

2025 Methodology Review

Tranche I Consultation Papers

Tasmanian Government Submission

October 2023

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Introduction

Tasmania welcomes the opportunity to respond to the first tranche of the Commonwealth Grants Commission's (Commission) Consultation Papers for the 2025 Methodology Review.

This paper presents the Tasmanian Government submission in response to all Consultation Papers in Tranche I except the Wages Consultation Paper, which will be separately provided in line with the Commission's timeframe.

Tasmania strongly supports the principle of horizontal fiscal equalisation (HFE) in the determination of how GST revenue is distributed among the states.

Tasmania appreciated the opportunity to respond to the Commission's *Fiscal equalisation, supporting principles and assessments guidelines* Consultation Paper and welcomes the Commission's position to retain its approach to HFE as the first step in the equalisation process. This will be achieved through its principles and assessment guidelines, as articulated in the 2020 Methodology Review, with only minor changes to its assessment guideline on materiality thresholds.

As noted in the Commission's position on *Fiscal Equalisation, Supporting Principles and Assessment Guidelines*, changes to the assessment methodology are largely evolutionary.

While Tasmania supports many of the preliminary positions expressed by the Commission in the Consultation Papers, there are some areas of concern that are discussed in more detail in the relevant chapters. These include:

Mineral Royalties

Tasmania considers a dominant state adjustment to be a departure from the Commission's primary objective of fiscal equalisation. As such, Tasmania does not agree that where a dominant state changes its relevant royalty rate, assessing 50 per cent of that state's revenue arising from the royalty rate change equal per capita would represent an appropriate balance between assessing relative state fiscal capacities and policy neutrality concerns.

Tasmania's position is that banned minerals should be examined on a case by case basis to determine the most appropriate approach to achieve HFE. Tasmania believes the current treatment of uranium and coal seam gas remains appropriate and does not support these minerals being assessed equal per capita.

Schools

Tasmania supports in principle the proposal to develop an appropriate assessment of needs for educating students with disability. However, data in the Nationally Consistent Collection of Data (NCCD) are not currently comparable across states, as confirmed by the Productivity Commission in its 2023 Report on Government Services (RoGS).

Health

Tasmania would support changes to the community and public health assessment to make it more reflective of actual service use. However, Tasmania does not agree that the proposed

changes to the assessment will contribute to making it more responsive to developments affecting this part of the health system.

Tasmania notes concerns that the Australian Institute of Health and Welfare (AIHW) community mental health data are not complete or comparable at this stage and are therefore not fit for purpose.

Unlike self-referred Emergency Department (ED) presentations, non-admitted patients access services via general practitioner (GP) referral and can have a different socio-demographic composition.

Replacing the current proxy to include either or both options proposed by the Commission to the community and public health assessment is not supported.

Transport

Tasmania does not support the current assessment for urban transport. In Tasmania's view, the model is overly focussed on urban density and fails to recognise the policy influence in passenger numbers or socio-demographic drivers. Tasmania believes that, as the model will be re-estimated to include a new ferry variable, it should be retested for inclusion of socio-demographic variables.

Tasmania also questions the assumption in the model that public transport is primarily driven by commuters, particularly given the increased pattern of working from home as noted by the Commission.

Tasmania considers the emphasis on travel to work in the model as a proxy for urban transport demand is overstated. Likewise, using distance to work as a proxy for network complexity is questioned. The model assumes the further passengers commute, the more complex the transport system.

Tasmania does not support the proposal to assess non-urban rail passenger expenses based on shares of non-urban train commuters. Tasmania believes that non-urban train commuter numbers are overly influenced by policy decisions of governments.

I Land Tax

I.1 Do states support the continuation of the land tax assessment in its current form?

Tasmania supports the retention of the 2020 Methodology Review approach to the land tax assessment.

Tasmania notes that this includes retention of the low discount of 12.5 per cent because of concerns about the reliability and comparability of states' taxable land value data, in particular data adjustments to address differences between the states in the treatment of jointly owned properties.

Tasmania would support removing the discount applied to the Commission's land tax assessment when there is evidence that there has been sufficient improvement in the comparability of State Revenue Office data across all states.

