organisations, or RTOs) into the Post-secondary education category.

However, Tasmania notes that the commission staff have elected, in its finalised Post-secondary education data request, not to seek data from the States to develop a cost weighting for courses provided by private RTOs, and not to pursue the determination of such a cost weighting (confirmed in a telephone conversation with a commission officer on 14 January 2014).

It is unclear what effect this decision has on the proposal to move all VET expenses in the Services to industry category to the Post-secondary education category. Given that VET expenses in the Services to industry category were previously assessed EPC, does the decision not to develop a cost weighting imply that RTO-provided training courses will continue to be assessed EPC, or will both TAFE and RTO costs be assessed and adjusted for disabilities?

### 10.2 Cost of services

Tasmania does not have any concerns with the proposal to update cost weights associated with different equity groups and particular types of courses.

## Chapter 11 Public Hospitals

### 11.1 Staff-proposed changes to the 2010 Review health assessments category structure

As previously flagged in the inter-jurisdictional telepresence discussions in November 2013, Tasmania is concerned by the staff proposed changes across the two health assessments.

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.

On a practical level, it is Tasmania’s understanding that the outpatient and emergency services data that will be available under the Activity Based Funding model within the currency of the 2015 Review method, is not expected to be of a similar standard, in terms of data quality, to the data that are currently utilised in the existing assessment method adopted by the commission for admitted patients.

The Tasmanian Department of Health and Human Services has highlighted several key issues that challenge the commission staff view that the Independent Hospital Pricing Authority data underlying the ABF will be fit-for-purpose for the proposed new assessment approach.

There are issues in regards to:

- the lack of demonstrated clinical validity underlying the classification systems employed by the ABF model, most specifically the difficulties in applying the National Weighted Activity Unit concept to emergency department presentations and outpatient services;
- the scope of the IHPA assessment and its integration of adjustments and loadings; and
- the maturity of the datasets, and related stability of the NWAU.

In regards to the lack of the clinical validity underlying the NWAU, the Tasmanian DHHS highlighted the following as issues:

- the NWAU is based on four distinct classification systems that are amalgamated into a single value, three of which have insufficient demonstrated empirical validity, either in terms of clinical relevance, cost homogeneity or demonstrated mutual exclusivity of classes; and
- the NWAU is also heavily trimmed with a number of adjustments made regarding items such as private patients, pathology and imaging. These adjustments are not based on evidence but rather assumptions regarding the reliability of the cost components being considered.

These concerns are documented in the recent Tasmanian submission to the IHPA, a copy of which is attached as Appendix 2 to this submission.

Other broad concerns within a commission assessment context include:

- the IHPA adjustments result in the NWAU obscuring the measures of patient complexity and actual cost. The current calculation of the NWAU comprises a mixture of patient complexity/cost and additional IHPA loadings and other adjustments. Should these IHPA-determined loadings and other adjustments remain embedded in the NWAU data IHPA provides to the commission this could distort commission-derived national average usage and/or unit cost assessments; and
- while the IHPA's ABF funding model will be used to generate Commonwealth Government uncapped ABF funding allocations from 2014–15, it will not be effective as a costing or resource allocation model at the State level. This is because in practice, jurisdictions need to maintain a parallel funding model to deal with activity and expenditure that are determined to be “out of scope” and/or otherwise adjusted so as to be not covered by the national NHR model.

The IHPA itself acknowledges<sup>1</sup> that experiences and processes to date with service classification has demonstrated that the infrastructure and processes underpinning national data collection take time to develop and mature. Furthermore, it is only as collections mature and data definitions become widely accepted and understood that the data become reliable and robust.

To date the funding arrangements under the National Health Reforms have been tied to the National Health Single Purpose Payment equivalence. This means that the data underlying the NWAU as a funding mechanism is experimental at best and has yet to be tested in a funding allocation context.

Significant IHPA ABF data volatility is anticipated over the next five to six years (the data currency of the 2015 Review) from a number of different sources.

Previously under block funding arrangements, the measurement of State expenditure has not been explicitly related to funding outcomes. As States move to ‘uncapped’ funding from 2014–15, far greater attention will be devoted to detailed expenditure measurement by both the IHPA and the States themselves. Data revisions associated with improving national consistency within national data collections will itself lead to volatility – a natural part of the progression towards robust and reliable data sets.

The expansion of the scope of IHPA’s ABF assessments through new data collections will also lead to growth in the ABF share of total in scope hospital expenditure and potentially volatility, for example, through the proposed new mental health classification and the teaching, training and research classification.

Tasmania understands that scoping and certain data revisions will be backcast into the previous year’s activity base, resulting in revisions to previous year’s activity measures. Such backcasting becomes an additional source of volatility.

It is also noted that the IHPA’s projected timelines for data development and refinement have proven to date to be ambitious. Experience at the State level is that the capacity of States to provide data within the timelines anticipated by the IHPA has been consistently overestimated.

For all of these reasons, Tasmania’s DHHS advise that it could take up to a decade before “good” data become available across all the components.

The *National Health Reform Agreement* explicitly states that the IHPA should not seek to duplicate the work of the commission in determining relativities (Clause B14).

Tasmania considers that it is equally true that the commission should not seek to duplicate the work of the IHPA especially in this early stage when the IHPA funding assessments are still in developmental stages and will, inevitably, be subject to substantial further correction and refinement.

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<sup>1</sup> Refer page 27, of the IHPA publication *The Pricing Framework for Australian Public Hospital Services 2014-15 Draft for comment, September 2013*.

From a Commonwealth Government funding perspective, States effectively have a safety net in operation over the period 2014–15 to 2019–20 through the “no worse-off” and “growth guarantee” provisions of the NHRA (refer clauses A67-A79), in the event that IHPA gets the Commonwealth Government NHR funding relationships “wrong” – an outcome Tasmania views as inevitable in these early “teething” years.

There is no such safety net in relation to public hospital expenditure misallocations within a GST relativity context.

Tasmania acknowledges that the 2010 Review data, particularly in relation to emergency department and outpatients assessment components within the subtraction model context, requires some bold assumptions. However, the subtraction model also avoids some of the more intractable data issues which arise when moving away from the 2010 Review Community and other health assessment approach.

Specifically, it recognises generalised substitutability and economic environmental drivers of usage across emergency department services, outpatients services, community health services, and similar non-state government provided services without, in contrast to the direct assessment method, requiring explicit attribution of substitution or economic environment measures.

Tasmania understands that the commission’s confidence in the robustness of the subtraction model may have been reduced by its experience with the Commonwealth Government dental program. Tasmania believes that this was a specific and unusual outcome of Commonwealth Government funding resulting in a sudden surge in met demand in an area where material unmet demand historically existed but (appropriately) had not been factored into the SDC needs assessment base. With the benefit of hindsight, Tasmania suggests that the commission could readily modify its assessment approach should such a one-off event arise in the future. That is, we do not consider it a substantive reason to abandon the current subtraction model approach.

Given the concerns outlined above with the 2015 Review proposals; the already compressed 2015 Review timeframe; the extensive time and resources previously invested in building the 2010 Review health assessments (which remain, in Tasmania’s view, robust assessments consistent with the 2015 Review limited review context) Tasmania is not supportive of the staff proposed method changes for the 2015 Review.

Tasmania requests that commission staff provide a detailed cost-benefit assessment of the proposed method changes in tandem with a side-by-side analysis of the data methodologies underlying the 2010 Review health assessments and those proposed for the 2015 Review for states evaluation as soon as practicable.

## 11.2 Admitted patients

Tasmania defers indicating its position on the proposal to continue to assess admitted patients expenses by applying the same disabilities as in the current assessment, but using NWAU data obtained from IHPA.

Tasmania's concern is with the use of the NWAU, not the application of the disabilities.

In relation to acute admitted patients, Tasmania accepts that the IHPA NWAU approach and the Australian Institute of Health and Welfare expenditure based approach used in the 2010 Review are both ultimately derived from National Hospital Cost Data Collection data on Australian Refined – Diagnosis-Related Groups cost relativities.

However, Tasmania has not been able to ascertain how precisely the evaluation processes used by the AIHW and the IHPA to derive cost weights/expenditures would differ and the drivers of these differences. Flowing from this, Tasmania is also unclear how this would impact the commission socio-demographic composition assessment. Tasmania is actively seeking to find the answer to this through the requested side-by-side evaluation exercise referred to above and will indicate its position at that time.

Similarly, in relation to the sub-acute and non-acute sub-components of the admitted patients assessment component, Tasmania defers indicating its position at this point.

In the Tasmanian October 2013 submission response to the IHPA's draft *Pricing Framework for Australian Public Hospital Services 2014–15* (see in Appendix 2), the Tasmanian DHHS actively opposed the IHPA's proposed cessation of patient per diem-based costings by care type and its replacement with the Australian National Subacute and Non-Acute Patient cost classification with effect from 1 July 2015.

The cost data underpinning the AN-SNAP Version 3 classification is based on 1996 data. Tasmania argued that, at best, these data can be considered as purely indicative due to the significant differences in cost processes, treatment practices and admission practices that have occurred in the intervening 18 years. Furthermore, there are currently no cost weights derived from actual episode cost data available to undertake an assessment of the validity of the classification or costing processes employed.

In that submission, Tasmania also expressed concerns regarding the resources that would be involved in the full roll out of the AN-SNAP system across all Tasmanian public hospital sites. Tasmania indicated its unwillingness to incur the cost impost and administrative burden of this implementation until such time as the empirical validity of the current AN-SNAP (V3.0) classification can be demonstrated.

It is noted that Victoria, Queensland, Western Australia and the ACT also did not support the IHPA discontinuing per diem payments from 2015–16 due to reservations regarding implementing AN-SNAP<sup>2</sup>.

To support a balanced consideration, Tasmania requests that the commission staff clarify the 2010 Review method basis used by the AIHW (AN-SNAP or per diem) and also seek AIHW advice on its intentions in this regard for the period relevant to the 2015 Review.

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<sup>2</sup> Refer page 24, of the IHPA publication *The Pricing Framework for Australian Public Hospital Services 2014-15 - Draft for Comment*, September 2013

Tasmania supports the removal of the adjustment for the lack of private hospital provision in Darwin given the shift in geography from SARIA to ARIA.

### 11.3 Emergency departments

Tasmania considers the data associated with service activity in emergency departments is mature and could be used to overcome minor biases. However, we do not accept the validity of the current Urgency Related Groups and Urgency and Disposition Groups classifications being used as emergency care costing classifications. That is, while whole of emergency department level cost data are available, patient level cost data are not and the current URG/UDG classifications cost attribution models (based on triage category, principal diagnosis or type of visit, and episode end status) are not sufficiently robust for use in this context.

Tasmania argued in its October 2013 submission to the IHPA that the current classifications are not working effectively for a number of reasons, including an over reliance on triage as a classification element and reduction of diagnostic class specificity at higher severity levels.

Other concerns include that the new diagnostic data component is experimental and is not producing nationally consistent data as jurisdictions are using both differing collection measures and differing collection methods.

It is also widely accepted that without information on presenting condition, diagnosis is not an accurate indicator of cost of treatment.

The IHPA is currently undertaking an extensive review of the URG/UDG classifications with the objective of improving the clinical meaningfulness of the classification system as well as the explanatory power to predict costs. Tasmania is participating in this review.

Tasmania's position may change over time as the emergency care classification is further developed and refined but, given the current status, Tasmania anticipates that, at best, reliable, fit-for-purpose data will only be realised late within the currency of the 2015 Review data assessment years (2011-12 to 2017-18).

Tasmania supports the comparison of the IHPA and AIHW data by the commission and expects to see a material bias within the data.

### 11.4 Outpatient services

Tasmania considers that the IHPA outpatient classification data are the least robust and least accurate of all of the categories within the proposed Public Hospitals assessment. The Tasmanian DHHS has concerns that both the activity data and the patient cost data are immature with a huge potential for bias as the data are incomplete in most jurisdictions.

In its October 2013 submission to the IHPA in response to the draft 2014–15 Pricing Framework, Tasmania argued that priority should be directed to the development of an appropriate patient classification system for non-admitted patient care as the current Tier 2 classification is an interim measure that simply describes classification types. Tasmania considers that effort should be directed to the development of a new patient-based classification system rather than attempting to further refine the current Tier 2 classification system.

Tasmania further argued that the performance of the Tier 2 classification system is poor in terms of reliability of costs outcome and providing an understanding of case mix being treated as ambulatory. Tasmania also considers the focus on provider and setting attributes (clinics) rather than patient clinical attributes makes it impossible to develop reliable costing (and therefore funding) or to understand presenting diagnoses and treatment.

### **11.5 Non-hospital based patient transport expenses**

Tasmania does not oppose the staff proposal to continue to assess non-hospital based patient transport expenses separately based on data provided by States using the 2010 Review method.

### **11.6 Socio-demographic composition factor**

Tasmania supports the commission staff's recommendation to maintain the SDC population groups assessed in the 2010 Review, namely Indigeneity, age, SES and remoteness.

However, Tasmania requests an opportunity to review the detail of the method once the changed Indigenous treatment has been integrated. If found warranted, Tasmania will provide further comment following that review.

The staff propose to recommend the commission disaggregate age into five groups instead of the current seven groups on materiality grounds.

Tasmania conditionally accepts the staff proposal to recommend the commission disaggregate age into five groups, not seven, on materiality grounds if this is indeed found to be immaterial. However, as a matter of principle, Tasmania considers that the materiality of each age grouping needs to be tested across the totality of the assessments and not simply within a given assessment. Tasmania has also noted its opposition to the proposed \$30 disability materiality threshold and notes that the commission has yet to make a decision on this matter.

### **11.7 Economic environment factor for emergency department expenses**

Tasmania opposes the proposed application of an economic environment factor to 60 per cent of emergency department expenditure as proposed by the staff and contends that the resource impact of GP-type presentations to emergency departments is likely to be more in the order of five per cent.

Substantiation for a 3-5 per cent resource impact is found in the research article *Quantifying the proportion of general practice and low-acuity patients in the emergency department* (refer Appendix 3) which appeared in the *Medical Journal of Australia* 198(11), 17 June 2013.

Specifically, four methods of estimating the number of general practice-type patients in emergency departments were tested. The test outcomes were also compared to that of a recent similar United States study which found a similar outcome to that of three of the four methods tested in this Australian study.

The study concluded that:

10-12 per cent of patients attending tertiary emergency departments in Perth between 2009 and 2011 may have been suitable for general practice. These patients contributed 3 per cent – 5 per cent of overall ED length of stay, and probably a lesser proportion of resource, staffing and cubicle usage.

The study also concluded that the AIHW method consistently overestimated the proportion of general practice type patients in emergency departments (finding in the order of 25 per cent of patients and 10-12 per cent of overall length of stay) and attributed this to its use of the Australasian Triage Scale (an urgency rather than complexity scale).

The study acknowledged that the tests focussed on tertiary emergency departments in Perth but anticipated that the results would be comparable to other Australian tertiary emergency departments.

Smaller emergency services in regional/remote areas are not counted as emergency departments and are therefore not captured by this measure. The study acknowledged that there may be higher GP-type presentations in these facilities but suggested that the over-estimation in these facilities under the AIHW methodology is likely to be of similar magnitude.

### **11.8 Economic environment factor for non-admitted patient services (formerly termed outpatients expenses)**

Tasmania does not consider that the proposal to apply the non-admitted services economic environment factor to the same proportion of expenses as for emergency department expenses has any empirical validity.

As previously mentioned, Tasmania notes that the range of services captured in this area has been rapidly expanding 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 expanding.

This is reflected within the IHPA context in elements such as the expanding scope of Public Hospital Services and general list of eligible services and the change in title of the Tier 2 classification itself from “Tier 2 Outpatients Clinics” to “Tier 2 Non-Admitted Services”.

As noted in the previous section, the proposal to apply the emergency services economic environment factor to 60 per cent of emergency department appears to vastly overstate the proportion of emergency department expenditure attributable to GP-type presentations. The independent study previously cited suggests the appropriate order of magnitude of expenditure to consider impacted by the emergency care economic environment factor is in the order of five per cent.

However, Tasmania would anticipate the five per cent emergency department figure for GP-type presentations for emergency department patients would materially understate the true underlying (but unknown) economic environment component for non-admitted services given their positive substitutability with both non-State government provided health services more broadly and State government provided community health services.

Tasmania is not aware of any explicit equivalent study within a non-admitted patient context that could aid the commission's consideration. Accurate estimation of a non-admitted patients economic environment factor is made further complicated by the rapidly-expanding scope of non-admitted patient services.

Tasmania also notes that the IHPA Tier 2 list of non-admitted patient services is broader than simply specialist services. It also includes *Category B – Other non-admitted patient services and non-medical specialist outpatient clinics*. Tasmania suggests that the basis for the non-admitted services economic environment factor itself should be commensurately broader in scope than specialist-type services.

Tasmania considers that difficulties with the non-admitted patient boundaries and data, in particular, support at least a partial reconsideration of the staff-proposed category splits within the health assessments. A possible alternative would be to assess admitted patients and emergency departments as one category but combine outpatients and community and public health within a separate category and assess this using a modified subtraction approach.

## Chapter 12 Community Health

### 12.1 Residual Community health services category to be assessed using a direct assessment approach

Tasmania does not support the commission staff recommendation to adopt a Community health services category that includes residual expenses on community health centres, public health activities and community-based mental health services.

Under the 2010 Review approach, community and public health services are currently assessed together with emergency departments and non-admitted patients services within the Community and other health category.

The residual Community health category now proposed is a direct consequence of the staff proposal to assess a new Public hospitals category incorporating admitted patients, emergency department and non-admitted patients.

As argued in the previous chapter, Tasmania considers the justification for the new Public hospital category is based on an untested assumption about the fitness-for-purpose of the IHPA data at this point in time (and for the currency of the 2015 Review), most specifically in relation to emergency department and non-admitted patients.

Further, Tasmania does not support the staff proposal to adopt a direct assessment approach within this residual category.

Tasmania considers that in conjunction with the 2010 Review category structure, the subtraction method, despite its flaws, remains the most suitable method to assess community health needs.

The services provided across the emergency department, non-admitted patient and community health settings are to some degree overlapping and substitutable both between themselves and with the private sector (for example, a wound can be stitched within an emergency department setting, or a GP's practice; dialysis can be delivered within an outpatient setting or within a community health centre; immunisation can be delivered through a GP, in a community health centre or other community settings).

State government relative needs to spend on all of non-admitted patient services are therefore impacted both by the socio-demographic needs profiles of their populations and by the degree to which these needs are met through private sector or other non-State government provision. This is true whichever assessment method is adopted.

The subtraction model assesses the total health expenditure needs profile of each State across all of emergency services, non-admitted patient services, community and public health services, and substitutable private sector services and then subtracts the total health expenditure met through non-State government sources to derive the residual State government assessed needs. It does not require the explicit attribution of an economic environment factor to account for private market failure and avoids boundary issues where different States are making different choices as to the settings in which State government services are provided (for example, between a non-admitted patient setting or a community health setting).

The proposed direct assessment model considers community health services in isolation from other State government provided health services. It requires the derivation of both a socio-demographic use profile of populations specific to community health services and an economic environment factor to recognise the differing extents to which State governments, as providers of last resort, must compensate for private sector primary health market failure for example, due to lack of GP and other services in more regional settings.

A direct consequence of the proposed health category restructuring is that the subtraction model is no longer viable within a residual community health setting that considers community and public health in isolation from non-admitted patients and emergency department care. This necessitates the proposal by commission staff to adopt a direct assessment approach.

At the time of the 2010 Review the commission acknowledged the lack of administrative data on community and public health services as a rationale for adoption of the subtraction model.<sup>3</sup>

Tasmania considers there remains a lack of robust, complete, consistent administrative data to support a direct assessment approach for the proposed residual Community health assessment.

## **12.2 Availability of reliable State data on the use and cost of community health centres and public health services by various population groups**

Tasmania advises that it does not have comprehensive and reliable data on the use and cost of community health centres and public health services by various population groups that would assist in the development of the assessment.

While there are reliable State data in certain discrete service areas such as breast screening, childhood immunisation and community mental health, the use and cost ratios which could be inferred from these would not be able to be generalised to the broader Community health category given the heterogeneous nature of the services offered and the target populations serviced.

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<sup>3</sup> Refer paragraphs 21-22, page 225, *Report on GST Revenue Sharing Relativities 2010 Review, Volume 2 - Assessment of State Fiscal Capacities*

There is also limited consistency in the scope of Community health services provided between States as different States make differing choices as to the setting in which particular services are offered (for example, a non-admitted patient setting versus a community based health service setting). Differences in scope also reflect State-specific policy choices as to the mix of services offered.

The Tasmanian DHHS has provided some general observations of the profile of users and drivers of use drawn from some of the main service provision areas but is unable to provide robust comprehensive data to quantify the use and cost relationships.

Community health centres provide a diverse collection of services. To some extent the services provided may duplicate that provided in other health settings both public and private. However, there is also a significant range of community health services that are neither delivered by GPs nor delivered by hospitals.

Patients will often be referred to community health centres by GPs and hospitals. Alternatively, all parties work together on a consolidated package of health care (such as home palliative care). There is a mix of service target groups, with community health centres targeting outreach services:

- into population groups that experience poorer health outcomes (such as Indigenous persons);
- into population groups where there are demonstrated population health benefits to be gained (such as children); or
- to coordinate and/or provide a package of health support services (for example, home nursing and allied care services) to a person who would otherwise be at risk of requiring more expensive and/or debilitating hospital and institutional care.

GP and hospitals can be integral parts of care packages, but the care packages are managed at the community health centre level. Many community health service delivery models strategically build a person's health over a program of care, rather than deliver episodic care to people when they become sick, as is the model for GPs and hospitals. In summary, the scope of services provided by community health centres extend into identified gaps beyond the scope of GP care and hospital care.

Tasmania does not have a sound data source to inform broad analysis of community health centre service use. Some services are recorded in electronic systems, but they are ad-hoc and not particularly representative of the range of service interactions or their relative importance in the mix of services delivered. It is understood the lack of reliable and representative data in this service area, in general, is relatively similar across all states.

Service use is considered to be driven by those with poorer health outcomes (Aboriginal, low SES, non-urban), those in certain age groups, and where there is limited access to alternate services (rural/remote).

Community mental health services encompass ambulatory care services and residential care services (both respite and long term). Data on these services are collected by the AIHW in the relevant national collections. Typically, ambulatory care services are beyond the scope/complexity of services delivered by GPs, but do overlap with services delivered by specialist psychiatrists. However, in Tasmania there are very few private psychiatrists, who are only located in the largest cities and, in general, not accessible to lower SES clients. There is little alternative to residential care services, which are provided in specialist higher care government-run centres and more general contracted service providers. The service driver has a strong age profile, with a peak around the 15-24 age group, then rising again in later life. There is also heavier service use for low SES populations, largely to do with multiple disadvantages, but also due to health effects on the person's earning capacity.

### 12.3 The composition of the socio-demographic factor

Staff propose to recommend an SDC factor that recognises Indigeneity (two groups), age (five groups), SES (three groups) and remoteness (two groups).

Tasmania agrees that relevant socio-demographic composition drivers of use and cost in relation to Community health are socio-economic status, Indigeneity, age, and remoteness.

However, Tasmania reserves its position as to the appropriateness of the sub-groupings proposed specifically with regard to SES, age and remoteness as it considers that:

- there are fundamental differences in client profiles between Public hospitals and Community health services; and
- that alternative proxy data options need to be tested against each other to establish the structure of the sub-groupings in contrast to the staff proposal that modified hospital usage profiles provide the starting base for the proposed SDC assessment.