If the Commission continues to have concerns about the reliability and comparability of taxable land values, Tasmania would support efforts to improve the reliability of data collected from states with a view to removing this discount over time. This aligns with the Commission's position on *Fiscal Equalisation, Supporting Principles and Assessment Guidelines*, in which the Commission agreed with New South Wales's suggestion that the Commission increase its efforts to collect more reliable data from states with the aim of removing the need for discounting.

2 Stamp Duty on Conveyances

2.1 *Do states agree that the overall approach to assessing revenue from stamp duty on conveyances remains appropriate?*

Tasmania supports the current approach to assessing revenue from stamp duty on conveyances.

2.2 *Do states agree that revenue from the New South Wales property tax be assessed with land tax for as long as it exists?*

Tasmania agrees with the Commission's proposal to continue to assess property tax, introduced by the former New South Wales government in 2022, with the land tax assessment. As outlined in the Consultation Paper, a separate property tax assessment is not warranted as it is immaterial, and no longer offered by the New South Wales government.

2.3 *Do states support the Commission not adjusting states' value of property transferred for the elasticity effects of recent reforms on materiality grounds?*

Tasmania agrees with the Commission's preliminary view that, in the absence of a measurable material impact, it continue its approach of not adjusting property transfer values for elasticity effects.

3 Insurance Tax

3.1 Do states support the continuation of the insurance tax assessment in its current form?

Tasmania agrees with the Commission that there have been no developments that would warrant changing the insurance tax assessment and therefore would support retaining the current insurance tax assessment.

4 Motor Taxes

4.1 *If an assessment of revenue from electric vehicle charges becomes material in future updates, do states support the revenues being assessed as a separate component of the motor taxes category?*

Tasmania continues to support the current assessment.

If revenue from electric vehicle charges becomes material in future, and a suitable measure of revenue raising capacity can be developed, Tasmania would support these revenues being assessed as a separate component of the motor taxes category.

4.2 *Do states agree that the number of registered light vehicles remains an appropriate measure of revenue capacity for revenue raised from emissions-based registration fees?*

Tasmania agrees that the number of light vehicles remains an appropriate measure of revenue capacity for states that introduce emissions-based registration fees.

5 Mining Revenue

5.1 *Do states agree the Commission should continue to assess mining revenue capacity using a mineral by mineral approach?*

Tasmania continues to support the Commission's mineral-by-mineral assessment.

5.2 *Do states support the dominant state for a mineral being identified having regard to a state's share of the revenue base, its population share, and the extent to which its GST distribution would be impacted by a change in the royalty rate for that mineral?*

In past reviews, the Commission has considered an adjustment to its mineral-by-mineral assessment to address potential policy neutrality concerns due to a dominant state's royalty policies.

Identification of a dominant state as proposed by the Commission would only be necessary if the Commission were to then make an adjustment to its assessment as discussed in consultation question 5.3.

Tasmania does not consider the current mining royalty assessment requires an adjustment to address policy neutrality concerns and this position is explained in Tasmania's response to consultation question 5.3 below.

Further, identifying a dominant state inevitably leads to an arbitrary approach to setting dominant state criteria. For example, a state may just exceed its dominant state threshold for a mineral and benefit from the proposed adjustment. Another state may fall just short of the dominant state threshold and receive no adjustment. Also, a state's mineral dominance may vary over time, particularly if it is close to the threshold. So, the requirement for an adjustment may be met in one year and not in the next. Again, this would seem an arbitrary approach to addressing policy neutrality concerns.

Therefore, Tasmania does not support identifying a dominant state for a mineral in the mining revenue assessment.

5.3 *Do states agree that where a dominant state changes its relevant royalty rate, assessing 50 per cent of that state's revenue arising from the royalty rate change equal per capita would represent an appropriate balance between assessing relative state fiscal capacities and policy neutrality concerns?*

In the Commission's position paper on *Fiscal equalisation, Supporting Principles and Assessment Guidelines* it concluded that HFE remains the primary objective but noted that in a small number of cases it will need to use judgement where supporting principles are in conflict.

Tasmania is of the view that policy neutrality issues in relation to mining royalty rate changes by a dominant state is a conflict between the policy neutrality supporting principle and the primary objective of HFE. As the Commission rightly observes, HFE should take precedence.

A dominant state adjustment would be a departure from the Commission's primary objective of fiscal equalisation.

In Tasmania's view, policy neutrality concerns should be subsidiary to the primary objective of fiscal equalisation. Minerals are not evenly distributed among states. Consequently, mining

revenue is a significant driver of differences in state fiscal capacities. Tasmania believes that material changes, such as increased royalty rates, should be assessed in full.

Tasmania is not aware of any evidence that the current approach has influenced state behaviour to date, and therefore does not believe that a change in methodology is warranted.

In the case of a dominant state, the Commission proposes to assess 50 per cent of the change in its mining royalty revenue equal per capita and the balance assessed using the current assessment methodology. This approach would apply to both royalty rate increases and decreases.

It is acknowledged that a 50 per cent equal per capita treatment has the potential to reduce the disincentive for a dominant state to increase its royalty rates by enabling it to retain at least half of the own source revenue effects of its policy change. However, it would also act as a disincentive for a dominant state to reduce its royalty rates as it would not retain all the increase in GST from the reduction in royalty revenue because 50 per cent of that revenue would be treated equal per capita.

It is therefore unclear how this approach addresses the Commission's policy neutrality concerns regarding the impact on a dominant mineral state's GST acting as a disincentive to royalty rate changes.

There is also an element of complexity with implementing the Commission's proposal. An equal per capita treatment of 50 per cent of the change in total revenue from a royalty rate change will become part of a state's assessment each year. Any subsequent royalty rate changes will also require a 50 per cent treatment in addition to earlier royalty rate changes. Multiple adjustments over time will increase complexity and reduce transparency of the mining assessment.

5.4 *Do states agree that uranium and coal seam gas royalty revenue should be assessed equal per capita?*

As the value of production of uranium and coal seam gas do not materially impact a state's GST outcome, under the current methodology, royalties for these minerals are combined with the other remaining minerals and assessed together in the 'other minerals' category. Under the current approach, revenue raising capacity is assessed for states that produce these minerals, whereas no capacity is assessed for states that either prohibit production or do not possess those mineral endowments.

The Commission notes in its Consultation Paper that most states have uranium and coal seam gas endowments. However, production of these minerals occurs in only two states. Consequently, the Commission suggests that, as there is no consistent basis to assess state capacities to generate revenue, royalty revenue from uranium and coal seam gas be assessed equal per capita.

On a conceptual basis, Tasmania has reservations about the appropriateness of treating mineral endowments on an equal per capita basis where at least one state has introduced a mineral ban. Tasmania acknowledges that in the case of banned minerals, there are inherent difficulties in determining state capacity in relation to the banned mineral.

For some minerals, states that ban or restrict the mineral may have small revenue raising capacity while the states that allow mining may be the largest producers and therefore a

differential assessment is appropriate. For other minerals the bans or restrictions are widespread across most states, revenue raising capacity is uncertain, and an equal per capita assessment is appropriate.

It is Tasmania's position that banned minerals should be examined on a case-by-case basis to determine whether an equal per capita or differential assessment achieves the best HFE outcome in each case. To ensure a consistent and transparent approach, Tasmania would support the development of guidelines which can be applied to determine when a banned mineral should move from a differential assessment to an equal per capita assessment.

Uranium

Production of uranium occurs in South Australia and the Northern Territory, while four uranium projects have been previously approved in Western Australia before a ban on future mining was implemented in 2017. About 96 per cent of known resources in Australia are at six sites: Olympic Dam in South Australia (the world's largest known uranium deposit); Ranger, Jabiluka, and Koongarra in NT; and Kintyre and Yeelirrie in Western Australia.

Tasmania acknowledges that while several states have uranium mining restrictions in place, or their reserves are not economically viable, such as in Tasmania, the vast majority of known, economically viable uranium endowments are not within these states. As such, Tasmania is not persuaded that revenue from uranium mining activity is materially affected by production restrictions in some states, and that states that have imposed bans on uranium are unduly rewarded by the current assessment.

Tasmania considers the current approach to uranium royalties remains the most appropriate approach and that an equal per capita treatment would not achieve HFE. That is, to continue to assess revenue raising capacity for states that mine uranium and assess no capacity for states that do not.