Additionally, Tasmania would like to better understand how the Indigenous SES measure will be integrated into this category.

Tasmania accepts the staff proposal to not assess gender within the SDC factor unless it is found to be material.

### 12.4 Proxy data

Tasmania does not support the staff proposal to use IHPA data on total hospital costs, adjusted for Indigenous usage rates (as indicated by the AIHW *Expenditure on health for Aboriginal and Torres Strait islander people*) as the basis to develop a user profile of State community health services.

Tasmania questions the staff's base assumption that the community health service use profile is similar to the hospital service use profile, other than for Indigenous people and possibly age profiles.

Aside from concerns covered in the previous chapter with the quality of the NWAU data, Tasmania considers that there are profound differences in the objectives of the services provided in hospitals as against the community health category that result in fundamentally different client profiles between hospitals (dominated by admitted patients) and community health services.

The hospital patients disadvantage profile will understate the community health service client disadvantage profile for a much broader range of patients than simply Indigenous patients.

Low socio-economic status (including for Indigenous people) as a proxy for health status and an indicator of income and education is the single most important driver identified by the Tasmanian DHHS of community health service use.

This is driven in part by the “health equity” focus of community health services themselves which specifically seek to target those who are at greater risk and/or less likely to otherwise access health services due to economic cost considerations. This is not the case for public hospitals which are bound by Medicare principles to serve those who present and do not target services to specific population segments.

Even in those community health services which are directed at broad target groups and do not specifically target those of lower socio-economic status, higher use rates by people of low socio-economic status are observed.

For example, chronic disease self-management programs are a growing area within community health services due to the growing incidence and associated cost burden of chronic disease. A higher percentage of program users are more likely to be of lower socio-economic status due to the higher prevalence of these lifestyle related diseases within lower socio-economic groups. However, a secondary driver is the correlation between low socio-economic status markers such as low education and income and a patient’s capacity to engage in self-management without resort to a sponsored program. In addition, as the private health insurers have become aware of the cost-benefits of early intervention in chronic disease management, they are providing preventative and chronic disease self-management services for those at risk with private health insurance – this tends to reduce the participation of higher SES populations in the government-provided chronic disease self-management programs.

There are several alternative proxy data measures to the IHPA hospital data which merit consideration. Even if none of these are found to be viable as standalone alternatives they may inform further judgments as to where adjustments to the hospital cost profile should be made to make it suitable for use within a community health environment.

The National Health Survey data were used previously for the 2010 Review to derive age-sex and SES profiles and will better reflect the primary health relationships. It is also the measure which is the most likely to give an unbiased (though self-identified) indication of underlying health status across the whole community.

The Pharmaceuticals Benefits Scheme data will yield a profile of illness within different communities while the Medical Benefits Scheme data could be used in a broader context than age profiling and economic environment measures. Tasmania understands that the MBS has a wealth of detailed analytical data although it is difficult to gain access to it. The drawbacks with both the PBS and the MBS are that as supply driven measures they will understate the low SES factor within a community health context.

Tasmania supports testing whether the age profile of GP services use would provide a materially better indicator of community health use than would the hospital-use relationships.

### 12.5 Economic environment

Tasmania supports the staff proposal to calculate an economic environment factor based on the number of GP full-time equivalents in preference to measures of GP throughput in each State. Tasmania further supports the proposal to discount this factor by 12.5 per cent to reflect the fact that not all GP services are substitutable for community health services.

Tasmania also supports the application of an economic environment factor based on Office of Aboriginal and Torres Strait Islander Health<sup>4</sup> grants to each State. Tasmania agrees that in the absence of such a factor State government expenditure provision needs for Indigenous Community health services would be overstated. Tasmania accepts that this factor will be discounted to recognise that not all services provided by these grants are fully substitutable for State government community health services.

### 12.6 Service delivery scale

Commission staff propose the commission recognise, within the Community health assessment, the private sector market failures in more regional and remote areas of Australia, which give rise to the need for greater State government service provision in these areas through the assessment of an economic environment factor.

However, this same market failure also gives rise to the service delivery scale disability as not only do State governments have to step in as primary health providers of last resort but the unit costs per capita of community health service provision in these areas is also higher (which has contributed to the private market failure).

It is unclear to Tasmania why the commission staff are proposing that the commission recognise the economic environment disability but cease to assess the service delivery scale disability within the Community health context.

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<sup>4</sup> Following the transfer of responsibility of indigenous affairs to Prime Minister and Cabinet, funding responsibility for most Indigenous health services remains in the Health Department, to be coordinated by a new Indigenous Health Service Delivery Division (which replaces OATSIH).

Tasmania can provide anecdotal evidence in support of the continuation of the service delivery scale disability within categories such as disability services and Community health but is not in a position to provide quantified evidence within the time frame for this submission. However, Tasmania will continue to explore the data possibilities and will keep staff informed.

## Chapter 13 Welfare

### 13.1 Changes in Commonwealth-State responsibilities for aged care and disability services under the *National Health Reform Agreement*

Under the aged care and disability services part of the NHRA, signed by all States other than Western Australia, the Australian Government has effectively assumed full policy responsibility for aged care and disability services for those 65 years and older (50 years and over if Indigenous).

However, for Western Australia, pre-existing policy and funding arrangements for aged care and disability services for older people will continue to apply.

Clause 3 (e) of the 2015 Review Terms of Reference requires:

where responsibilities for funding and delivering aged care and disability services has not been transferred to the Commonwealth by a State under the NHRA, these responsibilities will continue to be assessed as State services for that State.

In response staff propose to recommend the commission:

- assess Western Australia's aged care services expenses and Commonwealth payments EPC because a differential assessment would not be material;
- backcast the change to the provision of aged care services;
- retain the current disability services assessment but adjust it to remove the impact of users aged 65 and above (over 50 if Indigenous) because aged care is now a Commonwealth Government responsibility; and
- continue to treat the National Disability SPP funding as having an impact on the relativities.

Tasmania considers the proposal to assess the materiality of Western Australia's aged care services in isolation fails to recognise the ongoing interdependencies within the aged care and disability services areas.

Tasmania suggests that there is an alternative, more holistic assessment option that is also more internally consistent with the assessment principles and the proposed average policy treatment. This would involve the commission continuing to assess needs in relation to Western Australia's aged population but within the disability services component of the Welfare assessment.

While the participating States are no longer financially responsible for the provision of basic community care services (previously known as HACC) or specialist disability services to their older resident populations, these States continue to be responsible for the provision of both basic community care services and specialist disability services to their under 65 resident population (under 50 if Indigenous). The commission currently assesses services to younger residents within the disability component rather than the aged care component of the Welfare and housing assessment. However, the nature of the basic community care services and specialist disability services provided to the younger and older populations are effectively the same services. The difference between Western Australia's responsibilities and those of the participating States is a difference of population service base coverage, not of service nature.

In this context, Tasmania considers there is a strong argument for regrouping Western Australia's aged care assessment component within the disability services assessment component. This is also more consistent with the actual wording of Clause 3(e), which refers to "aged care and disability services".

This could be readily accommodated within the current disability services assessment method via a differential population coverage within the SDC factor applied to Western Australia (including both Disability Support Pension and aged pension recipients) relative to that applicable to other States. Consistent with a needs-based expenses assessment, on the revenue side, the basic community care services payment to Western Australia would continue to be treated actual per capita.

Subject to the above, within the disability services assessment, Tasmania agrees that the current assessment of disability services needs to be adjusted to account for the Commonwealth Government taking full responsibility for disability services for the aged through the removal of these users for all states other than Western Australia.

As all states will continue to be responsible for the provision of disability services to those under 65 (under 50 if indigenous), the National Disability SPP should continue to be treated as having an impact on the relativities.

However, Tasmania considers that commission staff need to give more detailed consideration to the degree to which the Disability SPP should impact for the different states. That is:

- whether this should be on an unadjusted (as currently) or adjusted basis for participating states; and
- the appropriate treatment of Western Australia.

As a result of the changed arrangements under the NHRA across both aged care and disability services, a balancing adjustment is applied to the Disability SPP of each participating State, to achieve "bottom line" revenue neutrality for that State and the Commonwealth Government. The IGA FFR provides for this NHR-agreed balancing adjustment to continue into perpetuity.

For the duration of the 2010 Review methodology, the commission has been explicitly instructed to treat this Disability SPP payment as impacting on an unadjusted basis, consistent with continuing to assess expenditure needs using the 2010 Review method as if the NHR changes had not occurred.

In the context of the 2015 Review, Tasmania has previously argued that Western Australia should continue to have its needs assessed on its full service population base and the full unadjusted Disability SPP deducted. However, the participating States Disability SPP should be assessed on an adjusted SPP basis consistent with their changed expenditure responsibilities (and hence needs) across the aged care and disability services area.

The staff proposal, as currently expressed, is not clear on these points of detail.

Should the Western Australian service population differential prove to be immaterial (wherever the 2015 Review materiality benchmark ends up being set) when assessed against this broader aged care and disability services base then, and only then, does Tasmania support it being assessed EPC.

Tasmania supports the backcasting of the aged care and disability services changes as they represent a major change in Commonwealth-State financial relations.

### 13.2 Family and child services

Staff propose to recommend the commission:

- use AIHW's child protection unit record system to derive a location breakdown of service users and link this to ABS SEIFA data to obtain a proxy SES breakdown of family and child service use; and
- test the materiality of a location socio-demographic disability.

Consistent with our previous submission supporting the need for a new data source, Tasmania supports the staff-proposed course of action, but requests the opportunity to review and comment on the data outcomes prior to release of the draft report in June 2014.

### 13.3 General welfare services

Staff propose to recommend the commission make an assessment of concessions based on concession card holder numbers and a broad assessment of the balance of general welfare services expenses based on the relative proportion of people in the bottom quintile of the ABS's Socio-Economic Index for Individuals.

Tasmania accepts the staff observation that there are material differences between the concessions component of the assessment and the general welfare services component such as to justify two separate assessment approaches. Tasmania also supports the staff proposal to use SEIFI (an individual index of disadvantage) in preference to SEIFA (an area based index of disadvantage) in assessing relative need for general welfare services due to the absence of area based profile data on users of general welfare services.

### 13.4 Cost of living

Tasmania endorses the staff proposal to recommend the commission not pursue a cost of living adjustment unless reliable data can be provided linking high cost of living to greater level of provision of welfare services. This is not a new argument. Previous proponents of the argument have not been able to produce evidence of higher service provision in response to higher cost of living pressures.

### 13.5 Proposed assessment structure

As noted in Chapter 31 on service delivery scale and the previous chapter on Community health, Tasmania does not support the proposed cessation of a service delivery scale disability assessment within the disability services and general welfare services components of the Welfare assessment.

We are currently seeking data from the Tasmanian DHHS to support the retention of a service delivery scale disability within both the Community health and Welfare - disability assessments.

## Chapter 14 Priority Issue National Disability Insurance Scheme

### 14.1 Staff-proposed treatment of launch phase

As previously flagged in our July 2013 submission on principles, architecture and priority issues, Tasmania endorses the staff proposal to recommend that the commission treat State expenditures and related Commonwealth Government payments associated with the National Disability Insurance Scheme launches on a “no impact” basis.

### 14.2 Staff proposed treatment of transition phase

Tasmania endorses the staff proposals to recommend that the commission maintain two disability service assessments during the transition phase – one based on the current assessment approach but modified in line with our arguments in Chapter 13 and the second based on the CGC NDIS model (assessed using State shares of the total number of people ultimately to be covered). These staff proposals are entirely consistent with the Tasmanian preferred treatment as developed in Tasmania’s previous submission (refer chapter 3 of the July 2013 submission).

### 14.3 Staff proposed treatment of full Implementation

The staff propose to recommend the commission:

- assess State needs for their NDIS contributions APC from 2019-20 onwards;
- if Commonwealth Government payments for disability and community care continue for a State or States, treat these, together with any draw downs of the Medicare levy from the NDIS Fund, as impacting on the relativities;
- ignore direct Commonwealth Government contributions to the NDIS Fund and ensure any purchases by the fund of state services has no effect on the relativities; and
- consider the treatment of any residual service delivery once NDIS is fully implemented, or if the assessment were to become immaterial, at the relevant point in time.

Tasmania supports the staff’s proposed treatments as they are consistent with those advocated in Tasmania’s July 2013 submission.

### 14.4 Backcasting

Tasmania endorses the proposal to backcast the blended services arrangements to reflect the policies in operation in the application year (unless otherwise directed by the ToR).

However, Tasmania notes that the backcasting treatment assumes that there will be a “blended” methodology in place for a defined period. In the event that a blended methodology becomes entrenched practice, rather than a transitional proposition, the underlying in-principle rationale for ongoing backcasting, may need to be re-assessed.

## Chapter 15 Housing

Tasmania supports the proposal to assess housing services as a separate category and considers that there are sufficient, non-policy differences to warrant assessing housing revenue and expenses on a gross basis. This is broadly consistent with the approach adopted in the 2004 Review.

While Tasmania is not opposed to the proposal to include housing investment and depreciation in the Investment and Depreciation assessments to ensure consistency with other similar capital expenditure across the General Government sector, Tasmania has some concerns with the Investment assessment methodology and this is discussed in further detail in Chapter 24.

### 15.1 Socio Demographic Factors

Tasmania agrees that the major drivers of the demand and cost of social housing are socio-demographic factors.

However, Tasmania does not agree with the commission staff conclusion that location is a socio-demographic driver for all types of housing tenant.

Using 2011 Census data, commission staff analysed social housing use rates by low income Indigenous and non-Indigenous households within the five location categories: major cities; inner regional; outer regional; remote; and very remote. The data are presented in Table 15-4 of the staff discussion paper and are reproduced below.

**Table 15-4 Social housing use rates by Indigeneity and location, low income households, 2011 Census**

	Indigenous	Non-Indigenous
	%	%
Major cities	38.5	11.0
Inner regional	29.0	6.9
Outer regional	34.7	7.1
Remote	61.3	8.1
Very remote	84.1	8.6

Source: Staff calculations based on 2011 Census.

Commission staff conclude that “use rates of social housing are much higher in remote and very remote regions compared to other regions, especially for Indigenous households”.

Tasmania argues that while this statement is true for Indigenous households, and particularly remote and very remote Indigenous households, it is not convincing for non-Indigenous households. It is argued that the primary reason social housing use rates for remote and very remote Indigenous households are very high is more to do with land tenure than remoteness per se. Remote and very remote areas occupied by Indigenous communities are often native lands with restrictions on land use. The only types of housing that can be made available to Indigenous tenants on much of these lands are those provided by governments or Indigenous housing organisations.

Tasmania therefore contends that location is only a relevant factor of social housing demand for Indigenous households in remote and very remote locations.

## 15.2 Cost factors

It is noted that commission staff propose to retain the 25 per cent cost weight for Indigenous households in relation to management and maintenance expenses. Housing Tasmania has advised that in Tasmania there is no material difference in the cost of providing housing for non-Indigenous and Indigenous households.

Tasmania supports the commission's conclusion that there is no conceptual case to recognise the impact of cost of living on the demand for housing services.

## 15.3 Data

Tasmania notes that the main advantage of using Census data for assessing housing expenses is that it can be disaggregated by all relevant socio-demographic characteristics.

However, Tasmania considers that the AIHW data are more complete as it is provided by housing authorities and it is available annually. ABS census data rely on respondents accurately self-identifying as living in public or community housing and it is only updated every five years.

Census data are deficient when it comes to assessing social housing. There is typically a significant undercount of those living in public or community housing when compared to AIHW data. This may be due to tenants not understanding who owns the property in which they live.

Tasmania notes that with the transfer of 35 per cent of Housing Tasmania's tenants from social housing to community housing organisations under its Better Housing *Futures* program, some tenants may become confused with identifying as social housing clients. Use of the AIHW data would address this issue.

Tasmania suggests that both data sources could be used by the commission and it should explore the possibility of applying the socio-demographic characteristics obtained from Census data to the AIHW dataset.

As noted earlier, Tasmania does not agree that location is a significant driver of the use of housing services for non-Indigenous households.

### 15.4 Simplifying the assessment

The data in Table 15-8 in the proposed assessments staff discussion paper show that Indigenous assessed housing expenses for each State correlate closely with their population share of total assessed Indigenous expenditure. This finding suggests that neither location nor income is a significant factor in assessing State Indigenous expenses.

If the commission staff proposal is to simplify the Indigenous housing expenditure assessment by using population share only, and use the proposed SDC assessment for non-Indigenous households, then Tasmania contends this should be further simplified by excluding location and that the SDC factor for non-Indigenous households is low income only.

### 15.5 Separate revenue assessment

Commission staff provided evidence in Table 15-10 that rental income from social housing is influenced by income, Indigeneity and location. The table shows that higher income social housing tenants pay on average higher rents. This is expected as rent policy can be based on capacity to pay and higher income households have greater propensity to pay more and can afford a higher standard or better located property. In Tasmania, a Housing Tasmania tenant's rent is based on 25 per cent of assessable income with some very low income earners paying 23.5 to 24.9 per cent.

The table also shows that both low income and high income Indigenous households pay higher rents than non-indigenous households. At first this may seem counter-intuitive. In Tasmania there is no difference in the rent paid by Indigeneity. However, the differences could be explained by Indigenous households having a larger number of occupants and thus requiring larger dwellings.

Finally, the table shows that rents for all groups decline as the location becomes more remote. Tasmania questions whether this influence is not already captured to some extent by the low income SDC as there is a strong link between remoteness of location and the number of low income households.

Tasmania supports the proposal to assess housing on a gross basis by assessing expenses and revenues rather than a net basis as this is considered more transparent.

### 15.6 Assessment of capital needs

Tasmania agrees that the SDC factors that drive social housing gross expenditure are the same drivers for determining the housing stock that is required.

Tasmania supports the proposal to exclude the Indigenous cost weighting from the assessment of capital housing stocks and depreciation unless States can demonstrate evidence of higher cost or more frequent replacement. Public housing is not built to a higher standard for Indigenous tenants in Tasmania.

Housing Tasmania has advised that there are no material differences in Indigenous housing capital costs compared with non-indigenous housing. To the extent that housing construction costs on Flinders and Cape Barren Islands are higher than for mainland Tasmania, this differential is explained by remoteness not the Indigeneity of the tenants. Housing Tasmania estimate that the cost for construction on those islands is around 40 per cent higher.

Tasmania agrees with commission staff that location cost disabilities for housing investment and depreciation expenses be the same as those applied to other expenses included in the Investment and Depreciation assessments unless there is evidence they are inappropriate.

### **15.7 Remote Indigenous housing NPP**

Tasmania notes that the Remote Indigenous Housing NPP was not assessed in the 2010 Review as the payments provided by the Commonwealth Government funded improvements to assets not owned by State governments.

Consistent with the principle of HFE, Tasmania considers that payments from this NPP should only be recognised if it can be demonstrated that ownership of Indigenous Community Housing Organisations has been transferred to State governments. It also agreed that the commission should not include ICHO users in the assessment of housing capital needs.

When the first home owner scheme was introduced, there was a consistent policy across all jurisdictions, and an APC assessment was appropriate. Tasmania agrees with commission staff that because of policy changes by States to the FHOS grant arrangements since 2009, it invalidates the continued use of the current APC assessment.

However, Tasmania does not support the commission staff proposal to undertake a needs assessment of State assistance to first home buyers based on actual numbers of first home buyers. There are now sufficient policy-driven differences between FHOS and other first home owner assistance that such an approach is likely to be policy contaminated as the numbers of first home buyers will be affected not only by socio-demographic factors but the scheme design in each State.

Tasmania therefore considers an EPC assessment to be appropriate.

## Chapter 16 Services to Communities

### 16.1 Water and sanitation subsidies

Staff propose to recommend the commission:

- assess State subsidies due to uniform tariff policies and special projects EPC;
- assess needs for the remaining subsidies to uneconomic providers using the population living in communities with population from 50 to 1 000 in remote and very remote areas; and
- no longer recognise that water availability and quality have an impact on water subsidies.

Tasmania accepts the proposal to move from an assessment based on water availability and quality to population living in communities with populations from 50 to 1 000 in remote and very remote areas.

Tasmania supports 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 size of the communities serviced diminishes.

In the past, 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.

### 16.2 Electricity subsidies

Staff propose to recommend the commission:

- assess subsidies to metropolitan regions and to maintain uniform tariffs EPC; and
- assess subsidies to uneconomic providers using the proportion of the population living in communities with a population between 50 and 1 000 in remote and very remote regions as this is likely to provide the best policy neutral measure of the population that do not have access to the grid.

Tasmania supports the proposal to assess electricity subsidies to uneconomic providers using the proportion of the population living in communities with a population between 50 and 1 000 in remote and very remote regions as this is likely to provide the best policy neutral measure of the population not on the grid.

Tasmania is in agreement that those living in isolated farms and stations are most likely to rely on their own electricity production, and those living in large centres are likely to be connected to grids and should be excluded.

### 16.3 Simplification

Staff propose to recommend the commission:

- combine the water and electricity subsidies assessments into one assessment with two parts because they have the same assessment methods; and
- rename the assessment Utilities subsidies assessment.

Tasmania supports the proposal to combine water and electricity subsidies assessments into one assessment with two parts because they have the same assessment methods and to rename the assessment Utilities subsidies assessment.

Staff propose to recommend that the commission reallocate State concession expenses on water and electricity subsidies to the Welfare category.

Tasmania accepts the recommendation to reallocate State concession expenses on water and electricity subsidies to the Welfare category.

Staff propose to recommend the commission note that the definition of discrete Indigenous community needs to be revised to reflect the new census information and the discontinuation of ABS Community Housing and Infrastructure Survey.

This will be done for the 2014 Update. Tasmania agrees that the definition of discrete Indigenous community needs to be revised for the 2014 Update to reflect the new census information and the discontinuation of CHINS.

### 16.4 Impact of mining industry

Staff propose to recommend the commission examine the practicality and materiality of making an assessment of State recurrent spending on mining related expenses for services included in this category.

Western Australia and Queensland contend that, because of the growth in the mining industry in both States, they incur additional expenses in community development and amenity. They argue that these additional costs are driven by the reluctance from the private sector to contribute to community development and amenity due to the uncertainty of the economic and population growth, and the need for States to put into place greater regulatory regimes to support mining based communities.

In response to the commission staff's draft data request in relation to the availability of GFS expenditure data on regulatory and administrative expenses associated with public and private infrastructure projects, which includes broader community development, Tasmania found that as a general comment, the collection of regulatory and administrative expenses incurred by State government entities relating to specific identified development projects is either non-existent, incomplete or not systematic. Tasmania therefore considers that it is doubtful that reliable information can be collected that will identify regulatory and administrative expenses associated with these projects.

Tasmania agrees with the commission staff response to the Western Australia's proposal in the proposed assessments staff discussion paper. That is, any impact from higher wage costs is already captured in the current assessment. Tasmania also agrees with commission staff that no special regional location factor is necessary and questions the assertion by Western Australia that the private sector provides less support for mining communities.

Tasmania also questions the need for an additional population growth assessment as proposed by Western Australia to recognise additional community development and amenity expenses. There is already a population growth disability factor applied to State investment, and as GST funding is untied, it can be used to fund new infrastructure anywhere in the State.

While Tasmania is not opposed to commission staff examining additional community development and amenity expenses arising from the mining industry. Like any proposal to enhance an assessment it will need to be material, have a sound conceptual basis, and have robust data available to enable ongoing assessment. Tasmania doubts that the proposed assessment will be able to meet any of these criteria.

## Chapter 17 Justice Services

### 17.1 Assessment of police expenses

Tasmania supports the staff proposal to recommend that the commission continue to assess 50 per cent police expenses on the basis of State population (community policing), and 50 per cent on the basis of population adjusted for influences linked to the occurrence of crime (specialised policing).