Coal seam gas

In the case of coal seam gas, production occurs in Queensland and New South Wales, with the largest known proven reserves in Queensland's Bowen and Surat basins. Coal seam gas exploration and development is banned only in Victoria. Restrictions in place in other states relate specifically to extraction techniques (i.e. fracking) or exclude particular zones within a state, but do not ban exploration or production more broadly.

Taking together that the majority of coal seam gas resources are located onshore in eastern Australia, and coal seam gas is fully banned in only one state, Tasmania is of the view that an equal per capita assessment would not be consistent with HFE.

As with uranium, Tasmania considers the current approach to coal seam gas royalties remains the most appropriate.

6 Schools

6.1 *Do states support a differential assessment of primary and secondary school students and if so, support including in the regression model variables to account for differences in the fixed cost of secondary schools and the additional costs of secondary school students?*

Under the current methodology, the Commission does not distinguish between primary and secondary school students in its modelling of assessed needs for schools because states previously had differing policies regarding schooling of year 7 students. However, since 2022, all states have educated year 7 students in high schools across government and non-government schools.

States spend more per student on secondary school students than primary school students. States also have differing mixes of the two groups reflecting differing retention rates and different age structures.

The Commission is proposing to introduce variables for the fixed cost of secondary schools and the additional costs of a secondary school student into its model.

The Commission has not advised whether the introduction of the new variables is expected to materially affect the Commission's recommendations. This increased complexity will need to be balanced with the Commission's principle of practicality, which includes that assessments should be as simple as possible, while also capturing the major influences on state expenses and revenues.

Tasmania agrees that there is a conceptual basis for including a differential assessment of primary and secondary school students. On the basis that the Commission expects the inclusions to improve the explanatory power and robustness of its model, Tasmania supports in principle the use of variables to account for differences in the fixed cost of secondary schools and the additional costs of secondary school students.

6.2 *Do states agree that, if relevant school level data are available and determined fit for purpose, an assessment of needs for educating students with a disability should be included in the schools assessment?*

In the 2020 Methodology Review, the Commission considered including data collected by the Commonwealth as part of the NCCD on School Students with Disability but concluded that the data were not nationally consistent.

In the Consultation Paper, the Commission notes that while the framework underpinning the data has matured, doubts remain about whether the data are comparable nationally.

Tasmania agrees with the conceptual argument that an assessment of needs for educating students with a disability should be included in the schools assessment. Further, Tasmania supports the Commission's observation that students with a disability are a driver of expenditure beyond a state's control. This is particularly the case given state obligations under the *Disability Standards for Education 2005* and ensuring the *Disability Discrimination Act* is upheld.

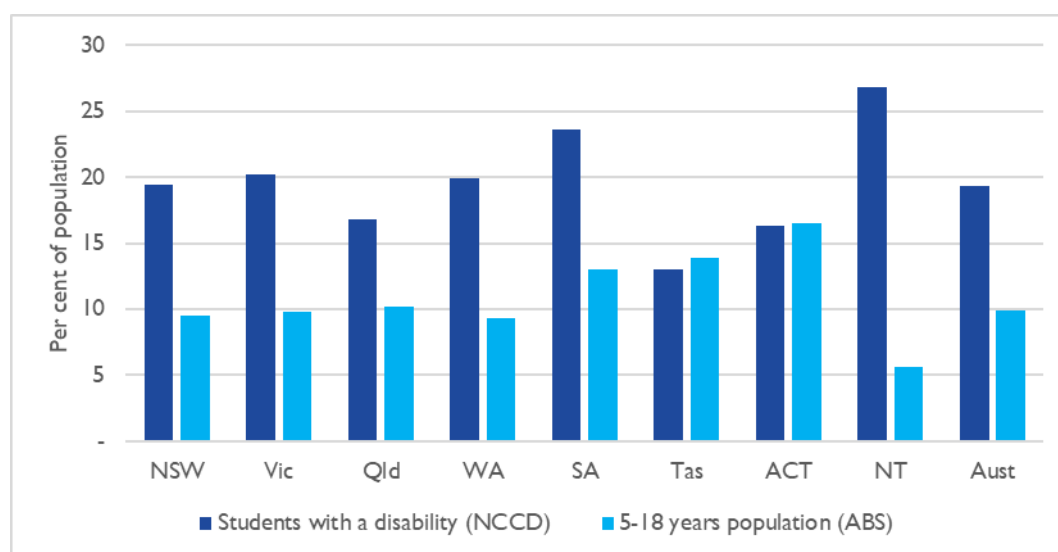
However, Tasmania has ongoing concerns regarding the lack of comparability across jurisdictions with the NCCD dataset. This is supported by the 2023 RoGs, which notes:

Results from the NCCD show variability across states, territories and sectors. Until the quality of the data improves, the data cannot be directly compared across jurisdictions or school sectors.

According to the Australian Bureau of Statistics (ABS), in 2018, Tasmania had the second highest proportion of its population aged 5 to 18 years with a disability at 13.9 per cent, compared to 9.9 per cent of all Australians in this age group.

However, this contrasts with NCCD data in RoGs, which showed that Tasmania had the lowest proportion of students who received an educational adjustment due to disability, at 13 per cent compared to the national rate of 19.3 per cent.

Chart 6.1 Incidence of disability in the school aged population, 2018



Source: ABS; RoGS

There are several fundamental reasons for the differences that exist in how NCCD is captured and reported by states. For some states, the NCCD is just a reporting requirement. However, Tasmania and some other states have internal funding models linked to the NCCD, which may introduce additional levels of quality assurance and moderation regarding the reported data than if it is only a reporting exercise.

Further, there is flexibility in the definitions of disability used by states, which can also be a driver of differences between states. Tasmania understands this to particularly be the case regarding the inclusion/non-inclusion of students impacted by trauma.

As noted by the Commission, there have been a number of national and state-based projects to investigate and improve the quality and consistency of judgements involving the NCCD. This work has highlighted that there can be some variability in the judgements used to classify students in the NCCD categories.

Tasmania supports the Commission using a nationally comparable, robust data set to include a driver of cost for students with disability. However, Tasmania is of the view that NCCD data do not currently meet this definition and are not fit-for-purpose as a driver of needs in the Commission's Schools assessment.

6.3 *Do states agree that the average state funding of schools is not sufficiently based on the Schooling Resource Standard funding to be adopted in place of the Commission's funding model?*

The formula for government funding for schools is guided by the Australian Government's School Resourcing Standard (SRS). The SRS is an estimate of how much public funding a school needs to meet its students' educational needs.

The Commission has developed its own national average school funding formula to assess states' needs for education spending.

However, as states' funding contributions are transitioning to a higher proportion of the SRS under Australian legislation, the Commission has observed that there may have been some convergence between the SRS and the funding that states provide to each school.

If there is sufficient alignment between what states do and the SRS, the Commission is considering a simplified assessment based on the SRS which better reflects the complexity of educational disadvantage.

Tasmania notes that as states' transition arrangements are not yet complete, the direct comparability of state funding is reduced.

Moreover, states have the autonomy to develop their own funding models to distribute funding to schools according to their own context.

While the SRS is a key indicator of states' need-based education expenditure for students in full-time schooling, states' education systems include centralised functions and supports that are not captured by the SRS methodology.

In this regard, Tasmania agrees with the Commission's observation that states' provision of funding to individual schools is not currently sufficiently based on the SRS.

7 *Post-secondary education*

7.1 *Do states agree that a course mix driver should not be introduced?*

Tasmania agrees that industry mixes and needs for post-secondary education differ between states. As certain courses are more expensive than others, Tasmania agrees that there is possibly a conceptual case that some states may face higher costs because of the course mix they offer.

The Commission's modelling indicates that there are cost differences between the states resulting from course mixes but these are not yet large enough to meet the Commission's materiality threshold. By its own principles, a course mix driver should not be introduced in the 2025 Methodology Review. However, Tasmania would recommend that the Commission continues to monitor this issue.

7.2 *Do states agree that the variables used in the socio-demographic assessment of needs be retained?*

Tasmania supports the use of the current variables in the socio-demographic assessment of needs, noting that the Commission is considering a broader examination of socio-economic status as part of the 2025 Methodology Review.