Tasmania notes that the issues uncovered during the 2010 Review are still present, in that there is still no national data 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. Tasmania concurs with the staff view that the commission should maintain the current approach given the absence of any new developments.

### 17.2 The upcoming AIC police custody survey data

Tasmania supports the staff proposal to recommend the commission consider the upcoming AIC police custody survey data with a view to updating the current data and reviewing the discount applied to police use rates.

Tasmania notes that there is yet to be any specific details provided regarding the parameters or definitions associated with the new AIC survey, and as such, we reserve the right to provide further comments on this matter at a later date.

Tasmania is opposed to any change being made to the discount applied to police custody data until the new AIC survey data can be considered in detail.

Tasmania also supports the staff proposal to recommend the commission investigate whether data derived from the upcoming AIC police custody survey can be used as a basis for introducing a discount and/or cost weight for criminal court data or indigenous cost weights. As noted above, in the absence of any specific details regarding the survey, Tasmania reserves the right to provide further comments at a later date.

## Chapter 18 Roads

Tasmania supports the staff recommendation to continue the assessment method adopted for the Roads category in the 2010 Review.

State views are sought on whether the consultant's<sup>5</sup> report provides a suitable basis for assessing any additional effects of the physical environment on road maintenance costs. Tasmania has some general comments on the consultant's report, which are set out in the Investment Chapter. Tasmania notes that the consultant suggests that only two environmental characteristics have an impact on maintenance costs (soil shrink/swell and soil acid sulphates) as construction is assumed to be to a standard that mitigates the other environmental characteristics effects on maintenance costs. Like the analysis of GST impacts undertaken by staff for road construction costs, it would be of interest to see whether factors derived from the report for maintenance are material.

Tasmania supports the staff proposal not to pursue the data request for State roads spatial data at this time as it would be time consuming and probably immaterial according to commission staff testing.

State views are sought on the use of Urban Centres and Localities to determine urban/rural boundaries and the urban and rural road length disabilities, despite the ABS Survey of Motor Vehicle Use data (used in the road use factors) being based upon Statistical Districts and Greater Capital City Areas.

Tasmania understands that it may not be appropriate to capture large amounts of hinterland adjacent to urban areas in the definition of urban within the Roads category as it may inappropriately affect the calculation of rural road length disabilities. The use of UCLs would overcome this concern.

While staff propose to use UCLs in the Roads assessment, the SMVU data used by the Bureau of Infrastructure, Transport and Regional Economics is based on the ABS's Statistical Districts and Greater Capital City Statistical Areas. This means that the urban and rural use factors would not be based on UCLs. Presumably, some road use will be incorrectly classified as urban when it should be rural. While staff believe that this effect will be minor, Tasmania is of the view that some further consideration of the impact of this distortion should be undertaken to inform a response.

Staff also propose making the following minor updates to the Roads assessment:

- the rural road length algorithm and local road lengths will be recalculated to account for changes in populations using the new 2011 Census data; and
- the average of six-year BITRE data (based on ABS's Survey of Motor Vehicle Use) that is used for the urban and rural use factors will be updated using the most recent six-year block of data.

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<sup>5</sup> *Optimising GST Allocations*, Pottinger Co Pty Ltd and AECOM, June 2013

Tasmania agrees that the rural road length algorithm and local road lengths should be recalculated to account for changes in populations using the new 2011 Census data and that the data used for the urban and rural use factors be updated using the most recent six-year block of BITRE data.

## Chapter 19 Transport

Staff propose the commission:

- assess for urban transport, consolidated net operating expenses of the general government and PNFC sector and subsidies to private providers;
- assess for non-urban transport, subsidies to service providers; and
- assess urban transport investment and depreciation in the Investment and Depreciation categories as for other services to ensure these expenditures are assessed in the same way.

Tasmania is concerned that assessing urban transport investment and depreciation in the Investment and Depreciation categories, as for other services, will introduce greater volatility as the size of the assessed capital stock is increased by the inclusion of the non-financial assets of public transport PNFCs. Tasmania's concerns with the assessment of infrastructure needs is discussed further in Chapter 24.

Tasmania supports the staff preference to retain the simple model in the Transport assessment due to the significant amount of policy choice regarding when rail is introduced. Tasmania notes that the R-squared is not as high using the new data for the simple model. While the commission did not agree, Tasmania maintains the view put during the 2010 Review that some discounting should occur due to data quality concerns.

During the 2010 Review, the commission determined that the level of service use for non-urban transport services is affected by the population living outside the capital city. Capital cities were excluded because the commission considered that it is more likely that user traffic will originate from regional centres or areas rather than the capital where services and employment are concentrated. Staff propose to recommend the commission a possible assessment of relative distance between urban areas.

Conceptually, Tasmania considers that the size of non-urban subsidies are dependent on how large non-urban populations are and how dispersed they are within each state. A potential proxy could be the rural road length factor.

## Chapter 20 Priority Issue Transport Infrastructure

The commission propose to include the activities of public transport corporations within the scope of the Investment assessment because it considers that these activities are similar in nature to General Government activities. The commission therefore propose to include infrastructure stocks of public transport corporations in the Investment assessment.

While Tasmania is not opposed to the commission's proposal to include urban transport infrastructure within the Investment assessment, Tasmania has some concerns with the Investment assessment methodology and this is discussed in Chapter 24.

Staff propose to recommend the commission assess urban transport investment in a similar way to roads investment in the Investment assessment. Commission staff propose to estimate quantity of urban transport stock disabilities using the relationship between capital city asset values and population, subject to obtaining asset value data for Sydney, Brisbane and Darwin and testing whether the two relationships are materially different. Tasmania is interested in viewing the final asset value regression once all data points are available.

It is Tasmania's understanding that staff received the data for Sydney late in the drafting of the staff discussion paper. The text in paragraph 19 is correct (placeholders were used for Brisbane and Darwin only), but staff did not remove the reference to Sydney in the green box after paragraph 37.

Staff stated in the proposed assessments staff discussion paper that defining city size in a policy neutral way is difficult but that staff propose to include the satellite UCLs of Newcastle, the Central Coast and Wollongong to be part of "Sydney" and for Brisbane, the Gold Coast and the Sunshine Coast would be included as part of "Brisbane".

While the consultant's<sup>6</sup> advice in the 2010 Review stated that the UCL is at least as effective a descriptor as any of the options that are available to define urban areas, the consultant did not consider it appropriate to combine UCLs.

The consultant stated that the data suggest that public transport travel by people living in the satellites is almost entirely to local destinations and there is hence a prima facie case for treating the satellites as distinct urban areas rather than integral to the principal city.

In the 2010 Review the commission decided that it did not intend to aggregate certain areas because it could not find a clear policy-neutral basis for doing so, journey to work data did not support aggregation and the consultant demonstrated that (for Sydney and Brisbane at least) per capita subsidy in satellite urban areas were generally consistent with the subsidy per capita regression trend.

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<sup>6</sup> Institute for Sustainable Systems and Technologies - University of South Australia

Tasmania notes that the capital city asset regression is (inevitably) based on only a few data points with Melbourne and Brisbane having very similar asset per capita values despite Melbourne's population being twice as large as Brisbane. In this context, "Sydney" is an outlier as it has five per cent more people than Melbourne but over 40 per cent more transport assets per capita.

Staff propose to recommend the commission freeze the stock disabilities until the regression model can be re-estimated. Tasmania agrees that it would be difficult to obtain asset value data by capital city and their satellites every year and rail investments would change the slope each year adding volatility. In the absence of evidence on how capital stock needs change in response to changes in city size, Tasmania agrees that freezing stock disabilities until the model relationship can be re-estimated is simpler and more reliable.

Tasmania considers that it would be preferable to identify depreciation expenses and assess them in the Deprecation category using investment disabilities as this would be consistent with the general government sector and would avoid having two different depreciation assessments.

### **20.1 Appropriate treatment of Commonwealth transport infrastructure payments**

Under the guidelines, as proposed, all Commonwealth Government payments, whether recurrent or capital in nature, would impact the assessments, unless they were the subject of a term of reference direction or otherwise meet the commission criteria (as now proposed) for a "no impact" determination.

In our July 2013 submission we argued one way of alleviating the tension around the treatment of large capital payments specifically was to move to a capital assessment method which spread the impacts of capital revenue and expenditure over time.

However, the staff analysis and recommendation regarding the appropriate treatment of Commonwealth Government infrastructure payments is predicated on a continuation of the 2010 Review capital assessment method, modified by a General Government sector treatment of housing and transport infrastructure PNFCs.

We do not resile from our opposition to the proposed capital treatment approach, but acknowledge the staff's need for constructive comment on its proposed Commonwealth Government capital payments assessment framework.

Staff consider that its preferred approach would be for the commission to continue its current approach of ensuring all relevant and material needs are assessed and of treating Commonwealth Government payments as having an impact on the relativities. If needs are 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.

State views are sought on the following points:

- Is the current approach for determining the treatment of Commonwealth payments – whether needs are assessed – sufficient to ensure the achievement of HFE and consistency in the treatment of transport and roads infrastructure payments?
- Is the commission failing to assess needs relating to infrastructure projects, including in the proposed new urban transport infrastructure assessment?
- How would the commission ensure that infrastructure needs are not funded twice – through the GST and through direct Commonwealth payments?
- Is it practical for the commission to develop a framework to decide payments of national significance? If so, how would this be done? How could spill over effects be measured? What other approach might the commission adopt to decide the proportion of any payment of national significance for which needs should be assessed?
- Could governments agree on payments which should not impact on the relativities and include instructions on this in commission 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.

Tasmania also accepts the general principle that where a Commonwealth Government payment is distributed, in part, on the basis of needs not assessed by the commission in an area where the commission otherwise assesses needs, that that part of the payment should not affect GST shares.

We also recognise that in relation to specific payments, understanding how the distribution of Commonwealth Government payments and the needs of the States interact requires significant analysis and ultimately judgment on the part of the commission.

Within this context, Tasmania considers that the proposed explicit differential needs assessment of the investment and depreciation needs of urban transport (and housing) PNFCs should alleviate (or even remove) the need for the commission to make a judgement as to the part of any related commonwealth urban transit or housing payments that should be discounted/not impact due the non-assessment of needs.

The 2010 Review decision to discount the National Network Roads 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. An equivalent concept within a rail context would be, arguably, interstate rail connections, which are not part of the urban transit assessment framework.

Therefore, while Tasmania accepts the current approach in relation to the non-assessment of needs, whether the proposed treatment of urban transit infrastructure is sufficient to ensure consistency of roads and rail treatment and the achievement of HFE, in our view, remains open to debate.

Queensland has previously argued that passenger rail networks are predominantly urban or inter-urban within state boundaries, and therefore do not form part of a national network. Furthermore, rail freight networks are generally privately owned and state involvement (where it does exist) is limited in scale and within State borders.

These arguments advocate against an interstate rail treatment equivalent to the 2010 Review treatment of national network roads.

Tasmania also anticipates that at least some States will seek to argue that their urban rail networks and/or other Commonwealth sponsored infrastructure projects have spillover benefits to other States/national productivity implications that require either a broadening of needs assessment or a discounted impact applied. These arguments will need to be carefully evaluated on their merits.

Where payments are excluded through a terms of reference direction rather than an explicit commission decision, in assessments that address at least part of the interstate differences in need and move GST accordingly, Tasmania agrees it will be necessary to exclude both the Commonwealth Government payments and the related project expenditure from the calculations to ensure that infrastructure needs are not funded twice.

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. We consider the “interstate spill over benefit” of projects to be effectively a different terminology for the same concept and endorse the staff doubts as to the commission’s capacity to quantify the size of the benefits or apportion project expenditure to that outcome. However, should a viable assessment framework be identified, Tasmania would participate in any process aimed at refining, and if possible agreeing, applicable criteria for inclusion in commission terms of reference.

## Chapter 21 Services to Industry

### 21.1 Mining industry regulation and support expenses

Tasmania is not opposed to commission staff considering the separation of mining regulation expenses from the regulation assessment as is the case with agriculture.

In accordance with HFE principles, there needs to be sufficiently material differences in the GST distribution that can be measured between States to warrant a separate assessment of mining regulation expenses. If not, then the current treatment should remain. This principle would apply to regulation expenses for any other industry if it is found to be material.

Tasmania is not convinced that commission staff have made a case for making a recommendation to the commission for a separate assessment of mining regulation expenses if the commission identifies other mining related expenditure that would, in total, satisfy the commission's materiality threshold.

Tasmania considers this would undermine the integrity of the commission's assessment as it effectively suggests applying an approach for assessing the materiality of mining expenses by the inclusion of other related expenditure that is not applied with other assessments of economic activity.

### 21.2 Fitness for purpose and reliability of survey data underlying the assessment

Tasmania agrees that there is insufficient time in this methodology review to develop a new methodology for allocating services to industry expenses and assigning weights between the differing service expenses.

The recent re-examination of classification of expenses by commission staff of certain non-regulatory expenses from business development to regulation did not produce a materially different distribution. Tasmania is therefore comfortable that the continued use of the 2010 Review State survey is fit-for-purpose as the basis for determining expense and disability weights, and supports the continued 12.5 per cent discount to those weights in recognition of the survey nature of the data.

### 21.3 EPC assessment of business development expenses

Consistent with the extensive examination of this issue in the 2010 Review, Tasmania supports the continued assessment of business development expenses on an equal per capita basis as appropriate, given the difficulty in determining a common policy in relation to economic development.

## 21.4 Treatment of user charges

Tasmania supports the proposal by commission staff to net-off mining regulation user charges from mining industry regulation expenses.

## 21.5 VET expenses in the Services to industry category

Tasmania considers it appropriate to move all VET expenses from the Services to industry category to Post-secondary education. Tasmania's comments on this proposal are covered in Chapter 10.

## 21.6 Regional location assessment

Given the dispersed, regional nature of many agricultural and mining operations, often the delivery of regulatory and other support services “on the ground” is often not a matter of policy choice. Tasmania therefore supports the application of the general regional cost disability to regulation expenses.

Tasmania has previously indicated that a conceptual case exists for regional location disabilities in services to industry but that the regional location disability would be difficult to measure. The proportion of business/industry dispersed around a State would likely be a driver of some expenses and that these expenses are often unavoidable and not subject to policy choice. However, many of the services provided to these businesses are advisory in nature and are therefore delivered from a major centre via phone, email etc. Therefore, there is often not a requirement to travel to businesses and, as such, expenses incurred due to a location disability would be minimal.

Staff propose to recommend the commission apply the general regional cost disability to regulation expenses. For the limited expenses where a location disability may apply, an assessment will need business counts by location data. It is Tasmania's understanding that such data are now available from the ABS by industry by Statistical Area Level 2.

## Chapter 22 Priority Issue Mining Related Expenditure

Tasmania supports an examination of the appropriate treatment of mining expenditure on a first principles basis. The commission will therefore need to be able to identify mining related expenditure that is not already captured in the existing assessments, is material, and not within the policy control of State governments.

It is noted that some of the mining related costs that are considered to be unassessed by the resource States relate to other assessment categories such as Services to industry, Services to communities, Roads, Infrastructure, regional costs and interstate wages. Commission staff have addressed these issues in the relevant chapters.

### 22.1 Regulation and administrative costs linked to major infrastructure projects

Tasmania has been unable to adequately identify regulatory and administrative costs associated with major infrastructure projects in GFS. Tasmanian State Government regulatory and administrative expenditure relating to major infrastructure projects is incurred by a number of line agencies, however, it is not recorded consistently on a project-by-project basis.

More broadly, Tasmania notes that regulatory and administrative costs relating to major infrastructure projects are likely to be incurred across all levels of government. For example, a major mining project in Tasmania would require the applicant to obtain a land use permit from local government, an environmental approval and mining lease from the State Government and federal approval as a “controlled action” where relevant.

The relative contribution from each level of government may also differ materially depending on the nature of the project, making it difficult to determine an objective measure for the level of State government expenditure on major infrastructure projects.

### 22.2 Fly-in/fly-out and drive-in/drive-out workers

Tasmania notes the finding of the House of Representatives Standing Committee on Regional Australia report into FIFO/DIDO workforce practices in regional Australia<sup>7</sup> that there are no nationally consistent data on the scope, effect and cost of FIFO and DIDO work practices. It is also noted that a key recommendation of the Standing Committee is for an accurate measurement of FIFO workers to be carried out by the ABS and for research to be undertaken into the social and economic impacts of these work practices on affected communities.

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<sup>7</sup> Cancer of the bush or salvation for our cities? Fly-in, fly-out and drive-in, drive-out workforce practices in Regional Australia.

Similarly, Tasmania is unable to provide the commission with data on the socio-demographic characteristics of FIFO workers and their use of State services. There is no consistent or comprehensive data collected that would be suitable for commission analysis.

The additional population demands of FIFO/DIDO workers on a small community may be similar to other communities with a transient population, say from tourists. However, what is not known is whether FIFO/DIDO workers place any more demands on State governments than other transient populations because of the nature of these work practices, and the atypical socio-demographic characteristics of the workers for either the fly-in or fly-out communities. Further, Tasmania questions whether the additional demand is more likely to be imposed on services provided by local governments or private sector mining entities than State governments. The impacts on State governments are therefore uncertain until a detailed study of the FIFO/DIDO work practices on communities has been undertaken as recommended by the Standing Committee.

### 22.3 Opportunity cost and risk

Commission staff raise a number of issues under the broad heading of opportunity cost and risk that centre around additional State government costs associated with infrastructure investment relating to resource development, such as the requirement for longer cost recovery periods, the need to undertake pre-emptive investment and the inefficient utilisation of capital.

These issues overlap and relate to the notion that resource States incur additional costs in providing State infrastructure because of the timing and the scale of the infrastructure required to support mining developments and broader community.

Consistent with the findings of the GST Distribution Review, Tasmania does not support recognition of the opportunity costs and risks associated with State infrastructure investment to support the mining activity or broader economic development in the expenditure assessment.

These costs and risks cannot be measured objectively, are not consistent with the principles of HFE and, to the extent that they exist, are likely to be highly policy-driven in nature.

Tasmania also supports the finding of the GST Distribution Review that the risk of under-utilisation of capital exists for all States undergoing structural change and that there is no basis for concluding that the resource States face relatively greater risk, or the need for assigning a value to this risk.

Longer cost recovery periods are not unique to infrastructure to support the mining industry. Tasmania has, for almost a century, developed its hydro-electric infrastructure and their costs have been recovered over a very long period. This is a policy choice of governments who are best placed to provide infrastructure to support economic development and recover those costs over a long period.

The argument put forward by Western Australia that faster growing States need to provide social and economic infrastructure in advance of population growth, and that this cost is proportionally greater than slower growing States, is already addressed in the Investment assessment. The commission already compensates those States with faster growing populations. However, Tasmania has concerns with the notion of a population growth disability and its direct impact on infrastructure need. This is discussed in detail in the Chapter 24.

#### **22.4 Recognising the impact of past and current State mining industry development policies on mining revenue bases**

Tasmania recognises that major resource States have made significant contributions to the development of their mining revenue bases but, for the reasons outlined at the start of this chapter, does not consider that this expenditure should be assessed by the commission. Each State's relative fiscal capacity has far more to do with its geographic, population and natural endowments than the level of State government support for economic development activity. Those States with fewer natural endowments arguably face a greater task in developing other sectors of their economy.

The commission has not accepted arguments to recognise economic development-related costs in its expenditure assessments for a range of reasons, including the policy-driven nature of these costs.

All States spend significant amounts on economic development and providing economic infrastructure, and there is no compelling reason why costs associated with developing the mining industry should be assessed differently to costs associated with developing other sectors of the economy (for example, the tourism industry in Tasmania).

Tasmania shares the concern of commission staff that equalising fiscal capacities because of past investment decisions by States is inconsistent with the principles and intent of HFE, which is to equalise fiscal capacities in the present.

Tasmania opposes the application of a discount to revenue assessments as a means of adjusting for a perceived deficiency in an expenditure assessment. Such an approach is arbitrary and there is no tie to the disability in question. Adjustments for expenditure disabilities should only be made in the relevant expenditure category where a conceptual case can be made, it is material, and consistent with HFE.

## Chapter 23 Other Expenses

Tasmania supports the commission staff's position to recommend not to change the approach to this assessment.

## Chapter 24 Infrastructure

Commission staff have raised a number of issues relating to the Infrastructure assessment and these issues are addressed below.

### 24.1 Issue of possible double counting between investment and depreciation assessment

In the GST Distribution Review report, the panel raised a methodological issue as to whether the assessment of net investment and depreciation involves a double count because “new” investment in one year gives rise to depreciation expenses that are then assessed over the life of the assets.

In response, commission staff have argued that there is no double counting because net investment and depreciation are two different concepts. Spending on capital comprises the acquisition of new assets while depreciation covers replacement of existing and new assets. Together the two assessments cover total expenditure in a year on the acquisition and eventual replacement of non-financial assets.

Tasmania’s agrees that there is no double counting of depreciation in the commission’s capital assessment rather it is more an issue of presentation.

The current method assesses infrastructure in two components: a net investment assessment which is the net acquisition of new non-financial assets excluding depreciation; and a separate assessment for the depreciation of existing assets.

To overcome the presentational issue, commission staff have proposed to assess Infrastructure as gross investment rather than net investment and thereby obviate the need for a separate depreciation assessment.

While Tasmania is not opposed to the commission developing an alternate presentation, it is noted that different disability factors are currently applied to net investment and depreciation. Therefore, in order to maintain the same application of the disability factors the commission will still need to apply them to the same two components of gross investment (net investment and depreciation). Thus the proposed approach would not result in any simplification compared to the current approach.

### 24.2 Housing and urban transport capital assessments

The commission propose to include the activities of housing and public transport corporations within the scope of the Investment assessment because it considers that these activities are similar in nature to General Government activities. That is, public transport and housing corporations do not operate as commercial enterprises and usually require government subsidies to enable the entity to provide services.

The commission therefore propose to include infrastructure stocks of housing and public transport corporations in the Investment assessment and the relevant service use and cost disabilities are then applied. Because these PNFCs will be included in the General Government sector, their non-financial assets will consequently be excluded from the Net lending assessment, which includes PNFC equity. The net operating expenses of these PNFCs are to be consolidated within the General Government sector for the Housing services category, and Urban transport within the Transport services category.

In Tasmania, public housing is provided through the General Government sector through the Department of Health and Human Services and so the proposed treatment is already consistent with what Tasmania does.

Public transport is often provided by government corporations. However, it can be considered a core government service, rather than an equivalent private sector business. Public transport is a merit good in nature similar to a public hospital or school as it mitigates externalities such as traffic congestion and provides social benefits to the community that may not otherwise be provided in the private sector at a similar cost.

Tasmania therefore agrees with the commission's assessment that the activities of housing and public transport corporations are more like a government department than a commercial enterprise. However, Tasmania has some concerns with the proposed treatment of including these PNFCs within the Investment assessment.

The assessed investment is the difference between a State's population share of the average stock of infrastructure at the end of the year compared to the start of year. Stock disabilities are applied to the assessed quantity of stock required by a State at the start and end of each year.

However, this approach can introduce volatility in the assessment given the size of the stock of infrastructure. While it is acknowledged that the commission applies a 12.5 per cent discount and three-year moving average to the data to reduce this volatility, a small change in a stock disability factor for a State can give rise to a larger change in the assessed investment. The inclusion of housing and urban transport PNFCs into this assessment may introduce further volatility in the determination of relevant disability factors.

Tasmania proposes that the commission staff review the discount with a view to a higher discount being applied.

## 24.3 Disabilities

### 24.3.1 The impact of population growth

Both the Net lending and Investment assessments include a population growth disability.

The commission is of the view that there is strong evidence that population growth is a major driver of State infrastructure spending, and states with above average population growth must spend more on infrastructure to provide the average per capita stock of infrastructure required to deliver the average level of service.

Tasmania, NSW, Victoria and ACT argued in their July 2013 submissions to the commission's proposed principles and architecture for the 2015 Review, that differential population growth is not a suitable disability factor as it is neither a good indicator of the need for investment nor is there a direct link between population growth and investment.

However, the commission maintain that it is an appropriate disability requiring equalisation as it gives states the capacity to provide average per capita investment or hold average per capita non-financial assets (in the Net lending assessment) irrespective of whether they use it or not for the purposes of capital investment in that year.

Tasmania does not agree that the population dilution be retained in the capital assessment when the commission has not provided a compelling reason for its inclusion. This is of particular concern given its significant distribution impact.

Tasmania also has concerns with the population dilution factor used in the Net lending assessment and this is covered in Chapter 25. Tasmania's issues with the population dilution factor used in the Infrastructure assessment are set out below.

The approach taken by the commission is to give all States the capacity to achieve the average outcome of having the equal per capita stock of infrastructure of non-financial assets irrespective of movements in population or actual investment. The commission 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.

Tasmania acknowledges that population growth is a factor that influences infrastructure investment. However, the commission's approach of equalising a State's infrastructure need to the State average per capita infrastructure stock assumes that its need is directly related to its relative population growth compared to the national average. That is, if a State's population is growing faster than the national average, then the commission considers that there also needs to be positive and direct growth in its investment in order to maintain its investment per capita at the national average.

The following tables show over a nine year period States' relative population growth to the national average and actual investment per capita to the national average. For example, if a State is growing at 2.5 per cent per annum and the national average is 5.0 per cent, then the State's relative population growth is 50 per cent of the national average.

**Table 24-1 State population growth relative to average population growth**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
2003-04	-53.0%	0.6%	109.6%	25.5%	-47.5%	0.5%	-55.4%	-93.0%	0.0%
2004-05	-52.6%	5.4%	100.4%	29.6%	-53.4%	-36.6%	-47.4%	-3.5%	0.0%
2005-06	-44.7%	0.6%	79.0%	35.1%	-39.5%	-48.3%	-8.2%	30.7%	0.0%
2006-07	-34.8%	3.3%	48.6%	48.6%	-31.6%	-55.0%	-6.0%	12.9%	0.0%
2007-08	-23.6%	-0.6%	36.3%	48.6%	-41.6%	-53.1%	-9.1%	40.6%	0.0%
2008-09	-21.6%	0.1%	27.1%	58.4%	-43.8%	-45.4%	-8.0%	0.0%	0.0%
2009-10	-21.6%	9.8%	18.4%	36.7%	-28.7%	-48.6%	6.0%	30.1%	0.0%
2010-11	-21.4%	0.5%	13.3%	74.1%	-38.8%	-47.1%	38.8%	-21.3%	0.0%
2011-12	-27.7%	0.7%	18.0%	98.9%	-43.2%	-78.3%	11.4%	-33.3%	0.0%

Source: ABS 3101.0 Australian Demographic Statistics - Table 4 Estimated Resident Population, States and Territories (Number)

**Table 24-2 State actual per capita investment relative to average per capita investment**

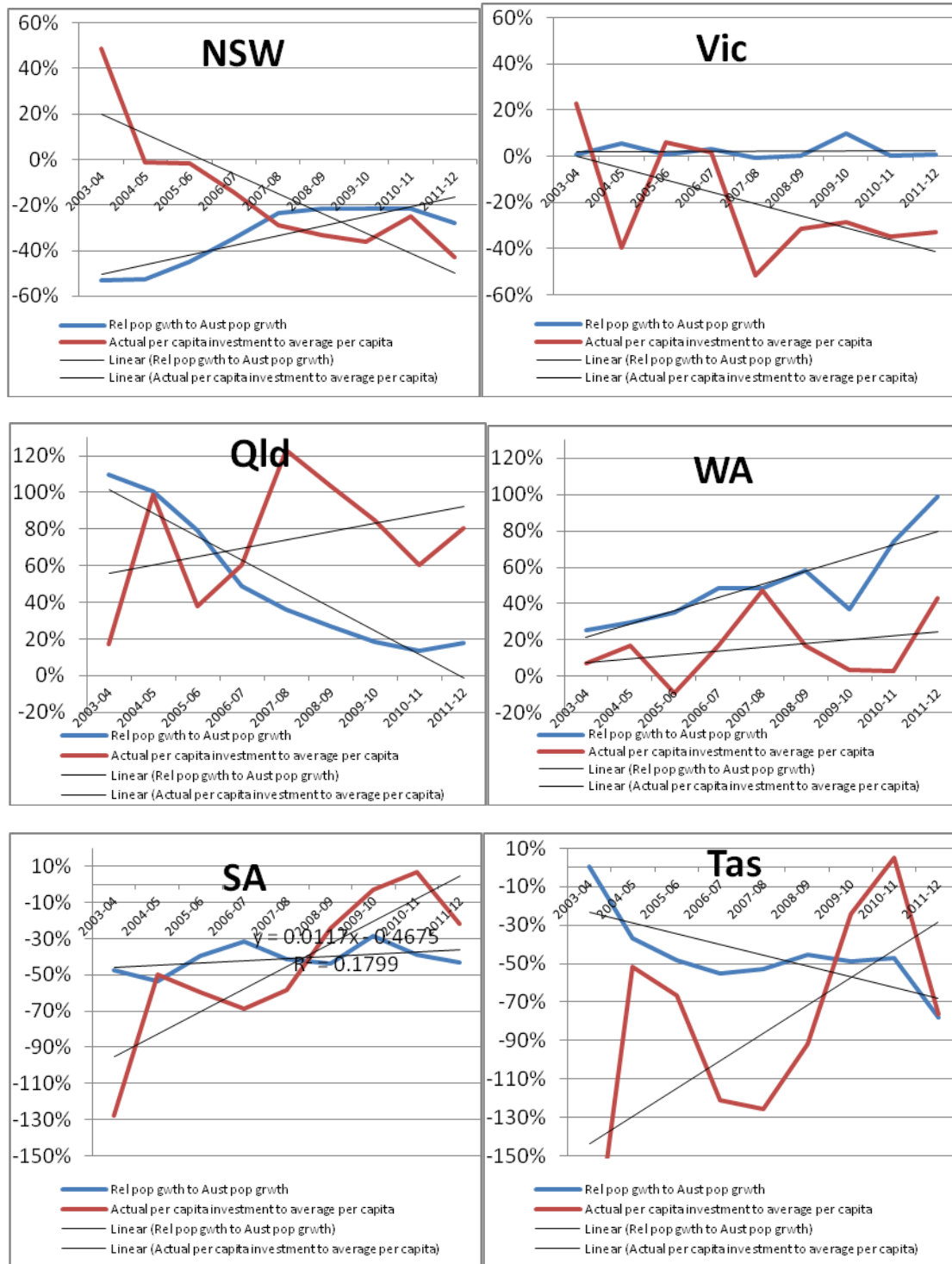
	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
2003-04	48.8%	23.0%	17.1%	7.0%	-127.9%	-221.7%	-533.5%	-183.6%	0.0%
2004-05	-1.3%	-39.5%	98.6%	17.2%	-50.0%	-51.8%	-332.7%	-3.3%	0.0%
2005-06	-1.6%	6.1%	37.6%	-9.1%	-59.7%	-66.5%	-135.7%	93.7%	0.0%
2006-07	-14.3%	1.5%	60.5%	16.6%	-68.5%	-121.2%	-75.8%	6.0%	0.0%
2007-08	-28.9%	-51.4%	123.3%	47.0%	-58.3%	-125.5%	-21.3%	67.2%	0.0%
2008-09	-33.2%	-31.3%	103.9%	17.1%	-24.0%	-91.8%	-51.8%	0.0%	0.0%
2009-10	-36.1%	-28.3%	84.5%	3.8%	-2.6%	-24.4%	-0.9%	215.8%	0.0%
2010-11	-24.7%	-34.7%	60.7%	3.1%	6.7%	5.0%	18.2%	311.5%	0.0%
2011-12	-42.9%	-32.7%	80.7%	42.9%	-22.0%	-76.4%	56.4%	353.0%	0.0%

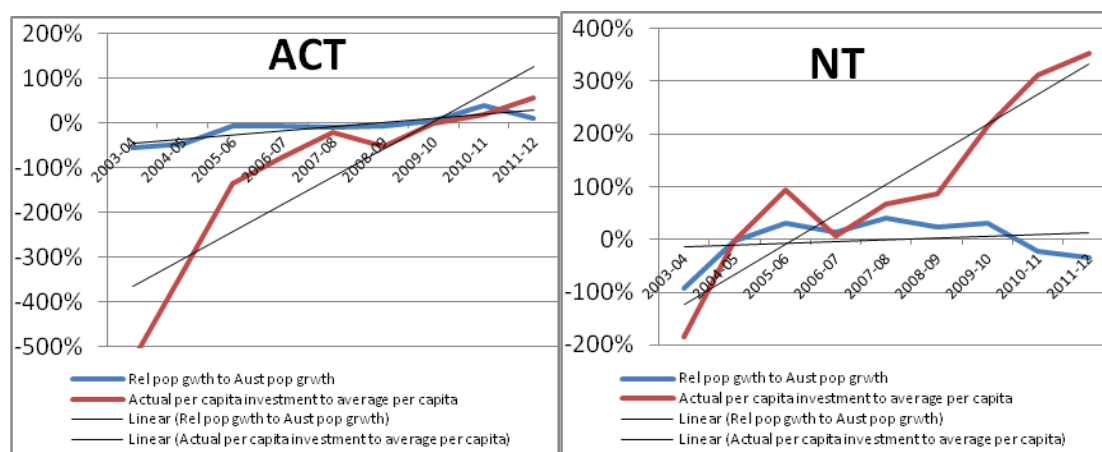
Source: ABS 5512.0 - Government Finance Statistics, Australia, 2011-12

While it is acknowledged that there will be a lag between the change in population and change in investment expenditure (if a relationship in fact exists) the above data covers a sufficiently long enough period to establish if there are any such trends.

Based on the above data, the following charts show that for some States there appears to be a positive and linear relationship between relative population growth and relative investment growth, such as in Western Australia, but for most other States there is either an inverse relationship or there is no clear relationship.

For example, while Queensland's population growth is greater than the national average its relative growth to the national average has been declining, yet its relative investment per capita compared to the national average has been rising. The Northern Territory's relative population growth has been broadly in line with national population growth, yet its relative growth in investment per capita has been rising significantly.





There can be many reasons why relative growth in investment in capital infrastructure varies between the States. For example, it could be due to the relative economic circumstance each State faces which enables the funding of more or less infrastructure expenditure, differences in the lumpy nature of Commonwealth Government assistance for capital infrastructure, policy choices such as decisions about the privatisation or the acquisition of assets, and the impact of natural disasters. However, it is not clear from actual experience, as shown in the above charts, that population growth is a predominate driver of infrastructure spending.

While it is acknowledged that the commission's approach is designed to be policy neutral, and to give States the capacity to provide average per capita infrastructure whether it is required or not, it is not what has been observed in many States, that is what States do.

Tasmania contends that there is not a strong relationship between relative population growth and investment need as has been assumed in the current methodology. Therefore the commission should consider applying a discount factor to the Investment assessment to account for the uncertainty that higher population growth is a fiscal disability in the provision of infrastructure.

### 24.3.2 The use of recurrent disabilities

The current methodology applies recurrent service use disabilities for each expense category to determine infrastructure quantity disabilities, and wages and regional cost (Location) factors for infrastructure cost disabilities.

Because not all recurrent service use disabilities affect the need for infrastructure a 12.5 per cent discount has been applied.

Commission staff have proposed to continue using the recurrent service use disabilities however will consider omitting those recurrent disabilities that are judged not to affect spending on infrastructure. Commission staff will also review the need for the 12.5 per cent discount factor if it satisfied the removal of non-relevant recurrent service use disabilities obviates the need for the discount factor. Commission staff have provided results of its consideration of the 2012 Update factors that are considered to have little or no impact on infrastructure. This analysis will be re-done when final decisions on factors in the 2015 Review and methods for measuring them are made.

Tasmania agrees with the majority of the commission staff assessments as to which recurrent disabilities do not affect infrastructure requirements. However, it is noted that the commission assess average State policy for school transport services to be provided by non-government providers. This is not the case in Tasmania and that around a third of school age children travel to and from school by the State government bus service provider, Metro Tasmania. The assumption that transporting school age children does not affect infrastructure need is not the case for Tasmania.

### 24.3.3 Capital specific disabilities

As an alternative to the Location disability which is used by the commission as a proxy for the disabilities associated with the cost of capital infrastructure, commission staff are considering including specific capital cost disabilities to address urbanisation and regional capital cost variations.

In the case of urbanisation, no proposal is being suggested at this stage by commission staff as there is a lack of suitable data to reliably measure additional costs faced by the larger cities.

In the case of regional capital cost variations, the commission staff propose to use Rawlinsons capital city building cost indices. Rawlinsons produce building cost indices for location variations within States and for interstate capital city variations. Commission staff have noted that Rawlinsons indices may not be suitable for measuring differences in the cost of constructing roads.

Tasmania agrees that it would be appropriate to develop a capital cost index if it could be done reliably, is policy neutral and has a materially different effect on the GST than the existing recurrent wages and regional costs indexes. Such an index would be more appropriate compared to the existing recurrent wages and regional costs indexes as it would be specific to the building and construction industry and based on actual prices paid in different locations for buildings typically constructed by State governments. Tasmania considers that it would be worthwhile investigating the suitability of using Rawlinsons for this purpose. Concerns with data quality, data gaps and policy influences on building prices could be addressed through discounting.

There are other factors which drive relative building and construction cost differences between States. For example, small states such as Tasmania would face a cost disadvantage because of the diseconomies of scale of smaller local building contractors and these scale inefficiency costs are passed on in the form of higher building costs. Tasmania being a small island state also lacks a depth of building and construction market compared to the larger States and so can face higher prices for certain building materials and equipment. This is supported by Rawlinsons Australian Construction Handbook, which indicates that Tasmania along with other smaller States face higher construction costs for various building types as shown in Figure 24-1 in the proposed assessments staff discussion paper, compared to larger capitals yet its wages costs as measured under the current assessment are lower. This suggests that costs other than labour are relatively higher in Tasmania.

Tasmanian State government line agencies have been contacted regarding the use of Rawlinsons and their experiences with its reliability. The Department of Education reference Rawlinsons on occasion but it is not used extensively. Housing Tasmania has stated that it uses the Cordell building cost estimator rather than Rawlinsons, but we understand that both products are very similar. Housing Tasmania uses quantity surveyors for most of its larger contracts and variations but uses the Cordell guide as a resource for some tender evaluations and for quality assurance of smaller projects. The Tasmanian Department of Treasury and Finance, Procurement and Property Branch currently uses Rawlinsons as part of the Parliament Square redevelopment project. Each of these agencies consider that Rawlinsons and Cordell are reasonable guides.

Basing a capital city cost index on a combination of the two regional indices prepared by Rawlinsons would capture some elements of interstate and regional differences in physical environment, such as climate, wind and soil. Tasmania agrees that Rawlinsons capital city index would capture some “urban influences” to the extent that city size and related factors affect the construction costs of specific buildings including labour and plant hire.

Staff state that it would not capture all the influences covered by the physical environment consultancy report, especially the effects of terrain. Rawlinsons derive their indices by collecting data on the cost of constructing a range of “typical” buildings in each city. Rawlinsons construction cost guide states that costs associated with site-specific costs such as slope are excluded from these estimates.

Staff have stated that, while the Rawlinsons indices may provide a suitable basis for measuring interstate differences in building construction costs, they may not apply to all investment. For example, it may not be an appropriate measure of interstate differences in road construction costs. While there is cost data presented in Rawlinsons regarding road construction it is not available for all States.

#### 24.3.4 Physical environment

Commission staff are considering introducing a new capital cost disability to address differences in physical environment between states. The commission engaged the consultants Pottinger and AECOM who prepared a report into the effects of environmental characteristics on State government spending on roads, public schools and public housing. The report examined topography, rainfall, temperature, wind, shrink/swell of soil and acid sulphate soil on infrastructure costs. The consultants found that additional cost associated with the physical environment was greatest for roads (\$3.8 billion) followed by public housing (\$1.8 billion) and public schools (\$0.7 billion). Queensland and the Northern Territory were found to have higher than national average costs from physical environment.

Commission staff note that there may be some double counting of physical environment effects if both Rawlinson indices and a separate physical environment factor is used. This would need to be considered to avoid double counting. As noted above, Tasmania is of the view that Rawlinsons building index would capture all relevant physical environment factors in its building cost index. Therefore, to avoid double counting, it may not be necessary to use all aspects of the consultant’s report in addition to using Rawlinsons building cost index.

Tasmania considers that, while the mapping of environmental characteristics is probably sound and uses well established national GIS data, the key issue is the quality of the cost data.

Tasmania considers that there is uncertainty associated with the method, which is outlined below, that justifies consideration of using a discount should the commission adopt physical environment factors derived from the consultant's report results.

The consultant describes the cost uplifts as qualitative effects of environmental factors on public housing costs (not quantitative). Also, there are interaction effects between environmental characteristics that will increase overall costs. The possibility of diverse interaction effects, which depend on the mix of physical environment characteristics, could mean that the current results distort a State's true position compared to the national average. More detailed comments on the report by Tasmania's Department of Infrastructure, Energy and Resources are available in Appendix 4.

### Road construction

For urban roads, the consultant has allocated the population in each jurisdiction to the different categories of environmental characteristics and used this as a proxy for the distribution of population in urban centres. Therefore, the consultant considers that the use of total State and territory populations as proxies for urban populations could moderately alter the distribution of population across the environmental characteristics categories. However, the consultant states that, given that the non-urban population is less than 10 per cent of the total population, the impact on the distribution of the proxy across environmental characteristics is not likely to be large.

Since the cost uplifts are being applied to a fixed asset base, using the distribution of total population rather than just urban population will only affect total cost uplifts to the extent that it skews the proportion of a jurisdiction's population into environmental characteristic categories with higher cost uplifts than would have been the case if just urban population had been used.

The consultant states that the proportion of the urban road network affected by soil-shrink/swell is calculated using the centroid of each Statistical District. The consultant considers that this is sufficient to generate an approximate measure of the impact of soil-shrink/swell. A key issue is that the consultant mentioned that the degree of soil/shrink swell can differ markedly across very small geographic areas, so more data points would improve the accuracy of the findings. The same issue occurs with the method for urban roads and soil-acid sulphates.

### School construction

Like roads construction, the schools cost uplift factors are judgement based and not transparent. This lack of detail on how the cost uplifts were derived does not provide sufficient confidence in the uplift factors to endorse their use.

The report states that the degree of slope of building sites are rarely recorded on either cost estimates or in post-hoc examinations of construction costs. The cost uplifts identified are indicative and based on the professional opinion of AECOM's quantity surveyors.

Tasmania understands that Staff consider the uplift cost estimates to be conservative in their impact on total cost. However, Tasmania considers that the real issue is the level of judgement involved in the relative cost increases. For example, for school construction in Wind Region C, a cost loading of five per cent is presented, while 10 per cent is considered the extra cost associated with building schools in Wind Region D. The commission must recognise the uncertainty involved in using cost uplifts derived from judgement and the absence of any analysis of the effects of the interaction between the environmental characteristics on costs.

There appears to be an error on page 38 of the Consultants Report. Tasmania is largely categorised into Weather Zone 6, which has a cold winter, yet the report states that schools constructed in Weather Zones 1, 2 and 6 are likely to experience hotter summers and milder winters.

Tasmania agrees that “Method 1” for valuing the school asset base is not appropriate. The second method was to use cost estimates based on “standard rates” for school building construction in each state and territory as sourced from AECOM quantity surveyors. However, States have no information on the sample size, sampling error or how the cost was derived (if not from a sample survey).

Having assumptions for spatial attributes is appropriate as there is no national average size for a school or public house. However, the veracity of the cost per attribute is unknown and therefore creates uncertainty.

The base construction rates by state are very similar to each other and it is questionable whether the differences are statistically significant as such. For example, the base cost of a primary school per metre squared in Tasmania is \$1 400, while in the ACT it is \$1 420 and \$1 430 in South Australia.

### Public housing

The approach to public housing does not use the actual locations of public houses due to privacy issues. Instead, the number of public housing dwellings within the smallest census statistical area available is used as a proxy. This will have caused some inaccurate mapping of public houses to environmental characteristics.

Tasmania is largely categorised into Weather Zone 6, which has a cold winter, yet the report states that public housing constructed in Weather Zones 1,2 and 6 are likely to experience hotter summers and milder winters.

Public housing uses cost estimates based on “standard rates” for residential building construction (medium quality) in each state and territory sourced from AECOM quantity surveyors databases.

The consultant has stated that while their results are not highly sensitive to this assumption, it would be worthwhile for the commission to approach each jurisdiction to see if better data are available in relation to the public housing mix.

## Other issues

The consultant has stated that it will be beneficial to use data held by the jurisdictions to test some of the assumptions made in the report. This will enable more accurate estimations of the cost uplifts attributable to environmental characteristics.

## Next steps

The consultant states that the commission should seek more comprehensive data in relation to construction and maintenance costs for each asset class. Presumably this would be in the form of a data request.

A key caveat mentioned by the consultant is that costs of each project will reflect the complex interaction of all the factors. Focussing on one factor, whether environmental or not, and trying to draw out the specific impact of that factor is difficult. With a very large data set of projects it might be possible to use techniques such as multiple regression to estimate the marginal impact of different factors. Only the larger jurisdictions will have data sets of sufficient size and comprehensiveness to undertake such analysis. Even with such data it might not be possible to generate robust estimates.

Tasmania therefore has concerns with the commission staff proposal to introduce a new capital cost disability to address differences in physical environment between states based on the findings of the consultant's report.

### 24.3.5 Implications of economic development and intrastate migration

Queensland, Western Australia and Northern Territory support inclusion of this disability factor to address higher infrastructure costs associated with differences caused by rapid economic development – roads, fly-in/fly-out services and associated infrastructure. Commission staff have noted that this issue is addressed through the upfront assessment of infrastructure.

Queensland argued that intrastate migration places greater infrastructure burden. An analysis by commission staff found these impacts were immaterial.

Tasmania supports the commission staff view that neither the economic development nor intrastate migration are material, or are already addressed in other assessments of disability.

### 24.3.6 Combining recurrent disabilities

In its infrastructure assessments the commission combine the disability factors for each service category.

In combining infrastructure disability factors, commission staff have argued that the infrastructure disability for each service use is directly related to the value of the asset used in providing the service.

In the 2010 Review, because of a lack of GFS data on assets by service category, the commission used depreciation expenses for each category as a proxy for weighting infrastructure disabilities.

This approach assumes that the proportion of depreciation expenses is similar to asset values for each service. However, this is unlikely to be the case given that depreciation rates will also depend on the asset lives which can vary considerably.

The commission have stated that it would prefer to use asset values to weight disability factors and have sought to collect this information directly from the States as part of its data request for the 2015 Review.

Tasmania acknowledges that weighting infrastructure disability factors for each service by the proportions of the stock of infrastructure assets used in providing the service is likely to be a more relevant weighting method than the current method using the proportion of depreciation expenses. However, Tasmania has some concerns about data quality issues with using asset values as this can be subject to coding errors by government agencies where the assets may need to be split or assigned to the relevant four-digit GFS codes.