Tasmania continues to support the current assessment and notes that course mix drivers are not a material differentiator in the post-secondary education assessment at the present time.

8 Health

Tasmania's health system continues to be under extreme pressure from the increasing demand and cost of services. With the exception of the Northern Territory, compared to the rest of Australia, Tasmania faces higher demand for health services from an older, poorer, more dispersed population with high rates of chronic health conditions.

As a proportion of the Tasmanian general government budget, health spending grew from 30.1 per cent in 2016-17 to 34.6 per cent in 2021-22.

8.1 *Do states agree that in a post-pandemic environment, the hospital and patient transport assessments remain fit for purpose?*

The Commission's preliminary view is that hospital and non-hospital patient transport assessments remain appropriate in a post-pandemic environment.

Tasmania agrees that the COVID-19 experience does not require any changes to hospital and patient transport assessments. The assessments use data on national weighted activity units (NWAU) from different health service settings, which continue to be a reliable measure of the use and cost of services by socio-demographic group.

Tasmania agrees that the impact of COVID-19 has not resulted in a requirement to make changes to these health assessments and that they remain fit for purpose.

8.2 *Do states agree that the proposed changes to the community and public health assessment in this paper will contribute to making the assessment more responsive to developments affecting this part of the health system?*

Under the current methodology, the Commission uses a proxy to estimate the use and cost of the various programs that comprise the community and public health component because fit-for-purpose data were not available. The proxy uses NWAU data on ED triage categories 4 and 5 (lower priority cases). Lower priority ED services were seen as closer than other ED services to the types of primary health services provided in community health centres.

Through the COVID-19 pandemic, the large increase and changes in the pattern of state spending on community and public health were not captured in the assessment. This was because the proxy ED triage data were being driven by different factors (with activity declining in 2019–20).

Community health services are predominantly for services delivered to clients, whereas public health services are predominantly for protection, promotion and regulation activities. COVID-19 had profound implications for public health expenditure.

Tasmania agrees that during the pandemic there was a significant public health response by the Australian and state governments. The current community and public health assessment did not capture the COVID-19 shock because it uses ED triage categories 4 and 5 NWAU data as a proxy indicator. During the pandemic, ED presentations were restricted, while community and public health expenditure increased significantly.

The Commission has investigated including AIHW community mental health data and non-admitted patient data with ED category 4 and 5 data to improve the reliability of the

assessment. The Commission considers the proposed changes will also make the assessment more responsive to public health shocks in the future.

While Tasmania would support changes to the assessment to make it more reflective of actual service use, and therefore better able to respond to developments affecting community and public health, it does not agree that the proposed changes are more reliable than the current proxy. Tasmania's concerns with the Commission's proposed changes to the community and public health assessment are covered in its response to Consultation Question 8.4.

8.3 *Do states consider the experiences with the COVID-19 pandemic have implications for the health assessment?*

The Commission has stated that the drivers of state spending on COVID-19 were different to the usual drivers of state health expenses. Consequently, Commonwealth payments under the National Partnership on COVID-19 Response had no impact on relativities in annual Updates since 2021 because the existing health assessment methodology could not reliably assess state needs for spending on COVID-19.

As the Commission did not have the flexibility to change assessment methods between Reviews, it applied the usual drivers of state health expenses to assess the state funded spending under the National Partnership on COVID-19 Response.

Tasmania considers that while the COVID-19 pandemic temporarily disrupted the usual drivers of state health expenses, they were not enduring and have diminished over time.

States used their hospital services differently and at different times during the COVID-19 pandemic resulting in different drivers of health costs across states. These included restrictions on presentations to EDs, diverting patients to specific metropolitan hospitals and using private hospitals for overflows.

Tasmania's response to COVID-19 saw increases across a range of health costs, for example, infrastructure, personal protective equipment and public health responses. These included a temporary increase in some staffing specialties such as epidemiology, hospital security costs and expenditure to adapt hospital environments. This expenditure and COVID-19 activity has been reported by the Independent Health and Aged Care Pricing Authority (IHACPA) and AIHW.

However, while there have been some permanent changes to the delivery of health services since COVID-19, such as an increase in virtual and community models of care including telehealth, Hospital in the Home, and COVID@home, they are captured in the current health assessment, and no change is warranted on an ongoing basis.

8.4 Do states agree to:

- *use the Australian Institute of Health and Welfare data on community mental health activity, adjusted to compensate for lack of cost weights, to determine per capita use rates for mental health services?*
- *expand the current proxy to include non-admitted patient services, applied to the balance of the component?*
- *continue to apply a discount of 12.5 per cent to the community health socio-demographic assessment?*

As stated earlier, Tasmania does not support the Commission's proposed changes to the community and public health assessment and that the current proxy should be retained.

The Commission propose two options.

1. *Use Australian Institute of Health and Welfare community mental health data to directly measure a community health services component of the assessment.*

Tasmania acknowledges that while community mental health services data have continued to improve, there remain concerns that the collection is not complete or comparable between and across jurisdictions and therefore is not yet fit for purpose.

Recent analysis of community mental health services data by IHACPA's Technical Advisory Committee found that there is considerable variability and data reliability issues with states' reporting. For Tasmania to be satisfied that this data is fit-for-purpose to be used in the Commission's methodology, further work will need to be done to understand the different service models and counting of activity and costing in both non-admitted patient and community mental health activity across all states. It is worth noting that while Tasmanian community mental health activity data capture is good, costing data needs more time to develop and improve.

2. *Expand the current ED 4-5 proxy to include non-admitted patients and apply it to the balance of the assessment.*

The current proxy is based on presentations which are self-referred or walk-ins and are likely to have the closest use pattern and socio-demographic composition comparable to community health clients. However, non-admitted patient services are accessed via referral from a GP and can have a different socio-demographic composition to ED category 4 and 5 presentations.

Therefore, Tasmania does not support expanding the current proxy to include non-admitted patient services as it is not considered an improvement to the current proxy.

Rather than proposing changes to the community and health assessment, it is Tasmania's view that there would be benefit in the Commission developing separate assessments of community health and public health. They have differing cost drivers as a result of the diversity of services and cost distribution in this component of the health assessment. Community health services are predominantly for services delivered to clients, whereas public health services are predominantly for protection, promotion and regulation activities. Public health services saw the greatest change in expenditure during COVID-19. Separating these two components would greatly improve the assessment and make it more responsive to community health shocks, such as a pandemic.

However, if a proxy for community and public health use will still be required because of a lack of a suitable alternative, then Tasmania supports the continued application of a 12.5 per cent discount.

8.5 *Do states support the use of Australian Institute of Health and Welfare data to update the non-state services substitutability level for the emergency departments component, while retaining the 2020 Review method for other components?*

The Commission is considering a new method for updating the substitutability level of ED services.

In the 2020 Methodology Review, the Commission based its estimate of ED substitutability on studies of GP-type presentations between 2009 to 2014 that used a method developed by the Australasian College for Emergency Medicine (ACEM). The ACEM method was considered the preferred method at the time.

As more recent ACEM-based studies of GP-type presentations are not available, the Commission proposes to use AIHW GP-treatable presentation (ED category 4 and 5) data as a proxy to update the 2020 ACEM-based estimate. Using the AIHW data and method directly is not appropriate because it significantly overstates GP-treatable presentations by 50-60 per cent compared to the ACEM method.

Tasmania considers that the AIHW method has not changed since the 2020 Methodology Review and so its relative comparison with the ACEM method remains valid. Tasmania therefore supports the use of AIHW data as a proxy to update the substitutability calculations.

Tasmania supports the Commission's conclusion that the substitutable proportion of GP-treatable presentations is 19 per cent. Tasmania also supports the proposed substitutability level for EDs is 13 per cent based on the substitutable proportion of GP treatable presentations weighted by their relative cost to total ED presentations.

The Tasmanian public hospital system continues to experience high levels of GP treatable presentations because of the lower community capacity to pay for GP services. Tasmania's ED substitutability level is therefore likely to be lower than the national average.

Tasmania supports retaining the 2020 Review methodology to update the substitutability levels for the other components noting the new substitutability levels for admitted patients (no change at 15 per cent) and non-admitted patients (from 30 per cent to 25 per cent).