#### 24.4 Roads Investment

Roads infrastructure need is assessed separately because it is the largest area of investment and is influenced by the level of grants provided by the Commonwealth Government.

As different methods are used to derive road length factors for rural and urban roads, roads investment is sub-divided into two components.

For rural roads the assessment is not based on rural population growth. The current approach implies investment is related to the quality of roads. However, commission staff have queried whether actual expenditure is related to increasing the quantity of roads (road length) and so population may be a relevant factor and the current approach may not be valid.

The Tasmanian road system is regarded as a “mature” transport system. There are relatively few new rural roads constructed. Most new construction is either for building bypasses of existing roads, improving existing roads or for construction of roads for non-rural real estate development.

Most council rural road construction investment is for improving their existing infrastructure. Many new roads constructed by real estate developers are privately financed and once the development is complete, the councils take over responsibility for the roads.

Most new rural roads have been constructed for forestry purposes and as these are financed by private capital and by the PNFC Forestry Tasmania it does not fall within the roads investment assessment.

Thus for Tasmania, the primary purpose for investment in rural roads is to improve the quality of the rural road network.

#### **24.4.1 Roads to support State development**

The commission exclude roads connecting centres with populations of less than 400. Commission staff are considering whether there is a case for including roads that connect centres of economic activity (such as a mine) to population centres of 400 or more.

While Tasmania supports the objective of assessing state expenditure on roads that link centres of economic activity of less than 400 population not currently captured by the commission's synthetic road network, we do not consider that the commission can achieve this objective in the absence of further work to properly specify the parameters of the data requested – potentially through a data working party approach. However, it is not clear that there is time for this to be done, given the compressed time frames available to complete this review.

Tasmania contends that the data needed to support this assessment are not readily available.

#### **24.4.2 Treatment of Commonwealth payments for nationally significant roads**

Commission staff propose that if data are not available to specifically recognise “national” disabilities in the provision by states national network roads then it proposes to continue to treat Commonwealth Government payments for such roads as 50 per cent by exclusion. Tasmania's concerns with this approach are raised in detail in Chapter 20 Priority Issue Transport Infrastructure.

As discussed in Chapter 20, Tasmania does not support the partial exclusion of certain Commonwealth Government road funding because it is deemed by the commission to be of national significance.

## Chapter 25 Net Lending

Commission staff propose to retain the current Net lending assessment regardless of materiality.

Under the current capital assessment methodology, net lending completes the equalisation process by giving States equal fiscal capacities. The assessed net lending is the amount a state would need to save or borrow during a year to ensure it finishes the year with the average per capita net financial worth (NFW). Thus each State is assessed as having the same capacity to earn income from that per capita stock of net financial assets.

As the commission propose to treat public transport and housing PNFCs as General Government sector activities, this will mean that housing and urban transport infrastructure will no longer be treated as part of net financial assets. Thus, net financial assets relating to urban transport and public housing (primarily through equity in these PNFCs) will need to be excluded from the Net lending assessment with a corresponding inclusion in the Investment assessment.

Commission calculations suggest that the removal of public transport and housing PNFCs will substantially reduce the average level of net financial assets and it is concluded that the Net lending assessment may no longer be material. However, under the current capital assessment methodology, Net lending is a fundamental component of the overall equalisation process and therefore needs to be retained in the GST assessment framework.

The assessed GST requirement for a State is its:

assessed net lending  
*plus* assessed expenses  
*plus* assessed investment  
*less* assessed revenue  
*less* assessed Commonwealth Government payments.

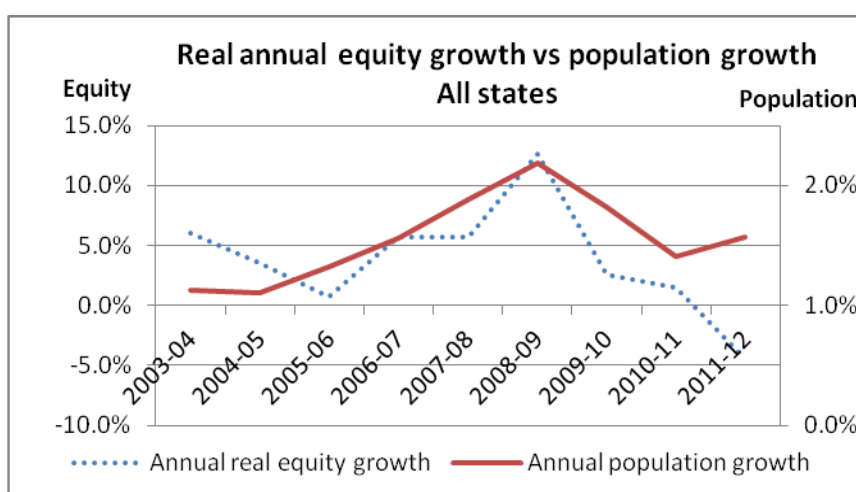
If the current capital assessment methodology is to be retained as proposed in the staff discussion paper on implementation and methodological Issues, then Tasmania acknowledges that the Net lending assessment should be retained as a “balancing item” even though its relative magnitude may be immaterial.

However, Tasmania still has concerns that relative population growth is the only driver of the disability that is used in this assessment to determine relative States’ needs. This is because NFW is equalised on a per capita basis which means that States with faster growing populations will require more GST to have the average NFW per capita at the end of the year than at the start of the year.

While Tasmania acknowledges that population growth reduces a State’s capacity to raise equal per capita revenue from a given stock of accumulated financial assets, Tasmania has argued, along with some other States, that there may also be offsetting effects from higher population growth that increase NFW rather than dilute it through PNFC equity revaluations. Commission staff contend in their discussion paper that they have not been able to find evidence to support this argument.

An analysis of the rate of real growth in equity per annum compared to the annual rate of growth in the population for all States is shown in the following chart. Equity is a significant component of NFW.

The chart below shows that when the average rate of population growth for all States peaked at around 2008–09, there was a corresponding peak in the rate of growth in equity. When the rate of population growth subsequently declined, so did the rate of growth in equity. Notwithstanding there may be lag effects that are not captured in the chart, it lends support to Tasmania's view that increasing population growth may also have a positive effect on NFW through increasing equity rather than it being a disability that needs to be equalised.



Source:

ABS 3101.0 - Australian Demographic Statistics - Table 4 Estimated Resident Population, States and Territories (Number)

ABS 6401.0 - Consumer Price Index Australia.

ABS 5512.0 - Government Finance Statistics, Australia, 2011-12

While it is acknowledged that the significance of the Net lending assessment in redistributing GST will be reduced if urban transport and public housing PNFCs are excluded, nevertheless the equity of the remaining PNFCs in the Net Lending assessment could have beneficial advantages to the growth States. On this basis, Tasmania would argue that there should be an allowance for offsetting the benefits that would accrue to a State from asset revaluations and the growth in PNFC equity.

Tasmania contends that as there remains significant uncertainty around the Net lending assessment and, notwithstanding the exclusion of urban transport and public housing PNFCs, it disagrees with the commission staff proposal to remove the 25 per cent discount from the assessment.

## Chapter 26 Priority Issue Indigeneity (including socio-economic status)

### 26.1 Replacing SEIFA

Tasmania notes the commission staff intention to examine the implications of replacing SEIFA with:

- IRSEO for the Indigenous population, and
- an ABS designed non-Indigenous SEIFA for the non-Indigenous population.

### 26.2 Use of IRSEO for the Indigenous population

Tasmania accepts that the use of an Indigenous-specific area based measure may potentially better recognise Indigenous disadvantage for the commission's purposes. However, Tasmania reiterates concerns previously expressed regarding the use of IRSEO as outlined below.

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 considers this to be disconnected from the aim of recognising the socio-economic differences the commission is attempting to measure, and therefore at odds with the commission's needs.

Further, whilst the IRSEO index appears to enable greater recognition of socio-economic differences between Indigenous population groups, it is questionable as to whether these differences are good indicators of the impact of Indigenous disadvantage on service use and the costs of service provision.

Tasmania considers it important that robustness and fitness-for-purpose are key drivers for all changes to the commission's methodology, to continue to ensure the integrity of the HFE process. However, Tasmania recognises the time constraints the commission is under to conduct the 2015 Review, and the need to address the ToR in relation to Indigeneity. Tasmania acknowledges that, in the face of these constraints, a tailored, fit-for-purpose measure of indigenous disadvantage is not achievable for the 2015 Review, and accepts that IRSEO offers a plausible, albeit flawed, resolution to this issue.

Within this context, Tasmania accepts that commission staff intend to further examine the implications of replacing SEIFA with IRSEO for the Indigenous population in the 2015 Review. Given our concerns, we request that the commission actively engages with States throughout these investigations, and offers ample opportunity for State input to be provided.

### 26.3 Use of an ABS designed non-Indigenous SEIFA for the non-Indigenous population

Tasmania reiterates our position of support for the use of non-Indigenous specific measure of SES in response to the introduction of an Indigenous-specific measure, and notes the work of the ABS in response to the commission's request for a non-Indigenous specific SEIFA (NISEIFA).

Tasmania had previously advised that we were open to the continued use of the standard SEIFA (IRSD) if differences between the indices were found to be immaterial. Having considered the outcomes of the ABS's work, including their analysis of the correlation between the SEIFA and the NISEIFA, Tasmania advocates the use of the newly commissioned NISEIFA.

This is on the basis that the exclusion of the Indigenous population to create the NISEIFA results in material differences between the SEIFA and NISEIFA for some variables. This is particularly relevant to the Northern Territory, where Indigenous people make up over 25 per cent of the population. So whilst there are large similarities between the two indices, Tasmania considers that the changes in variable loadings and order of variables, as well as the low mean proportions (for the non-indigenous population) of SEIFA variables identified in the NT, warrant the discontinuation of the use of SEIFA in favour of the NISEIFA.

## Chapter 27 Administrative Scale

### 27.1 Retaining the status quo

Tasmania does not oppose the staff proposal to retain the status quo and index the existing quantum. However we wish to express disappointment that the commission is not undertaking a data survey to accurately gauge the Administrative Scale quantum for this Review. Tasmania is of the view that the quantum is currently understated but recognises the shortened timeframe for the 2015 Review impacts on the ability of the CGC to undertake a data survey to reassess the Administrative Scale quantum.

### 27.2 Indexing the Quantum

Tasmania supports the staff proposal to update the existing quantum of expenses using the ABS State and local government final consumption expenses deflator.

### 27.3 Presentational change

Tasmania does not oppose the 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.

## Chapter 28 Interstate Wages

Staff propose to recommend the commission continue to consider that interstate differences in private sector wages remain an appropriate proxy for measuring interstate differences in public sector wages. Tasmania has no further comments on this issue (in addition to those already made in the July 2013 submission).

Staff propose to recommend the commission:

- measure the interstate wage disability through an econometric model of the private sector wage differentials, using the Characteristics of Employees survey;
- continue using the 2009 SET, updated by the Labour Price Index, until the COE is available; and
- investigate whether a simpler and more transparent model specification can produce a reliable estimation of interstate wage levels.

Because the COE survey is expected to be conducted in 2014, it may not be possible to use COE data in a regression of private sector wage differentials as part of the interstate wages assessment until the 2016 Update. Tasmania considers that, while the proposed COE survey appears to be a better quality and more frequent survey compared to SET, this issue should be deferred until the survey frequency, sample size and data quality are confirmed when the survey results are released.

Tasmania understands that the SET has been discontinued and the release of a potentially appropriate alternative is not available until 2016. If 2009 SET is used, updated by LPI, the commission would need to apply a large discount.

The SET model is econometrically complex. Tasmania understands that commission staff consider that there are potentially too many explanatory variables in the model (at 137) and that the model can be simplified without losing significant explanatory power. Tasmania is interested in this proposed analysis. Staff have stated that States will be consulted on the proposed simplified model.

State views are sought on:

- using capital city wages to assess interstate wages; and
- applying a state specific regional loading assessment to States with high regional wages based on the difference between the rest-of-state private sector wage level and the capital city private sector wage level.

Figure 28-10 in the proposed assessments staff discussion paper shows that the sampling error associated with measuring capital city wages is slightly greater than that associated with measuring whole-of-state wages. Tasmania considers that a relatively large discount should be considered as the SET is outdated and the proposed move to capital city wages would increase uncertainty further.

For States with high regional private sector wages, commission staff suggest that (under average policy) States would pay regional loadings plus an additional allowance that is needed to compete with high regional private sector wages (i.e. the regional allowance by itself would not be enough to ensure that there are appropriate public sector staff in remote areas). For these States, commission staff consider that they require additional state specific regional loadings.

Tasmania does not oppose the change to capital city wages to assess interstate wages as it is probably a more reasonable conceptual case compared to the current approach.

Regarding the State-specific loading, Tasmania notes that while commission staff use the term average policy, only one State has very high regional private sector wages. One State's situation is considered average policy or "what States do" in this case.

Staff state that Western Australia's higher than average regional private sector wages increase the regional wage levels calculated through the ACARA data in the Regional costs assessment and that to assess Western Australia as needing both a State-specific regional loading and a national average regional loading (that includes its actual loading) could result in double counting. However, staff argue that Western Australia only contributes around 10 per cent of the sample to the overall regional cost model and it does not materially affect the coefficients for remoteness. Staff state that: "as including WA in the regional cost model is not likely to result in material double counting, Staff recommend that, in the interests of simplicity, the model include all states".

Nevertheless, Tasmania considers that there should be some recognition of this double counting when an appropriate discount is considered towards the end of the Review.

Staff propose to recommend the commission:

- not apply an isolation discount to Tasmania's wage factor; and
- cease applying the Commonwealth Superannuation Scheme adjustment in the capital and depreciation categories.

Tasmania argued for an isolation discount to reflect the difference between its public and private sector labour force. Tasmania argued that there is a national market and its public sector workers are similar to most of Australia while the private sector in Tasmania has lower levels of education and experience. Tasmania notes that staff used 2009 SET data to argue that if there is a movement to a national market there would be a convergence of data points to the x-axis in Figure 28-2 of the proposed assessments staff discussion paper, but not to the y-axis<sup>8</sup>. However, commission staff stated that this is not what is observed in the SET data. Given that the data are old, a movement to a national market could be evident in more up-to-date data. However, it is expected that the COE survey results will not be available until 2016.

<sup>8</sup> Figure 28-2 shows data from SET in 1997, 2001, 2005 and 2009 that States where private sector wages are above average also had above average public sector wages. The correlation weakened in 2009.

Tasmania agrees that the CSS adjustment should only apply where labour costs relate to State government employees. Tasmania supports the staff proposal to not include a CSS adjustment when applied to capital expenditure or depreciation.

Staff propose to recommend the commission:

- not adjust the discount until all outstanding issues have been settled; and
- consider the appropriate discount to be applied to wages in each update, not merely at the start of the review.

Tasmania agrees that the consideration of discounting should be done after all outstanding issues have been settled. Tasmania considers that a relatively large discount should be applied as: the SET is old; the move to capital city wages will increase uncertainty further; and there is some double counting should there be a move to a State-specific loading.

This is in addition to issues the commission already acknowledges as deficiencies in the interstate wages methodology, such as, its concerns with how accurately SET data measures wage costs; how accurately the econometric model controls for differences in productivity and how well private sector wages proxy wage pressures in the public sector.

Tasmania agrees that consideration of the appropriate discount to be applied to wages occur in each update, as annual changes to the method warrant annual reconsideration and potential changes to the discounts applied.

## Chapter 29 Interstate Non-Wage Costs

Prior to the 2010 Review separate assessments were made for freight costs, electricity costs, accommodation and interstate air travel.

Due to a paucity of data, higher data quality standards in the 2010 Review and the 2010 Review simplification of methods objective, the CGC decided to restrict the Interstate non-wage cost assessment to measuring cost differences relating to interstate freight and interstate travel costs.

The commission staff have stated that the use of ARIA+(2011) in the Regional location assessments, instead of SARIA+(2011), would mean that the interstate freight assessment would no longer be required as the Regional cost assessment would capture Hobart and Darwin's small size and long distance from large population centres.

Tasmania supports the proposal to no longer assess freight in the Interstate non-wages assessment as the change from SARIA to ARIA satisfactorily captures the same disability that was previously captured by the freight assessment.

While there is a conceptual case for the residual non-wage costs, Tasmania accepts that the available data are of variable reliability and Staff do not have confidence that the residual interstate non-wage costs are better proxied by those elements for which data exist, than by an EPC assessment.

## Chapter 30 Regional Costs

Tasmania supports the change to ARIA since, amongst other things, there is no evidence that living in a capital city, as opposed to any other city of the same size, has a material impact on service delivery costs or use patterns (other than for capital city functions).

Commission staff recognise that all States have to deliver “capital city” functions and consider that this is reflected through the existing administrative scale assessment.

Staff propose to recommend the commission use the schools regional costs gradient calculated from a regression of ACARA data to assess regional costs for schools. Tasmania has concerns with the ACARA dataset, as set out in Chapter 8, and is of the view that further analysis of the quality of the data needs to occur before a final recommendation is put to the commission.

As a result, Tasmania does not support the use of the schools gradient to extrapolate to other categories, as opposed to the police 2010 Review gradient or the “general gradient” in the 2010 Review, at this point in time.

Staff do not propose to recalculate the police regional cost gradient and will continue to apply the 2010 weights to derive the police cost weighted clients, because they are of the view that the data will not have improved since it was last collected.

Tasmania considers that it is probably the case that the comparability of the police data has not improved and it is prudent to avoid what would be unnecessary respondent burden due to a new data request.

In light of the above, it is prudent to maintain the police regional costs gradients until the next review.

Staff propose to recommend the commission not apply any discount to the Schools education regional costs factor and apply a low discount of 12.5 per cent to the regional costs factor for all other categories to which it is applied.

Given the concerns Tasmania has with the ACARA data, the consideration of appropriate discounts should occur after further analysis of the ACARA data and its limitations has occurred.

## Chapter 31 Service Delivery Scale

Tasmania continues to support the commission's overall approach to Service Delivery Scale but is concerned by the proposed cessation of a SDS factor in selected assessment categories such as Community health.

Tasmania considers that the approach to SDS for schools is appropriate.

Tasmania supports the commission staff proposal to apply the SDS disability to Schools education, family and child services (within Welfare) and police (within Justice services).

The Welfare and housing category is to be split in the 2015 Review. Staff consider that SDS is applicable only to Family and child services within the new category of Welfare and is not applicable to Housing. Staff have stated that they have considered the available data and have not found sufficient evidence to apply SDS beyond Schools education, police (within Justice services) and family and child services (within Welfare). However, it is not clear why the evidence was sufficient to convince the commission staff of SDS disabilities for housing and magistrates courts in the last Review but is now no longer sufficient?

While SDS was assessed in Community and other health services in the 2010 Review, Staff do not recommend continuing this unless states can provide stronger evidence. Tasmania is currently seeking data from our Department of Health and Human Services. If appropriate data are available, it will be forwarded to the commission as soon as possible.

Tasmania notes that Chapter 31 of the proposed assessments staff discussion paper makes no mention of SDS disabilities for magistrate courts, which is recognised in the current approach. It is Tasmania's understanding that staff are proposing that SDS only be recognised for police services and not magistrate's courts within court services. Staff have stated that, for court services, the commission would be looking for evidence of higher staffing per case (or cost-weighted client) for remote magistrate's courts over metropolitan and inner regional magistrate's courts.

Tasmania considers that a low discount is appropriate to reflect the level of uncertainty regarding the underlying data.

Given the time available, Tasmania considers it appropriate to apply the SDS cost weight as measured using schools data directly to Schools education and family and child services (within Welfare) and apply the definition of SDS areas as calculated using schools data to police (within Justice services) and use the data gathered from states in the 2010 Review to estimate the cost weight for police.

## Chapter 32 National Capital

Tasmania supports the commission staff's position not to change the approach to this assessment, and notes staff's confirmation that the roads allowance will be discontinued after the 2018 Update.

## Chapter 33 Cross-Border

Tasmania supports the commission staff's position to recommend not to change the approach to this assessment.

## Chapter 34 Native Title and Land Rights

Tasmania supports the staff proposal to recommend the commission include all native title and land rights expenses in the Other expenses category for presentational purposes.

## Chapter 35 Cultural and Linguistic Diversity

Tasmania does not consider that Cultural and Linguistic Diversity should be a priority for the commission within the 2015 Review.

Tasmania considers that the assessment of CALD has been thoroughly investigated in recent reviews, and that application across all assessments is to varying degrees found to be hampered by a lack of reliable data; a lack of evidence of actual increased costs; and/or likely immateriality within assessments.

For these reasons, Tasmania has been supportive of the commission's approach of only applying a CALD disability to assessments on a limited basis.

On the surface, the analysis undertaken by the commission staff using Victorian admitted patients data suggests that disaggregating by country of birth may offer a potentially viable method by which to widen or improve the application of the CALD disability. However, Tasmania notes the discrepancies between the commission staff and Victoria's analysis, and is concerned the data may not be robust or broad enough upon which to base such an assessment.

Notwithstanding our concerns regarding the proposed changes to the materiality threshold (refer Tasmania's response to the implementation and methodological issues staff discussion paper), Tasmania would be supportive of the cessation of the CALD assessment if it is deemed to be immaterial.

However, if the CALD assessment is material, then Tasmania is interested in hearing Victoria's views on the commission staff's analysis and the discrepancies noted. Ideally, if changes to the assessment are to be pursued, Tasmania has a strong preference that a broader data set (i.e. from more than one State), be used to give assurance the data are representative on a national basis.

## Chapter 36 Population

Under the current method, calendar year growth is used as a proxy for financial year growth. It is Tasmania's understanding that this issue was not explicitly dealt with during the 2010 Review but was more a consequence of changing from the mean resident population to using the mid-year population (31 December).

For the 2015 Review, staff propose to recommend the use of financial year growth. This would mean using 31 December estimates for total population level estimates and 30 June for population growth or where disaggregated population data are required. Tasmania supports this proposal as it is, conceptually, more appropriate for the capital assessments.

Tasmania agrees that where people usually reside is not always the ideal measure of where services are provided, but for most services, it is a better measure than anything else available.

There remains no reliable national data on the population distribution other than the ABS ERP with estimated resident population generally more appropriate than place of enumeration.

The staff proposes the commission adopt a standard approach to the selection of age groups.

Assessment of age-related needs would use an internally consistent set of age bands but at differing levels of disaggregation (dependant on the category-specific needs related age drivers) within different category assessments, and subject to materiality thresholds being met.

This contrasts with the current approach where age bands have been adopted specific to the individual category assessments according to differential use characteristics without regard to standardisation. This has resulted in some instances of category-specific unique age bands (for example, 0 year olds within the Admitted patients assessment).

The underlying drivers for the proposed change are cited as simplification, error reduction, better external dataset "fits" and the capacity to quantify the impact that a State's population share of a particular sub-group has on its GST share.

It is noted that the commission staff presentation of the 2010 Review age groups (refer Figure 36.1, page 282 of the proposed assessments staff discussion paper) omits Schools education. In this context the scope of the proposed change is, arguably, understated.

Consistent with our Chapter 11 Public Hospitals response, Tasmania is conditionally supportive of the proposed change subject to materiality testing. The materiality of each age grouping needs to be tested across the totality of the assessments and not simply within a given assessment.

The other proviso is that age standardisation, demonstrably, does not prioritise administrative convenience over the achievement of equalisation. The commission staff demonstrated that this was not the case for the proposed 0-4 year old age band within a hospitals context but this has not been similarly established in relation to other assessment categories (for example Community health).

Tasmania supports the commission's decision to adopt ARIA and the proposal to continue with five categories of remoteness or the aggregated two category approach (Remote and Non-remote).

## Appendix 1 State and territory treatment of mineral resources

### State and Territory treatment of mineral resources (Adapted from Australia's Future Tax System, Part 2, Section 2.11 Table 2.19)

	New South Wales	Victoria	Queensland	Western Australia	South Australia	Tasmania	Northern Territory
2006-07 revenue	\$489m	\$40m	\$1361m	\$1484m(1)	\$145m	\$34m	\$81m
<b>ENERGY MINERALS</b>							
<b>Coal (all types)</b>	Open cut coal 7% of the ex mine value, underground coal 6% of the ex mine value and deep underground coal (coal greater than 400m), 5% of the ex mine value	From the <i>Minerals Resources Development Act</i> 1990, as of 1 January 2006, derived by multiplying \$0.0588 per gigajoule of energy by [A, B]: where A is consumer price index number for the quarter ending on 30 June immediately preceding the F/Y for which the determined amount is being calculated; and B is consumer price index number for the F/Y ending on 30 June 2005	The royalty rate equals 7% plus ((Average Price - 100)/Average Price x 3%). For example, if the coal price is A\$150 the rate is 8%, at A\$200 the rate is 8.5%.	Export – 7.50% FOB value Non export - \$2.54/tonne escalated annually	Derived by multiplying \$0.0270 per gigajoule of energy by [A, B]: where A is consumer price index in respect of relevant quarter; and B is consumer price index in respect of the quarter ending 30 June 2000	Profits-based royalty. (mine gate)(2) 1.9% on net sales plus profit component (1.9% only where net sales less than \$100,000 p.a.) Maximum royalty limited to 5.35% of net sales	Coal is classed as a mineral and royalty on all minerals is subject to the Mineral Royalty Act (MRA). The Act sets a profit-based royalty at 18% of the "Net Royalty Value" (if Net Royalty Value exceeds \$50,000) under the MRA
<b>Crude oil, petroleum, condensate, LPG &amp; LNG</b>	10% based on the net well head value. The net well head value is generally determined by deducting allowable costs from the point that a market value can be independently established for the petroleum product (usually the point of sale) back to the well head NSW has a royalty holiday for the first 5 years. The royalty rate is 6% in the 6th year of production and increases by 1% each subsequent year.						
<b>Peat</b>	\$0.70/tonne (mine mouth)	2.75% of net market value	As for "miscellaneous" - 2.5% of value after deducting \$100,000	Nil	N/A under the Mining Act	As for coal	Subject to the Mineral Royalty Act at 18% of the "Net Royalty Value"
<b>Geothermal</b>					2.5% of the net wellhead value		

	New South Wales	Victoria	Queensland	Western Australia	South Australia	Tasmania	Northern Territory
<b>METALLIC MINERALS</b>							
<b>FERROUS METALS</b>							
<b>Iron Ore-Iron Stone</b>	4% of ex mine value (mine mouth)	2.75% of net market value (No production)	2.7% of value. Rate applies to the revenue base less statutory exemption of \$100,000 per annum(4). Discount of 20% applies when processed in the State to 95% contained metal	Lump export — 7.5% FOB, fine export — 5.625%, beneficiated — 5.0% (a number of different rates are also contained in various State Agreement Acts for specific projects)	Minimum \$1.10/tonne plus agreed adjustments delivered to steelworks ('BHP Indenture Act')	As for coal	Subject to the Mineral Royalty Act at 18% of the "Net Royalty Value"
<b>Tantalum</b>	4% of ex mine value (mine mouth)	2.75% of net market value (No production)	2.7% of value after deducting \$100,000. Discount of 35% applies when processed in the State to 95% contained metal	5% of royalty value for concentrates (or 5% of the value in concentrate form if processed further before sale)	N/A but would be 3.5% of market value, ex mineral production tenement. New mines may qualify for a rate of 1.5% for the first 5 years	As for coal	Subject to the Mineral Royalty Act at 18% of the "Net Royalty Value"
<b>PRECIOUS METALS</b>							
<b>Gold &amp; Silver</b>	4% of ex mine value (mine mouth)	Gold — nil Silver —nil, if silver is a product of the gold recovery process, otherwise 2.75% of net market value	Fixed rate of 2.7% or variable ad valorem rate (1.5%-4.5%) as advised by Department each quarter applied to payable metal value (5). Rate applies to the revenue base less statutory exemption of \$100,000 per annum.	Gold - 2.5% of royalty value.(6)  Silver - 2.5% of royalty value.	3.5% of market value, ex mineral production tenement. New mines may qualify for a rate of 1.5% for the first 5 years. For gold, mines in existence prior to 1 January 2006, \$0.42/gram until 31 December 2008  For Olympic Dam under the Roxby Downs Indenture Act, a surplus royalty may be applicable.as per the Mining Act 3.5 % of market value, ex lease	As for coal	Subject to the Mineral Royalty Act at 18% of the "Net Royalty Value".

	New South Wales	Victoria	Queensland	Western Australia	South Australia	Tasmania	Northern Territory
<b>Platinoids</b>	4% of ex mine value (mine mouth)	2.75% of net market value (No production)	As for "miscellaneous" - 2.5% of value after deducting \$100,000	2.5% of royalty value for metals	N/A but would be 3.5% of market value, ex mineral production tenement. New mines may qualify for a rate of 1.5% for the first 5 years	As for coal	Subject to the Mineral Royalty Act at 18% of the "Net Royalty Value"
<b>Manganese Ore</b>	4% of ex-mine value (mine mouth)	2.75% of net market value (No production)	2.7% of value after deducting \$100,000. Discount of 35% applies when processed in the State to 75% contained metal	Ore - 7.5% of royalty value Concentrate - 5% of royalty value	N/A but would be 3.5% of market value, ex mineral production tenement. New mines may qualify for a rate of 1.5% for the first 5 years	As for coal	Subject to the Mineral Royalty Act at 18% of the "Net Royalty Value"
<b>BASE METALS</b>							
<b>Bauxite / Alumina</b>	\$0.35/tonne -bauxite  Alumina is not defined as a mineral in NSW	2.75% of net market value (No production)	For bauxite mined for consumption outside the State royalty is: -  a) 10% of value, or b) \$2 per tonne, whichever is the higher  The royalty rate per tonne payable on bauxite mined for consumption within the State is 75% of the amount per tonne worked out under the above provisions or \$1.50 per tonne, whichever is the greater "	Bauxite — 7.5% of value (alumina — 1.65% of value — rate specified in several State Agreement Acts)	N/A but would be 3.5% of market value, ex mineral production tenement. New mines may qualify for a rate of 1.5% for the first 5 years	As for coal	Subject to the Mineral Royalty Act at 18% of the "Net Royalty Value", except for Gove project where a special historical arrangement exists
<b>Cobalt</b>	4% of ex mine value (mine mouth)	2.75% of net market value (No production)	Fixed rate of 2.7 % or variable ad valorem rate (1.5%-4.5%) as advised by Department each quarter applied to	2.5% of royalty value in metallic form, 5% in concentrate form (for cobalt sold as nickel by-product 2.5% of cobalt metal	N/A but would be 3.5% of market value, ex mineral production tenement. New mines may qualify for a rate of	As for coal	Subject to the Mineral Royalty Act at 18% of the "Net Royalty Value"

	New South Wales	Victoria	Queensland	Western Australia	South Australia	Tasmania	Northern Territory
			payable metal value. Rate applies to the revenue base less \$100,000 per annum. Discount of 20% applies when processed in the State to 50% contained metal	value)	1.5% for the first 5 years		
<b>Quartzite</b>	\$0.70/tonne (mine mouth)	\$1.43 per cubic metre(12)	As for "miscellaneous" - 2.5% of value after deducting \$100,000	N/A	Extractive minerals \$0.35/tonne	As for coal	Exempt from Act
<b>Copper</b>	4% of value (mine mouth)	2.75% of net market value	Fixed rate of 2.7% or variable ad valorem rate (1.5%-4.5%) as advised by Department each quarter applied to payable metal value. Rate applies to the revenue base less \$100,000 per annum. Discount of 20% applies when processed in the State to 95 % contained metal	5% of royalty value for concentrates, 2.5% for metallic copper (for copper sold as nickel by product 2.5% of copper metal value)	3.5% of market value, ex mineral production tenement. New mines may qualify for a rate of 1.5% for the first 5 years. For Olympic Dam under the Roxby Downs Indenture Act, a surplus royalty may be applicable.as per the Mining Act 3.5% of market value, ex lease	As for coal	Subject to the Mineral Royalty Act at 18% of the "Net Royalty Value".
<b>Lead/ Zinc</b>	4% of ex mine value (mine mouth)	2.75% of net market value (No production)	As for copper except processing discounts are 25% for lead and 35% for zinc	5% of royalty value for concentrates, 2.5% for metallic form.	3.5% of market value, ex mineral production tenement. New mines may qualify for a rate of 1.5% for the first 5 years	As for coal	Subject to the Mineral Royalty Act at 18% of the "Net Royalty Value".
<b>Chromite</b>	4% of ex mine value (mine mouth)	2.75% of net market value (No production)	As for "miscellaneous" - 2.5% of value after deducting \$100,000	5% of royalty value (8)	N/A but would be 3.5% of market value, ex mineral production tenement. New mines may qualify for a rate of 1.5% for the first 5 years.	As for coal	Subject to the Mineral Royalty Act at 18% of the "Net Royalty Value"

	New South Wales	Victoria	Queensland	Western Australia	South Australia	Tasmania	Northern Territory
<b>Nickel</b>	4% of ex mine value (mine mouth)	2.75% of net market value (No production)	Fixed rate of 2.7% or variable ad valorem rate (1.5%-4.5%) as advised by Department each quarter applied to payable metal value. Rate applies to the revenue base less \$100,000 per annum. Discount of 20% applies when processed in the State to 70% contained metal	2.5% of value of contained nickel	N/A but would be 3.5% of market value, ex mineral production tenement. New mines may qualify for a rate of 1.5% for the first 5 years	As for coal	Subject to the Mineral Royalty Act at 18% of the "Net Royalty Value"
<b>Tungsten</b>	4% of ex mine value (mine mouth)	2.75% of net market value (No production)	2.7% of value after deducting \$100,000. Discount of 20% applies when processed in the State to 89% contained metal	N/A	N/A but would be 3.5% of market value, ex mineral production tenement. New mines may qualify for a rate of 1.5% for the first 5 years	As for coal	Subject to the Mineral Royalty Act at 18% of the "Net Royalty Value"
<b>Magnesite</b>	\$0.70/tonne (mine mouth)	2.75% of net market value (No production)	\$1.50/tonne	N/A	3.5% of market value, ex mineral production tenement. New mines may qualify for a rate of 1.5% for the first 5 years. For mines in existence prior to 1 January 2006, \$0.28/tonne until 31 December 2008.	Chemical or metallurgical, greater of \$1.32/ tonne or 5.35% of value whichever is greater, other uses \$0.66/tonne	Subject to the Mineral Royalty Act at 18% of the "Net Royalty Value"
<b>Tin Concentrate</b>	4% of ex mine value (mine mouth)	2.75% of net market value (No production)	As for "miscellaneous" - 2.5% of value after deducting \$100,000	2.5% of royalty value of tin metal (or 2.5% of contained tin metal value)	N/A but would be 3.5% of market value, ex mineral production tenement. New mines may qualify for a rate of 1.5% for the first 5 years.	As for coal	Subject to the Mineral Royalty Act at 18% of the "Net Royalty Value".
<b>Magnetite</b>	4% of ex mine value (mine mouth)	2.75% of net market value	Same as for iron ore	N/A	N/A but would be 3.5% of market	As for coal	Subject to the Mineral Royalty Act

	New South Wales	Victoria	Queensland	Western Australia	South Australia	Tasmania	Northern Territory
	mouth)	(No production)			value, ex mineral production tenement. New mines may qualify for a rate of 1.5% for the first 5 years. OneSteel Whyalla, minimum \$1.10/tonne plus agreed adjustments delivered to steelworks ('BHP Indenture Act')		at 18% of the "Net Royalty Value"
<b>NON-METALLIC MINERALS</b>							
<b>CONSTRUCTION MINERALS</b>							
<b>Clay(10)</b>	\$0.35/tonne — Structural, Brick and Pipe Clay \$0.35/tonne — Bloating Clay \$0.70/tonne — Fire and Pottery Clay	Fine clay 2.75% of net market value Building clay \$1.43 per cubic metre	Clay used for fired clay products - \$0.50/tonne	\$0.34/tonne from 1 July 2005 moving in equal increments to \$0.50/tonne on 1 July 2009 (from 1 July 2010 subject to five yearly reviews in accordance with increases in ABS Non-Metallic Mineral Products Price Index)	Industrial 3.5% of market value, ex mineral production tenement. New mines may qualify for a rate of 1.5% for the first 5 years. For mines in existence prior to 1 January 2006, \$0.28/tonne (1st grade) \$0.14/tonne (2nd grade) until 31 December 2008. Extractive \$0.35/tonne.	\$1.32/tonne (sales value)	Exempt from Act
<b>Limestone-Lime Earth(9)</b>	\$0.35/tonne (mine mouth)	\$1.43 per cubic metre	Limestone (when used for its chemical properties) - \$0.75/tonne. Lime, earth - \$0.50/tonne	Limestone (including limesands and shellsands) used for agricultural or construction purposes or as a neutralising agent \$0.34 per tonne from 1 July 2005 moving in equal increments to \$0.50/tonne on 1	Industrial 3.5% of market value, ex mineral production tenement. New mines may qualify for a rate of 1.5% for the first 5 years. For mines in existence prior to 1 January 2006, \$0.28/tonne (1st grade) \$0.14/tonne	Chemical and metallurgical: \$1.32/tonne. Other Uses: \$0.66/tonne	Subject to the Mineral Royalty Act at 18% of the "Net Royalty Value", if the material is used as a mineral and not as an "extractive" mineral product

	New South Wales	Victoria	Queensland	Western Australia	South Australia	Tasmania	Northern Territory
				July 2009 Limestone (including limesands and shellsands) used for metallurgical purposes \$0.56 per tonne from 1 July 2005 moving in equal increments to \$0.80/tonne on 1 July 2009	(2nd grade) until 31 December 2008 Extractive minerals \$0.35/tonne		
<b>Marble(11)</b>	\$0.70/tonne (mine mouth)	\$8.07 per cubic metre as dimension stone	\$1.00/tonne	\$0.56 per tonne from 1 July 2005 moving in equal increments to \$0.80/tonne on 1 July 2009 (from 1 July 2010 subject to five yearly reviews in accordance with increases in ABS Non-Metallic Mineral Products Price Index)	3.5% of market value, ex mineral production tenement. New mines may qualify for a rate of 1.5% for the first 5 years. For mines in existence prior to 1 January 2006, \$0.28/tonne (1st grade) \$0.14/tonne (2nd grade) until 31 December 2008.	As for coal	Exempt from Act
<b>Granite/ Sandstone</b>	\$0.70/tonne — Dimension Stone	\$1.43 per cubic metre(12)	\$1.00/tonne (rock mined in block or slab form for building or monumental purposes)	\$0.56 per tonne from 1 July 2005 moving in equal increments to \$0.80/tonne on 1 July 2009 (from 1 July 2010 subject to five yearly reviews in accordance with increases in ABS Non-Metallic Mineral Products Price Index)	Dimension Stone 3.5% of market value, ex mineral production tenement. New mines may qualify for a rate of 1.5% for the first 5 years. For mines in existence prior to 1 January 2006, \$1.75/cubic metre \$0.58/tonne until 31 December 2008.	Building stone — \$5.50/cu.m.	Exempt from Act
<b>Gypsum</b>	\$0.35/tonne (mine mouth)	2.75% of net market value	\$0.50/tonne	\$0.34 per tonne from 1 July 2005 moving in equal increments to \$0.50/tonne on 1	Extractive minerals \$0.35/tonne 3.5% of market value, ex mineral production tenement. New mines may	As for coal	Subject to the Mineral Royalty Act at 18% of the "Net Royalty Value", if the

	New South Wales	Victoria	Queensland	Western Australia	South Australia	Tasmania	Northern Territory
				July 2009 (from 1 July 2010 subject to five yearly reviews in accordance with increases in ABS Non-Metallic Mineral Products Price Index)	qualify for a rate of 1.5% for the first 5 years. For mines in existence prior to 1 January 2006, \$0.28/tonne (1-3 grade) \$0.14/tonne (4-8 grade) until 31 December 2008.		material is used as a mineral and not as an "extractive" mineral product
<b>Construction Materials(16)</b>	Various (mine mouth)	\$1.43 per cubic metre	\$0.50/tonne (only if used on mining lease)	Rock — \$0.34 per tonne from 1 July 2005 moving in equal increments to \$0.50/tonne on 1 July 2009 (from 1 July 2010 subject to five yearly reviews in accordance with increases in ABS Non-Metallic Mineral Products Price Index)	Extractive minerals \$0.35/tonne	Building stone \$5.50/m3 Gravel \$0.66/tonne Pebbles \$2.64/tonne Stone crushed and broken \$0.66/tonne (mine gate)	Exempt from Act
<b>INDUSTRIAL MINERALS</b>							
<b>Kaolin</b>	\$0.70/tonne (mine mouth)	2.75% of net market value	\$1.00/tonne	5% of royalty value(8)	3.5% of market value, ex mineral production tenement. New mines may qualify for a rate of 1.5% for the first 5 years For mines in existence prior to 1 January 2006, \$0.28/tonne until 31 December 2008	\$1.32/tonne (mine gate)	Subject to the Mineral Royalty Act at 18% of the "Net Royalty Value"
<b>Salt</b>	4% of ex mine value (mine mouth) — Magnesium Salts \$0.40/tonne — Sodium Salts and Potassium Salts	It is outside the scope of mineral, extractive and the petroleum legislations in Victoria	\$1.50/tonne	\$0.34/tonne from 1 July 2005 moving in equal increments to \$0.50/tonne on 1 July 2009 (from 1 July 2010 subject to five yearly reviews in accordance with increases in ABS Non-Metallic Mineral	3.5% of market value, ex mineral production tenement. New mines may qualify for a rate of 1.5% for the first 5 years. For mines in existence prior to 1 January 2006, \$0.28/tonne until	As for coal	Subject to the Mineral Royalty Act at 18% of the "Net Royalty Value"

	New South Wales	Victoria	Queensland	Western Australia	South Australia	Tasmania	Northern Territory
<b>Silica</b>	Silica is not defined as a mineral in NSW	\$1.43 per cubic metre	\$0.90 per tonne (when used for its chemical properties)	Products Price Index (a number of different rates are also contained in various State Agreement Acts for specific projects) \$0.56/tonne from 1 July 2005 moving in equal increments to \$0.80/tonne on 1 July 2009	31 December 2008 Certain existing operations pay royalty under State or Crown Agreements  Industrial 3.5% of market value, ex mineral production tenement. New mines may qualify for a rate of 1.5% for the first 5 years. For mines in existence prior to 1 January 2006, \$0.14/tonne until 31 December 2008	Metallurgical, greater of \$1.32/ tonne or 5.35% of value whichever is greater, other uses except silica flour \$0.66/tonne, Silica Flour as for coal	Subject to the Mineral Royalty Act at 18% of the "Net Royalty Value"
<b>Bentonite</b>	\$0.70/tonne (mine mouth)	2.75% of net market value (No production)	\$1.80/tonne	N/A	Extractive minerals \$0.35/tonne  N/A but would be 3.5% of market value, ex mineral production tenement. New mines may qualify for a rate of 1.5% for the first 5 years	As for coal	Exempt from Act
<b>Dolomite</b>	\$0.40/tonne (mine mouth)	2.75% of net market value (No production)	\$1.00/tonne	\$0.34/tonne from 1 July 2005 moving in equal increments to \$0.50/tonne on 1 July 2009 (from 1 July 2010 subject to five yearly reviews in accordance with increases in ABS Non-Metallic Mineral Products Price Index)	3.5% of market value, ex mineral production tenement. New mines may qualify for a rate of 1.5% for the first 5 years. For mines in existence prior to 1 January 2006, \$0.35/tonne (1st grade) \$0.18/tonne (2nd grade) until 31 December 2008.	Chemical and metallurgical: \$1.32/tonne, other uses \$0.66/tonne	Subject to the Mineral Royalty Act at 18% of the "Net Royalty Value", if the material is used as a mineral and not as an "extractive" mineral product

	New South Wales	Victoria	Queensland	Western Australia	South Australia	Tasmania	Northern Territory
<b>Diatomite</b>	\$0.70/tonne (mine mouth)	\$1.43 per cubic metre (No production)	\$1.50/tonne	N/A	N/A but would be 3.5% of market value, ex mineral production tenement. New mines may qualify for a rate of 1.5% for the first 5 years	As for coal	Exempt from Act
<b>Perlite</b>	\$0.70/tonne (mine mouth)	2.75% of net market value (No production)	\$1.00/tonne	N/A	3.5% of market value, ex mineral production tenement. New mines may qualify for a rate of 1.5% for the first 5 years	As for coal	Exempt from Act
<b>Phosphate</b>	\$0.70/tonne (mine mouth)	2.75% of net market value (No production)	Phosphate rock royalty formula per tonne of phosphate rock: $\$1 \times \frac{G}{32.3} \times \frac{P_{curr}}{\$72.50}$ , where G is the average P2O5 content of the rock for the period Pcurr is the average price in \$A of Moroccan phosphate rock with 32.3% P2O5 content Minimum rate is \$0.80 per tonne Other phosphatic minerals - as for "miscellaneous" - 2.5% of value after deducting \$100,000"	N/A	3.5% of market value, ex mineral production tenement. New mines may qualify for a rate of 1.5% for the first 5 years. For mines in existence prior to 1 January 2006, \$0.14/tonne until 31 December 2008.	As for coal	Subject to the Mineral Royalty Act at 18% of the "Net Royalty Value"
<b>Calcite</b>	\$0.40/tonne (mine mouth)	\$1.43 per cubic metre(12)	\$1.00/tonne	N/A	3.5% of market value, ex mineral production tenement. New mines may qualify for a rate of 1.5% for the first 5	As for coal	Subject to the Mineral Royalty Act at 18% of the "Net Royalty Value", if the material is used as a mineral and not as an

	New South Wales	Victoria	Queensland	Western Australia	South Australia	Tasmania	Northern Territory
					years		"extractive" mineral product
<b>Serpentine</b>	\$0.70/tonne (mine mouth)	\$1.43 per cubic metre(12)	As for "miscellaneous" - 2.5% of value after deducting \$100,000	N/A	N/A but would be 3.5% of market value, ex mineral production tenement. New mines may qualify for a rate of 1.5% for the first 5 years	As for coal	Exempt from Act
<b>Spodumene</b>	Spodumene is not defined as a mineral in NSW	2.75% of net market value (No production)	As for "miscellaneous" - 2.5% of value after deducting \$100,000	5% of royalty value(8)	N/A but would be 3.5% of market value, ex mineral production tenement. New mines may qualify for a rate of 1.5% for the first 5 years	As for coal	Subject to the Mineral Royalty Act at 18% of the "Net Royalty Value"
<b>Talc</b>	\$0.70/tonne (mine mouth)	2.75% of net market value (No production)	As for "miscellaneous" - 2.5% of value after deducting \$100,000	\$0.56 per tonne from 1 July 2005 moving in equal increments to \$0.80/tonne on 1 July 2009 (from 1 July 2010, subject to five yearly reviews in accordance with increases in ABS Non-Metallic Mineral Products Price Index)	3.5% of market value, ex mineral production tenement. New mines may qualify for a rate of 1.5% for the first 5 years. For mines in existence prior to 1 January 2006, \$0.70/tonne (1st grade) \$0.35/tonne (2nd grade) until 31 December 2008.	As for coal	Subject to the Mineral Royalty Act at 18% of the "Net Royalty Value"
<b>Pyrophyllite</b>	\$0.70/tonne (mine mouth)	2.75% of net market value (No production)	As for "miscellaneous" - 2.5% of value after deducting \$100,000	N/A	N/A but would be 3.5% of market value, ex mineral production tenement. New mines may qualify for a rate of 1.5% for the first 5 years	As for coal	Subject to the Mineral Royalty Act at 18% of the "Net Royalty Value"
<b>Mineral Sands(7)</b>	4% of ex mine value (mine mouth)	2.75% of net market value	5% of the value of the concentrate	4.5% of royalty value. Currently 5% of royalty value for 2008-09	3.5% of market value, ex mineral production tenement. New mines may qualify for a rate of	As for coal	Subject to the Mineral Royalty Act at 18% of the "Net Royalty Value"

	New South Wales	Victoria	Queensland	Western Australia	South Australia	Tasmania	Northern Territory
					1.5% for the first 5 years.		
<b>PRECIOUS STONES</b>							
<b>Gemstone</b>	4% of ex mine value (mine mouth)	2.75% of net market value (No production)	2.5% of value after deducting \$100,000	7.5% of royalty value	Currently not applicable but would be 3.5% of market value, ex mineral production tenement. New mines may qualify for a rate of 1.5% for the first 5 years	As for coal	Subject to the Mineral Royalty Act at 18% of the "Net Royalty Value", unless produced by recreational fossicking which is exempt
<b>Diamonds</b>	4% of ex-mine value (mine mouth)	2.75% of net market value (No production)	2.5% of value after deducting \$100,000	7.5% of realised value. (For Ellendale project — 7.5% FOB or 22.5% of accounting profit if greater ) (For Argyle project — from 1 January 2006, a flat royalty rate of 5% of gross revenue)	N/A but would be 3.5% of market value, ex mineral production tenement. New mines may qualify for a rate of 1.5% for the first 5 years	As for coal	Subject to the Mineral Royalty Act at 18% of the "Net Royalty Value"
<b>OTHER</b>							
<b>Uranium Oxide</b>	Uranium mining in NSW is prohibited	Uranium mining is prohibited in Victoria	As for "miscellaneous" - 2.5% of value after deducting \$100,000 - no production in Queensland	WA Government policy does not support mining and export of uranium. All mining leases granted after 22 June 2002 exclude uranium mining	3.5% of market value, ex mineral production tenement. New mines may qualify for a rate of 1.5% for the first 5 years. For Olympic Dam under the Roxby Downs Indenture Act, as per the Mining Act 3.5 % of market value, ex lease	As for coal	NT uranium is owned by the Commonwealth which determines the royalty rate to applying to each mine on a case by case basis(14)
<b>Miscellaneous</b>	Various	Various	Unless otherwise specified 2.5% of value after deducting \$100,000	Any other mineral not specifically listed in the Mining Regulations Table -if sold as crushed or screened material, 7.5% of the royalty	For mines in existence prior to 1 January 2006, various \$/tonne until 31 December 2008. All minerals other than extractives 3.5%	Various	Subject to the Mineral Royalty Act at 18% of the "Net Royalty Value", if the material is used as a mineral and not as an "extractive" mineral

New South Wales	Victoria	Queensland	Western Australia	South Australia	Tasmania	Northern Territory
			value or if sold as a concentrate, 5% of the royalty value	of market value, ex mineral production tenement. New mines may qualify for a rate of 1.5% for the first 5 years		product

## **Appendix 2 Tasmania's submission in response to the Independent Hospital Pricing Authority**

# **Tasmania's Submission in response to the Independent Hospital Pricing Authority Draft Pricing Framework for Australian Public Hospital Services 2014-2015**

**Prepared by the Tasmanian Department of Health and Human Services**

## Overview

The Tasmanian Department of Health and Human Services has previously provided submissions into the previous two rounds of pricing of public hospital services under the National Health Reform Agreement for 2012-13 and 2013-14 financial years.

Tasmania welcomes the opportunity to comment on the paper titled 'Pricing Framework for Australian Public Hospital Services 2014-15'.

The 2014-15 Pricing Framework, is the third iteration of the national activity based pricing of public hospital services. However, as in previous iterations, many of the proposed refinements and improvements to the pricing models across all work streams, with the exception of acute admitted, continue to be developed on the basis of poor classification systems that are not fit for purpose and nationally inconsistent costing processes.

Tasmania reiterates its position that IHPA undertake as a priority to address issues with the classification systems to underpin a nationally consistent activity based funding model. This is particularly relevant for the current classifications for non admitted, emergency care and sub acute.

At the recent Patient Classification Systems International conference, it was reported that international experts expressed surprise that Australia has proceeded with an ABF system using proxy classification system which may require either replacement or substantial modification to make them relevant.

As in previous years, Tasmania has incorporated the national ABF infrastructure, as appropriate alongside a Tasmanian ABF model to avoid major funding distortions between Tasmanian Health Organisations. This approach has enabled Tasmania, as System Manager, to continue to set activity targets and prices according to existing Tasmanian activity and block funding arrangements. The model translates the activity into National Weighted Activity Units (NWAUs) to enable modelling of the Commonwealth contribution.

Tasmania's key issues with the initial pricing frameworks still remain and principally relate to the extraordinary level of complexity applied to the national ABF and the fact that the majority of the underlying classification systems employed by the model have no demonstrated clinical validity.

The current calculation for the NWAU is very difficult for hospital managers to understand. The NWAU comprises a mixture of patient complexity/cost and additional loadings/discounts that render any indications of efficiency within the NWAU as difficult to clearly identify. As a result the NWAU obscures the measures of patient complexity and actual cost and is unable to provide any clear demonstration of technical, allocative or productive efficiencies.

The complexity is further exacerbated in that jurisdictions are required to develop a parallel funding model to deal with cases that are determined to be 'out of scope' and not covered by the national model. At the jurisdiction level Local Hospital Networks must be funded at a level that is sufficient to provide care for all services both in and out of scope of the national ABF.

The issues raised by Tasmania in response to the Consultation Paper 'Pricing Framework for Australian Public Hospital Services 2014-15' remain valid.

Within this submission, Tasmania has also responded to the key issues on which IHPA is seeking specific feedback.

## **Pricing Guidelines**

Tasmania believes that the new funding arrangements have created an enormous administrative burden on states and Territories which has increased exponentially. The Administrator of the National Health Funding Pool and IHPA have dual roles and differing priorities each imposing a significant burden on states and territories in providing state resources related to committees, working parties, data provision and reporting requirements.

## **Pricing Framework**

Tasmania believes that the evidence base that IHPA draws upon in providing advice about the efficient cost of public hospital services overlooks the significance of clinical coding as key element and the differences in coding practices between states and territories. Tasmania believes this is an area of significance that IHPA should address in future iterations of the Pricing Framework in terms of both the adequacy of coding standards and national compliance.

## **In Scope Public Hospital Services – Revision of the General List**

Tasmania supports the removal of the requirement for services to have been reported in the 2010 National Public Hospital Establishments Database (NPHEd). Due to varying models of care in Tasmania, many services, particularly mental health have not been reported in the NPHEd.

As previously stated Tasmania supports the inclusion of Older Persons Mental Health for 2014-15 and continues to seek the inclusion of Child and Adolescent Community Mental Health. Tasmania believes that not only do both these services meet the criteria of other non admitted patient services, but they are also a growing component of the continuum of mental health service provision.

Tasmania has consistently argued for the inclusion of Alcohol and Drug Services to be in scope and supports the inclusion of Addiction Medicine Clinics for 2014-15.

## **The National Efficient Price for Activity Based Funded Public Hospital Services**

As stated in previous submissions, Tasmania believes the NEP is more accurately described as a National Average Price. The use of the term efficiency is confusing and misleading. There is no description or definition as to what aspect of hospital 'efficiency' is being considered within the context of the NEP.

Tasmania does not agree that the NEP provides a price signal or a benchmark about the efficient cost of providing public hospital services. The NEP is the price the Commonwealth component is calculated upon for those service determined by IHPA to be 'in scope'. Jurisdictions are required to fund all public hospital services both in and out of scope. The NEP cannot be considered a benchmark as the cost components of the NEP are heavily trimmed, there is a lack of consistency in costing practices and the services costed between jurisdictions vary considerably to those determined as 'in-scope' by IHPA.

Whilst Tasmania recognises the need for the NEP to set a price that promotes increased 'technical efficiency', the pricing framework gives no recognition to the related issues of allocative efficiency and consumption efficiency that are evidenced through the unavoidable extra costs of providing services in certain locations, such as Tasmania.

Tasmania is of the view that the NWAU is overly complicated and is difficult to understand at the hospital management level. The NWAU is based on four distinct classification systems that are amalgamated into a single value, three of which have insufficient demonstrated empirical validity, either in terms of clinical relevance, cost homogeneity or demonstrated mutual exclusivity of classes. The NWAU is heavily trimmed and a number of adjustments made regarding private patients, pathology and imaging. These adjustments are also not based on evidence but on assumptions regarding the reliability of the cost components being considered.

Tasmania is not confident in the reliability of this approach and believes that other more simplified methods with greater validity could be employed.

### **Non Admitted**

Tasmania believes that priority should be directed to the development of an appropriate patient classification system for Non Admitted patient care. The current Tier 2 Classification is merely an interim measure that simply describes classification types. Effort should be directed at the development of a new patient based classification system rather than attempting to further refine the current Tier 2 classification system. The performance of the Tier 2 classification is poor in terms of reliability of cost outcome and providing an understanding of the casemix being treated as ambulatory. The focus on provider and setting attributes rather than patient clinical attributes

makes it impossible to develop reliable funding or to understand presenting diagnoses and treatment.

### **Multi-disciplinary case conferences (MDCCs)**

Tasmania's view is that MDCCs should be recognised as a significant contributor to the cost of care specifically in the area of cancer care. Tasmania does not give support for the funding of general MDCCs, which should be considered as a normal part of patient care.

Special recognition should be given to the considerable amount of resources consumed within the cancer care setting, specifically in relation to radiotherapy services (e.g. planning, manufacture of radiation shields/masks and the mapping of treatment sites), as these services are normally carried out outside of the actual patient attendance.

### **Radiotherapy Services Cost Data Study**

Tasmania has agreed to participate in the Radiotherapy Services Cost Data Study commissioned by IHPA and provided a contact officer for this project.

### **Emergency Care**

Tasmania is currently participating in the IHPA national review of the Urgency Related Groups and Urgency Disposition Groups classifications to improve clinical meaningfulness and costing. Tasmania is of the view that the current URG classification is not sufficiently robust and supports the development of improved classification and is encouraged by the early phases of the current national URG review processes.

It is recommended that IHPA continue to provide the required level of support and infrastructure for the development of a diagnosis based emergency care classification for Emergency Care. Tasmania does not believe that the classification is working effectively for a number of reasons, including over reliance on Triage as a classification element and reduction of class specificity at higher severity levels.

### **Sub Acute**

Tasmania questions the validity of the use of the AN-SNAP classification system for sub acute care. The IHPA 2013-14 National Pricing Model Technical Specification (5.2.1) P36, describes that a set of trimmed data were used to provide overall actual per diem costs for subacute episodes which were then used to calibrate the University of Wollongong (UoW) AN SNAP Version 2.0 weights. The UoW Version 2 weights were created in 2007 using a combination of 1996 AN-SNAP study results, AROC outcomes data from 2004 and 2005, and NSW AN-SNAP data collection from 2003-2004. The cost weights were actually derived from the 1996 AN-SNAP data and advice from clinical committees.<sup>1</sup> This means that the actual cost data underpinning the Version 3 cost results in the IHPA determination, have been based on 1996 cost data.

These data can only be considered, at best, as purely indicative due to the significant differences in cost processes, treatment practices and admission practices that have occurred in the intervening time. Furthermore, there are currently no cost weights derived from actual episode cost data

available to undertake an assessment of the validity of the classification or costing processes employed.

Consequently, Tasmania does not support IHPAs proposal to cease per diems in favour of moving to AN SNAP subacute classification from 1 July 2015.

As previously advised to IHPA, Tasmanian Public Hospitals do not currently support the use of the AN SNAP classification system. Tasmania is however, currently assessing the quality and coverage of its existing data sources within the Australian Rehabilitation Outcomes Centre (AROC) and the Palliative Care Outcomes Collaboration (PCOC) data collections as the basis for the collection of sub acute admitted patient data. However these data are currently only collected in specialist rehabilitation and palliative care wards (ie designated units). Extending the AN-SNAP classification to all episodes of care falling under the sub acute classification will require considerable resources and costs, eg. additional training, and the possible full roll out and implementation of the AN SNAP system across all Tasmanian public hospital sites.

Until such time as the empirical validity of the current AN-SNAP (V3.0) classification can be demonstrated Tasmania does not support the development of a new version of AN-SNAP without appropriate validation processes. Due to the cost impost and administrative burden associated with the implementation of AN SNAP, Tasmania's position is for the retention of per diem pricing for sub acute beyond 2015.

### **Mental Health Care Type**

Tasmania is on record as not supporting the need for a separate approach for mental health services and believes that the best approach is to improve the AR-DRG classification for admitted mental health and that a duplicate parallel system should not be introduced. It is noted that the introduction of the mental health care type in the Admitted Patient Care National Minimum Data Set is scheduled to commence from 1 July 2015, with work continuing for the implementation of the new Australian Mental Health Classification by 1 July 2016 with trials occurring during 2015-16.

Tasmania seeks clarity on what the actual timeframes for the implementation of the mental health care type will be. The Pricing Framework states that 1 July 2015 is the current proposed date but the document also indicates that IHPA still needs to progress work for this to occur.

For Tasmania, considerable lead time would be required to enable current hospital information systems to collect and count new data items and include revised counting concepts (ie new care types), particularly in emergency and non admitted and provide the relevant education and training for hospital staff.

In the interim Tasmania supports a continuation of the existing approach to the pricing of acute admitted mental health services for 2014-15, however Tasmania believes that the current Mental Health costing and counting efforts are not sufficient to produce a reliable or robust outcome and this disadvantages jurisdictions like Tasmania.

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<sup>1</sup>Green J. and Gordon R.; The development of Version 2 of the AN-SNAP Casemix Classification System, AHR 2007 Vol31 Suppl. 1 PS68-S78

## Setting the National Efficient Price for Private Patients in Public Hospitals

Tasmania has noted that IHPA intends to utilise the Hospital Casemix Protocol (HCP) data to calculate the actual revenue received by public hospitals from private health insurers and the Medicare Benefits Schedule (MBS). Tasmania supports this approach but it is heavily qualified on the basis that the HCP data is incomplete and can therefore only be of limited use. Coupled with the fact that the medical costs reported in the National Hospital Cost Data Collection (NHCDC) are understated, issues raised by Tasmania in relation to the lack of reliability of the application of uniform discounting of price remain. Tasmania does not support the suggestion of two separate NEPs for public and private patients as this would add further complexity to an already complex funding model with no guarantee of public/private neutrality.

As previously stated, Tasmania believes that the deflationary measures applied in the private patient pricing for the payments hospitals receives from other funding sources are based on an incorrect assumption that hospitals directly receive the benefits from other funding sources. In Tasmania the amount of MBS revenue received by hospitals varies by individual doctor, private practice scheme(s) in operation and region. The application of a uniform discounting of the price is not reliable.

As outlined in previous submissions, Tasmania believes that the IHPA process for the discounting of the private patient price is flawed as the interpretation of the medical costs for private patient is inaccurate. Tasmania believes there are errors in the medical costing of private patients as there is no consistent approach nationally to the identification of medical costs. The widely used current costing approach which relies on the arbitrary splitting of doctor's salary across all product streams is not reliable. This approach results in substantial distortions of medical salaries across the product streams. Compounding this problem is the issue that not all medical costs are accurately captured and there is poor adherence to the national costing standards.

Tasmania's preference is for the Australian Patient Costing Standards to be amended to consistently capture all medical costs. Utilising this approach will also inform the medical costs associated with teaching and training as approximately 10% of medical costs are attributable to teaching and training.

## Adjustments to the National Efficient Price

### Intensive Care Unit (ICU) Adjustment

Tasmania has concerns with the proposed approach by IHPA in the funding of critical care. The fundamental issue is that the cost weights do not appropriately deal with the additional cost in the ICU – particularly in more complex/larger hospitals. The previous approach was to use the hours in ICU as an additional loading. The current proposal intends to use Hours of Mechanical Ventilation (HMF) as a loading – the issue then is how will this be counted?

Current coding for ICD/DRG adjustments do not consider the initial hours of ventilation which is not useful as the initiation costs of ventilation are very high. Tasmania collects all HMF hours excluding only those hours which occur as a normal part of anaesthesia for surgery.

To use only the HMF or ICU hours also fails to deal with the patients care for in a critical care setting who do not require ventilator support. The Tasmanian model uses both ICU hours and HMF hours to fund the critical care costs for all cases. This approach is able to provide funding that reflects the actual cost of care in the critical care setting. Use of either HMF or ICU time in isolation is not able to do this.

Tasmania does not believe that APACHE is not a viable proxy for cost in the critical care setting – it may predict the risk of mortality and duration of ICU stay, but little else in any robust fashion.

### Remoteness Adjustment

Tasmania has consistently argued that the remoteness adjustment should be based on the hospital location rather than patient residence. As referenced from the Public and Private Hospitals – Productivity Commission Research 2008 – ‘Hospitals that are very small, or located in a remote or very remote region, were estimated to have relatively high costs per separation even after casemix adjustment. This is consistent with the view that remote and small hospitals face additional costs because of their remoteness and/or inability to achieve the scale of economies of larger establishments in more densely populated regions.’ (Public and Private Hospitals Productivity Commission Research report P110 – 2008).

In addition, Tasmania has particular concerns in relation to cross border charging for referred admissions as Tasmania is required to pick up the costs of sending patients interstate and is also required to pay an extra loading to interstate hospitals based on the location of origin of the patient.

### Work in Progress (WIP) – Statistical Discharges for very long stay patients

Tasmania supports the concept of statistical discharges for very long stay patients. However, Tasmania believes that any changes made to the counting rules for WIP should be aligned with the National Hospital Cost Data Collection (NHCCD) Costing Standards to ensure accurate correlation between cost and price.

**Adjustment for Paediatric Hospitals**

Tasmania has no specialist paediatric hospitals in the State, however, as previously stated, Tasmania is supportive of the refinement of AR-DRG V8.0 to include a paediatric consideration.

**Hospital peer groups**

Tasmania supports further analysis of the cost drivers and case complexity between peer groups, however, Tasmania is of the view that this should be included within the scope of the development of AR-DRG V8.0.

**Low Volume High Complexity Services**

Tasmania would like to see IHPA undertake a body of work to address the group of patients that are outliers within the normal classification or patients who are highly complex and associated high infrastructure costs that make substantial diseconomies of scale e.g. GynaeOncology, Transplants, Paediatric Surgery, Small L3 NeoNate Intensive Care Services.

The Tasmanian ABF model has attempted to deal with this within the local funding model through assessments of Multimorbidity, Adjusted Clinical Groups (USA) and an outlier funding policy, however it would be beneficial if IHPA could undertake analysis of outliers, benchmarking comparisons etc. to enable price adjustments to be both robust and reliable. Tasmania believes it is important to identify the nature of outliers and deficiencies in the classification systems in the interim, until the improvements to classifications systems are completed.

## **Block Funded Services**

It is noted that IHPA is proposing to that teaching, training and research and in scope non admitted mental health will be block funded for 2014-15. Tasmania is currently working on estimates of the total funding required for these services in 2014-15 and will advise IHPA as soon as possible.

## Treatment of other Commonwealth programs

### Highly Specialised Drugs

Tasmania recognises that IHPA has already begun a mapping process of Highly Specialised Drugs (HSD's) to applicable DRG's and/or Tier 2 activities.

Tasmania maintains the position that it would be preferable to net off the Pharmaceutical Benefits Scheme (PBS) payments including HSD's through the national funding pool at the 6 monthly reconciliation intervals.

Hospitals claim for reimbursement of Section 100 HSD's (for eligible patients meeting listed clinical criteria) at the point of dispensing by electronic claim and receive payment from Medicare Australia (Department of Human Services). The reimbursed amount per hospital and per state can be itemised by drug, the reimbursement amount is known and can be reconciled to within a few cents. The certainty of this figure makes it ideal for netting from the national funding pool as a known and undisputable amount.

Tasmania recognises that netting from the national funding pool does mean that the NWAU attributed to Tier 2 activities and selected DRG's attributed to same-day admitted occasions of services involving HSD's will be artificially elevated.

HSD's can be mapped to selected Tier 2 activities and selected DRG's in an attempt to remove reimbursed costs; but as HSD PBS listings are often very clinically complex and cross a range of disciplines (i.e. cyclosporin is used in transplant medicine, dermatology, nephrology, rheumatology). The ability to source data enabling a split of costs according to use by discipline would need to be discussed with the Commonwealth Department of Human Services. The data probably exists through the use of streamlined authority codes but this has only become routine practice as at 1 July 2013 and data before this time is unlikely to exist at the point of dispensing as jurisdictions used manual claiming spreadsheets that did not identify clinical eligibility type.

In addition the split of items provided in outpatient settings versus day admitted settings may vary from hospital to hospital as different models of care are used; data would be required to determine an 'average' split so that costs can be removed accordingly.

In addition, constantly changing listings of HSD's (as frequently as monthly) by drug (additions and deletions), clinical indication (generally inclusions) and level of reimbursement (reductions including the effects of price disclosure) the netting of drugs at the Tier 2 and DRG level will cause historical funding rules to impact current funding practices in certain specialised clinical areas. In addition new funding arrangements won't be reflected in NWAU's for approximately three years – which is a considerable lag for HSD listings which are by their very definition high cost and new listings effect a very specific patient type and therefore a specific Tier 2 activity or DRG.

In the event that IHPA decide to handle HSD's reimbursement by removing reimbursement amounts at the net funding pool level, the impact of Commonwealth funding changes remain independent of IHPA's ABF frameworks, which would be preferable.

**Blood and Blood Products**

Tasmania notes that IHPA is reviewing the methodology of removing blood costs, and has had preliminary discussions with the National Blood Authority over the feasibility of costing blood products in future years. Whilst this work is in progress, it is noted that it will not be completed in time for inclusion in the 2014-15 National Efficient Price Determination. Tasmania believes this work should be given a high priority, as there is currently evidence to suggest that IHPA is excluding a disproportionate amount of cost in respect of blood products in excess of the funding states receive from the Blood Program.

## Setting the National Efficient Cost

As advised in previous submissions, Tasmania has consistently expressed concerns with the National Efficient Cost (NEC) Determination in relation to the block funding of small rural hospitals as this does not reflect the actual cost of Tasmania's small rural hospitals or the community service obligation requirements of these areas.

In addition to the high fixed cost proportion, the small rural hospitals in Tasmania have an additional 'actual' cost that recognises the interdependencies of colocated hospital and residential aged care services, including the costs associated with supplementing aged care. In reality, Tasmania's small rural hospitals' costs for admitted and non admitted activity are indivisible – it is extremely difficult if not impossible to accurately separate out costs that are captured in a rural inpatient facility between aged care (including supplementation of aged care services), acute care, emergency care and community care etc. Tasmania believes that the NEC model appears to provide a preference/positive funding effect for sites without aged care facilities.

It is recognised that IHPA has determined that residential aged care services are out of scope for ABF, and consequently Aged Care revenue from the Commonwealth is deducted from the NEC, however, recognition needs to be given to the actual cost to the state associated with the community service obligation of providing aged care beds to these communities.

Whilst aged care is entirely a Commonwealth funding responsibility, it needs to be acknowledged that the state is funding additional levels of cross subsidisation of care in smaller facilities that provide a mixture of aged care and acute care. The current NEC model does not give recognition to this significant issue and in fact it could be determined that the model inadvertently provides a perverse financial incentive not to provide aged care services.

Whilst IHPA has undertaken early data preparation for the NEC 14, utilising a broader range of data sources for 2014-15, nonetheless Tasmania has not been in a position to accept the consistency of IHPA's modelled input data without heavy qualification. Tasmania's data coverage in the National Public Hospital Establishment Database (NPHEd) is not robust; in particular non admitted activity is incomplete. Expenditure reported in the NPHEd does not include all expenditure, for example, corporate overheads, intermediate products and services provided by major hospitals eg. pharmacy, clinical coding, imaging and pathology are excluded.

The NPHEd does not recognise the cross subsidisation by the state of the gap between Commonwealth funding for residential aged care services and the actual cost of service provision borne by the state. For the purposes of the NPHEd, Tasmania utilises an Ifrac (inpatient inclusion fraction), this fraction is derived from the relevant round of the NHCDC and is used to calculate the total dollars spent on acute/inpatient care. Due to the application of the Ifrac, it is not possible to accurately validate expenditure across the other classification streams.

Tasmania is in agreement that further work is required to clarify the accuracy of the categorisation of small rural hospitals by size and location and the attribution of a price weight which is reliant on ensuring robust patient level data collections and in particular enhancements to the National Public Hospital Establishments Database.

## **Pricing for Safety and Quality**

Tasmania's position as outlined in previous submissions remains unchanged. Tasmania strongly opposes any move to incorporate a safety and quality impact adjustment into the setting of the NEP. Tasmania's research on this issue correlates with IHPA's own research findings, that the concept of linking funding and quality, whilst on the agenda of many countries, demonstrates that any literature on this issue is weak and without empirical evidence to support such a linkage.

Tasmania, as previously noted, believes that the Australian Commission on Safety and Quality in Health Care should provide direction on quality, however, it is the jurisdictions' role within their capacity as system managers with authority and accountability, to manage these issues.

# Appendix 3 Quantifying the proportion of general practice and low-acuity patients in the emergency department

## Research

### Quantifying the proportion of general practice and low-acuity patients in the emergency department

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Between June 2005 and October 2009, attendances to emergency departments (EDs) across Australia increased by 21.2%. This represents an annual increase of 4.9%, which significantly exceeds the rate of population growth.<sup>1</sup> Reasons postulated include an ageing population, the rising incidence of chronic illness and decreased availability of general practitioners, especially for after-hours and urgent visits. The latter issue has led to suggestions that overcrowding in EDs is due to patients with general practice-type conditions attending inappropriately and is driven to some extent by poorly validated definitions of "inappropriate" attendances.<sup>2</sup>

In Australia, methods to determine the number of general practice-type patients attending EDs often use the Australasian Triage Scale (ATS). The ATS is a method used to prioritise care within EDs, with all patients allocated a category from 1 to 5 on arrival. Category 1 patients are regarded as the highest priority, while category 5 patients are the least urgent.<sup>3</sup> It has been postulated that general practice-type patients are associated with ATS categories 4 and 5, but this is not well founded.<sup>1,3–5</sup>

The ATS is an urgency scale, not a complexity scale. A patient can have a low triage category but need complex care. An example is an elderly patient living independently who falls and fractures her forearm. She is low in urgency but high in complexity, requiring extended allied health support to ensure safe discharge. Such a patient cannot be easily managed in most GP settings. Conversely, some high-urgency patients are low complexity. A young patient with fever and a rash should be seen rapidly to assess for serious illnesses such as meningitis. However, once serious illness is excluded, the patient can usually be

#### Abstract

**Objective:** To accurately estimate the proportion of patients presenting to the emergency department (ED) who may have been suitable to be seen in general practice.

**Design:** Using data sourced from the Emergency Department Information Systems for the calendar years 2009 to 2011 at three major tertiary hospitals in Perth, Western Australia, we compared four methods for calculating general practice-type patients. These were the validated Sprivulis method, the widely used Australasian College for Emergency Medicine method, a discharge diagnosis method developed by the Tasmanian Department of Human and Health Services, and the Australian Institute of Health and Welfare (AIHW) method.

**Main outcome measure:** General practice-type patient attendances to EDs, estimated using the four methods.

**Results:** All methods except the AIHW method showed that 10%–12% of patients attending tertiary EDs in Perth may have been suitable for general practice. These attendances comprised 3%–5% of total ED length of stay. The AIHW method produced different results (general practice-type patients accounted for about 25% of attendances, comprising 10%–11% of total ED length of stay). General practice-type patient attendances were not evenly distributed across the week, with proportionally more patients presenting during weekday daytime (08:00–17:00) and proportionally fewer overnight (00:00–08:00). This suggests that it is not a lack of general practitioners that drives patients to the ED, as weekday working hours are the time of greatest GP availability.

**Conclusion:** The estimated proportion of general practice-type patients attending the EDs of Perth's major hospitals is 10%–12%, and this accounts for < 5% of the total ED length of stay. The AIHW methodology overestimates the actual proportion of general practice-type patient attendances.

discharged. This patient might be equally well managed in a primary care environment by experienced GPs.

Estimating the proportion of ED attendees suitable for general practice is complex, with experienced researchers devising a number of approaches to quantify such patients. There is no agreed standard definition for identifying patients as appropriate or inappropriate to attend an ED. A recent extensive literature review<sup>4</sup> found that the calculated rate of non-urgent ED attendances varied between 4.8% and 90%, confirming that there is no standard methodology for determining the true proportion of general practice-type patients in EDs.

A number of methods are currently used in Australasia to estimate the number of general practice-type patients presenting to EDs.<sup>1,5,6</sup> Only

one of these has been validated in the literature.<sup>6</sup> We aimed to compare this validated method with other Australasian methods using data from three major tertiary hospitals in Perth, Western Australia.

#### Methods

Data were extracted from the Emergency Department Information Systems (EDIS version 9.46, iSoft) for the calendar years 2009, 2010 and 2011 at three tertiary hospitals (two adult-only, one mixed) in Perth. Average annual census was 55 000, with admission rates between 35% and 55%.

Four methods were used to estimate the number of general practice-type patients:

- The Australian Institute of Health and Welfare (AIHW) method, which

1 Attendances at the emergency departments in three major hospitals in Perth, by sex and time of presentation

Year	Total male and female	Male	Weekday daytime*	Weekday evening†	Overnight‡	Weekend§
2009	164 352	88 777 (54.0%)	58 595 (35.7%)	38 203 (23.2%)	28 726 (17.5%)	38 828 (23.6%)
2010	175 721	94 910 (54.0%)	63 366 (36.1%)	40 844 (23.2%)	30 192 (17.2%)	41 319 (23.5%)
2011	192 056	103 320 (53.8%)	69 719 (36.3%)	45 085 (23.5%)	31 844 (16.6%)	45 408 (23.6%)

\* Mon–Fri, 08:00–17:00. † Mon–Fri, 17:00–00:00. ‡ Mon–Sun, 00:00–08:00. § Sat–Sun, 08:00–00:00.

2 Number of general practice-type patients presenting to emergency departments, calculated by four commonly used methods

Year	Total	ACEM		Sprivulis <sup>6</sup>		Diagnosis*		AIHW	
		No.	95% CI	No.	95% CI	No.	95% CI	No.	95% CI
2009	164 352 <sup>†</sup>	16 905 (10.6%)	10.3%–10.6%	15 984 (9.7%)	9.5%–10.0%	17 888 (11.1%)	10.9%–11.2%	43 452 (26.4%)	26.2%–26.7%
2010	175 721 <sup>‡</sup>	19 140 (11.1%)	10.9%–11.3%	15 741 (9.0%)	8.7%–9.2%	19 127 (11.0%)	10.8%–11.3%	44 495 (25.3%)	25.1%–25.6%
2011	192 056 <sup>§</sup>	21 877 (11.6%)	11.3%–11.8%	18 151 (9.5%)	9.2%–9.7%	21 242 (11.2%)	11.0%–11.4%	48 041 (25.0%)	24.8%–25.2%

ACEM = Australasian College of Emergency Medicine. AIHW = Australian Institute of Health and Welfare. \* Method developed by the Tasmanian Department of Health and Human Services. † Data missing in 2009 for 4673 patients for the ACEM method, four patients for the Sprivulis method, 3192 patients for the diagnosis method, and two patients for the AIHW method. ‡ Data missing in 2010 for 3181 patients for the ACEM method, three patients for the Sprivulis method, 2161 patients for the diagnosis method, and one patient for the AIHW method. § Data missing in 2011 for 2728 patients for the ACEM method, three patients for the Sprivulis method, 2234 patients for the diagnosis method, and one patient for the AIHW method.

considers a general practice-type patient to be any patient allocated an ATS category 4 or 5, who does not arrive by ambulance, police or correctional vehicle, and is not admitted to hospital, is not referred to another hospital and does not die.<sup>1</sup>

- The method developed by Sprivulis,<sup>6</sup> which examines the difference between the discharge rates of self-referred patients and GP-referred patients, with calculations based on the self-referred, non-admitted, ATS category 3, 4 and 5 patients.

- The Australasian College for Emergency Medicine (ACEM) method, which considers that any self-referred, non-ambulance patient with a medical consultation time under 1 hour may have been suitable for a GP.<sup>5</sup> Patients who did not wait or had an invalid consultation time are excluded as their consultation time cannot be calculated.

- The diagnosis method, which uses a list of diagnoses of conditions possibly suitable for GP management. Self-referred, non-admitted, ATS category 4 and 5 patients arriving by private transport and meeting one of these diagnoses were considered to be potential GP cases. Patients without a diagnosis were excluded as a diagnosis is required to determine if they were general practice-type. This method was originally developed by Kevin Ratcliffe at the Tasmanian Department of Health and Human Services.

Two of the hospitals have co-located after-hours GP practices, and patients presenting to the ED for a referral to these practices were excluded. These comprised less than 700 (0.2%) patients over the 3 years of the study.

The WA South Metropolitan Health Service Human Research Ethics Committee considered this to be an audit activity and approval was given by the Clinical Governance Unit of Fremantle Hospital. As the data was de-identified, permission was sought and granted by the Head of ED at each hospital as per the WA Guidelines for the release of data (August 2012) and the Information access and disclosure policy (February 2012). Permission to use the diagnosis list was granted by the Tasmanian Department of Health and Human Services.

As it has been postulated by Australian governments<sup>7</sup> that the number of general practice-type cases is greater in the evening and overnight due to lack of after-hours GPs, presentation times were grouped as overnight (00:00–08:00), weekends (Saturday and Sunday, 08:00–00:00), weekday daytime (Monday–Friday, 08:00–17:00) and weekday evening (Monday–Friday, 17:00–00:00).

## Results

From 2009 to 2011, there were 532 129 ED presentations (Box 1). There was a slight predominance of males, and 36.0% of attendances occurred during the weekday daytime.

Incomplete data resulted in the exclusion of 10 582 (2.0%) records from the ACEM method, 7587 (1.4%) from the diagnosis method, four from the AIHW method and 10 from the Sprivulis method.

The ACEM, diagnosis and Sprivulis methods estimated that 10%–12% of patients were general practice-type, whereas the AIHW method estimated >25% (Box 2). The confidence intervals showed some differences between the non-AIHW methods, but all ranged between 8.7% and 11.6%, whereas those for the AIHW method ranged between 24.8% and 26.7%.

Using the ACEM and AIHW methods, there were slightly more males in the general practice-type population compared with the total population, but the diagnosis and Sprivulis methods showed similar numbers (Box 3). Proportionally more general practice-type patients presented during the weekday daytime (Box 4). The total ED time of general practice-type patients was 3%–5% for the ACEM, Sprivulis and diagnosis methods and 10%–11% for the AIHW method (Box 5).

## Discussion

Our data demonstrate that 10%–12% of patients attending tertiary EDs in Perth between 2009 and 2011 may have been suitable for general practice. These patients contributed 3%–5% of overall ED length of stay, and probably a lesser proportion of resource, staffing and cubicle usage. These data are based on consistent estimates using the Sprivulis method, which is validated in the literature, the ACEM method, which is used by the peak body for emergency medicine in Australasia, and the diagnosis method.

## Research

## 3 Number of males presenting to emergency departments with general practice-type conditions, calculated by four commonly used methods

Year	ACEM		Sprivulis <sup>6</sup>		Diagnosis*		AIHW	
	Total male and female	Male	Total male and female	Male	Total male and female	Male	Total male and female	Male
2009	16 905	10 231 (60.5%)	15 984	8923 (55.8%)	17 888	9488 (53.0%)	43 452	25 329 (58.3%)
2010	19 140	11 438 (59.8%)	15 741	8776 (55.8%)	19 127	10 109 (52.9%)	44 495	25 787 (58.0%)
2011	21 877	13 108 (59.9%)	18 151	10 164 (56.0%)	21 242	11 164 (52.6%)	48 041	27 855 (58.0%)

ACEM = Australasian College of Emergency Medicine; AIHW = Australian Institute of Health and Welfare. \* Method developed by the Tasmanian Department of Health and Human Services.

## 4 Number of patients presenting with general practice-type conditions to emergency departments, calculated by four commonly used methods, by time of presentation

Time of presentation	General practice-type patients			
	All patients (n = 532 129)	ACEM (n = 57 922)	Sprivulis <sup>6</sup> (n = 49 399)	AIHW (n = 135 988)
Weekday daytime: Mon–Fri, 08:00–17:00	191 680 (36.0%)	21 135 (36.5%)	17 399 (35.2%)	21 961 (37.7%)
Weekday evening: Mon–Fri, 17:00–00:00	124 132 (23.3%)	12 526 (21.6%)	11 026 (22.3%)	11 497 (19.7%)
Overnight: Mon–Sun, 00:00–08:00	90 762 (17.1%)	8520 (14.7%)	7862 (15.9%)	9434 (16.2%)
Weekend: Sat–Sun, 08:00–00:00	125 555 (23.6%)	15 741 (27.2%)	13 112 (26.5%)	15 365 (26.4%)

ACEM = Australasian College of Emergency Medicine; AIHW = Australian Institute of Health and Welfare. \* Method developed by the Tasmanian Department of Health and Human Services.

## 5 Length of stay of general practice-type patients in emergency departments, as a proportion of total emergency department length of stay, calculated by four commonly used methods

Year	ACEM	Sprivulis <sup>6</sup>	Diagnosis*	AIHW
2009	3.1%	5.0%	5.3%	11.8%
2010	2.8%	3.8%	4.5%	10.1%
2011	3.3%	4.3%	4.9%	10.5%

ACEM = Australasian College of Emergency Medicine; AIHW = Australian Institute of Health and Welfare. \* Method developed by the Tasmanian Department of Health and Human Services.

A recent review in the United States concluded that 7%–10% of patients attending EDs may have been suitable for general practice.<sup>8</sup> The US study used yet another method based on presenting symptom and diagnoses. However, its results were similar to those of all the Australasian methods except that of the AIHW.

We found that the AIHW method consistently overestimated the proportion of general practice-type patients in EDs. We believe that this was due to its use of the ATS (an urgency rather than a complexity scale); it therefore fails to take into account the nature of the presenting condition(s), diagnostic requirements or treatment pathways. Additionally, the AIHW method includes as general practice-type, patients who have actually been referred to the ED by a GP. Admission

as a proxy for complexity is becoming less relevant with admission-avoidance strategies such as home nursing.<sup>9</sup> Complex patients can often be discharged, limiting the use of admission as a marker for complexity.

The diagnosis method might appear to be more robust as it relies on a diagnosis classification. However, using diagnoses to determine whether a specific patient needed to use an ED may be inaccurate, because triaging clinicians do not have the full clinical picture until after a full physician assessment. For example, a 70-year-old man may be discharged with a diagnosis of non-specific abdominal pain but, to reach that diagnosis, will have required an extensive workup including pathology, imaging and/or surgical consultation. A more robust method might use presenting prob-

lems, as these drive the ED resource use.

The Sprivulis method is a relatively complex analytical approach that produces results consistent with those of the ACEM and diagnosis methods and the recent US study.<sup>8</sup>

The ACEM method has the advantage of being simple to calculate and intuitive. However, by assuming that a patient may be suitable for a GP if the consultation time in the ED is less than 1 hour, it may overestimate the number of general practice-type patients in the ED, as most GP consultations last about 15 minutes. Although medical consultation times in teaching hospitals can be longer than those in non-tertiary hospitals, it may be more appropriate to assume a consultation time nearer to that of general practice when extending the analysis to non-tertiary hospitals.

Reasons for patients attending the ED instead of a general practice include financial constraints and availability of access.<sup>10</sup> Patients may also believe that their condition is an emergency.<sup>11,12</sup> This is supported by a study that found that self-referred patients had significantly higher acuity profiles than GP-referred or healthdirect-referred patients.<sup>13</sup> However, the rea-

sons for general practice-type patients attending EDs are difficult to interpret because the capability of general practices can differ widely, even within a city. General practice models can range from solo practitioners with no allied health support, to practices operating in a financial environment that requires high throughput, and to "super clinics" with onsite x-ray, multi-disciplinary teams and practice nurses.

Australia's dual health system funding model may provide incentives for state governments to support overestimations of the proportion of general practice-type patients attending EDs.<sup>7</sup>

After-hours GP clinics, super clinics and polyclinics may fill gaps in medical services but have minimal effects on ED attendances.<sup>9,14-19</sup> The impact on the ED from diverting general practice-type patients is low, and inaccurate reporting of the true proportion of these patients results in policy and program initiatives that do not address the real cause of ED overcrowding, which is the lack of available inpatient beds.<sup>20</sup>

Evidence consistently demonstrates that overcrowding leads to increased patient mortality, morbidity and prolonged hospital stays.<sup>14,21-23</sup> Much work has been directed into trying to reduce emergency demand as a solution to reducing overcrowding; however, very few of the strategies have produced results.<sup>24</sup>

While general practice-type patients may add to waiting room numbers, they do not cause ED overcrowding or ambulance diversion and have little effect on ED workload or waiting times.<sup>6,14,16,17,22</sup>

It is also unlikely general practice-type patients will ever be completely removed from the patient cohort presenting to EDs. Small numbers of general practice-type patients will continue to present overnight, as alternative facilities do not exist and the ED provides a cost-effective model for overnight acute care as the marginal cost is minimal.

It is commonly held that the number of general practice-type cases is greater outside working hours due to a lack of after-hours GPs. However, Box 4 suggests that this is not the case. Although the weekday daytime only accounts for 27% of the week, 36% of general practice-type patients attended during this time.

It is essential to estimate accurately the proportion of general practice-type patients in the ED, as incorrect data lead to poor policy and planning. This results in misdirected and costly interventions, which inevitably fail to resolve ED overcrowding or its underlying causes.<sup>15,25</sup>

Our study was limited to three tertiary hospitals in Perth. It is likely that these results are generalisable; however, detailed analysis of the Perth population and Perth GP availability compared with the rest of Australia was beyond the scope of the study.

The proportion of general practice-type patients in outer metropolitan and regional centres may be higher; however, it is likely that overestimation by the AIHW methodology for these EDs would be of a similar magnitude. Further work is underway to extend the analysis to all WA hospitals.

The methods used here are statistical methods and will fail to capture individual patient decisions as a qualitative study might. A qualitative study is resource-intensive and impractical to conduct beyond small numbers.

The ACEM method was the easiest to use and has clinician validity for calculating the small proportion of possible general practice-type patients to EDs in Australasia, although it may require minor modifications for use outside tertiary hospitals. The AIHW methodology overestimated general practice-type patient workload in EDs and should no longer be used to guide policy decisions.

**Competing interests:** Yusuf Nagree, Sally McCarthy and David Mountain are councillors of the ACEM.

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## Appendix 4 DIER comments on the physical environment paper

In section 2.2.3, the report correctly states that rainfall has a significant impact on construction and maintenance costs and yet the report does not adequately take this into consideration by using six temperature-defined zones. Rainfall is a much more important factor than temperature and even dry zones can be impacted by long-duration floods. The western half of Tasmania is a very high rainfall area and this has considerable impact on the cost of construction and maintenance of roads in this area. DIER considers that it would be much more accurate to use the system of 13 precipitation zones that the report considers unnecessary.

In section 2.2.3, the factors for soil identified were: salinity; shrink-swell and acid sulphate. While these are relevant, they do not encompass the full range of factors, for example, over thick clays or boggy areas, or some alluvial plains, the pavement of roads needs extra depth, increasing costs.

DIER considers that section 4.3.1 (topography) is the most problematic section of the report and needs addressing. The report states: “it should be noted that the slope of the land does not necessarily lead to a greater or lesser need for bridges.” The report thereafter downplays topography and ignores bridges. In the Tasmanian context, the statement is misleading. Tasmania has a high number of bridges per kilometre compared to other jurisdictions because of its highly dissected topography and high rainfall regions. The replacement cost of Tasmanian bridges at 30 June 2013 was \$1.7 billion out of a total asset replacement cost for State roads of \$6.8 billion, that is, around 25 per cent of the total value. Bridge construction cost and maintenance expenditure is a major part of the road network and cannot be ignored.

The report also states: “AECOM quantity surveyors estimate that differences in slope would generally account for between a 2 per cent and 5 per cent increase in earthworks cost”. DIER engineers consider this figure to be too low and estimate the impact may typically increase construction cost by 15 per cent and this may vary up to an extra 25 per cent of the total construction cost. The need for extra bridges may increase construction costs further.

In section 4.3.2 (climate and wind), the report states: “differences in weather zones are unlikely to have any material impact on maintenance costs.” 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 wet area roads carrying the same freight task as dry area roads the road life will be shorter before rehabilitation becomes necessary. A statement sometimes used by road engineers is, “The three biggest factors in reducing the life of roads are water, water and water.”

In section 4.3.2 (climate and wind impact on cost) the report states “high levels of precipitation can increase overall cost by up to 5 per cent.” Due to the need for larger culverts, more sub-soil drainage, thicker pavements and larger bridges, the cost is likely to be significantly higher than five per cent.

Regarding section 4.4.1 (the asset base for rural roads method 1 for rural roads), for road valuation, DIER now uses the nationally accepted Australian Accounting Standard 116 and it is reasonable to assume at least some other States would be using this national standard. DIER notes that the Local Government Association of Tasmania has been working with councils to introduce this standard for local government road valuations.

Regarding section 4.4.1 (the asset base for rural roads, method 2 for rural roads) DIER considers that the estimate of between \$3 and \$5 million per kilometre is reasonable.

DIER considers the estimate of earthworks typically comprising 15 to 25 per cent of the total construction cost to be reasonable for flat and undulating terrain but notes the additional cost in rugged topography noted earlier (in section 4.3.1).

Regarding section 4.5 (step 4 linking asset base value to cost uplift factors, maintenance cost for rural roads) DIER considers that the assumption that road maintenance cost will comprise 2.5 per cent of the roads total capital cost per annum has no clear basis. It could be based on a road having an economic life of 40 years. DIER uses an economic life of 40 years for Category 1 highways, which have the highest levels of heavy vehicle traffic varying down to 60 years for the lesser trafficked Category 5 roads. At the end of the economic life, most roads are typically rehabilitated rather than completely replaced so the cost is typically less than initial construction. A rule-of-thumb is that the annual cost of maintenance over the economic life of an “average” single carriageway road, rather than being \$100 000 per year, is between \$25 000 and \$30 000 per year.