Tasmania notes that the Commission is yet to consider data to support updating the substitutability level for community health from the 60 per cent used in the 2020 Methodology Review. Tasmania welcomes the opportunity to comment on the Commission's proposal once it is made available to the states.

9 Services to Communities

9.1 *Do states agree that the existing assessment methods for spending on disaster mitigation remain appropriate?*

State spending on natural disaster mitigation is not separately assessed under the Commission's current methodology. Associated expenditure is likely to be classified to either the environmental protection component in the services to community category or to the other expenses category and assessed on an equal per capita basis.

Tasmania is of the view that it will be challenging to separately identify states' expenditure relating to disaster risk reduction as related activities exist across all sectors and are understood to not be separately reported in GFS data.

As there would appear to be no reliable basis for a differential assessment, it is appropriate that the current assessment methods are retained. Tasmania suggests that the Commission continues to monitor this issue.

9.2 *Do the definitions used in the National Partnership on Disaster Risk Reduction provide an appropriate basis for describing the type of spending that could be classified as natural disaster mitigation?*

Tasmania agrees that a collective understanding of what constitutes disaster risk reduction is important for consistency of approach. States have already implicitly agreed to the definitions in the National Partnership on Disaster Risk Reduction, so it would appear reasonable to use the same definitions in the Commission's methodology.

However, the Commission's assessment of associated expenditure should not advantage states that have chosen to invest in certain categories of state expenditure more recently than those that have been addressing associated risk for some time.

To the extent that existing programs lead to inequities and inconsistencies in spending on disaster mitigation, data on past and current spending may not reflect drivers of need.

9.3 *Where is this spending currently classified in the Government Finance Statistics framework?*

Tasmania is not aware of a standard area for reporting state expenditure associated with natural disaster risk reduction. This type of expenditure is likely to be reported under a broad number of ABS Classification of the functions of government - Australia (COFOG-A) codes, including those for fire services, environmental protection, community development and road maintenance and construction.

For example, fire risk operations undertaken by the Tasmanian Fire Service would be captured under fire community development, whilst flood mitigation schemes may be in community development.

Larger Disaster Mitigation programs funded under National Partnership arrangements are separately reported, while other activities will be incidental to ordinary operations. As a result, it will be difficult to separate out these costs from existing COFOG-A expenditure. For example, the development of fire prevention measures within the Tasmanian Fire

Service may not be easy to separate from the ordinary operating activities of the Service, or the additional costs to strengthen road and bridge infrastructure assets.

9.4 *Is spending on mitigation measures expected to increase significantly over the next five years?*

While there is a clear understanding of the need for appropriate spending on disaster mitigation, it is currently uncertain what the quantum of this expenditure will be.

The level of Tasmanian Government spending on mitigation measures will vary as a result of a number of variables, including evolving Australian Government recovery funding arrangements and as a result of new or modified Australian Government disaster funding programs.

The Tasmanian Government has announced a number of mitigation measures, including through the *Climate Change Action Plan 2023-25* which will deliver \$10 million for various mitigation activities.

The next version of the Tasmanian Disaster Resilience Strategy, currently being developed, is also expected to include spending commitments for mitigation measures.

10 Justice

10.1 Do states agree that COVID-19 resulted in a temporary departure from long term patterns of justice service provision, use and costs such that the 2020 Review Justice model remains appropriate if used with fit-for-purpose data?

Tasmania agrees with the Commission's position that during the COVID-19 outbreak there was a change in service provision for the enforcement and adjudication of crime.

In Tasmania, shifts were observed in the propensity of certain crimes during the pandemic. In particular, Tasmania saw large decreases in offences against property during the pandemic.

Capital modifications were made to prison and court facilities during COVID-19 to facilitate social distancing, in addition to being able to manage COVID-19 outbreaks within prison facilities. These modifications will be maintained to assist with the management of future outbreaks (or outbreaks of other infectious diseases).

Tasmania agrees with the Commission that the underlying relationships between drivers and expenses have not been permanently affected. The 2020 Methodology Review Justice model remains appropriate with the use of fit-for-purpose data such as the data from 2022-2023.

10.2 Do states agree that data from 2019-20, 2020-21 and 2021-22 include the effects of COVID-19 related public health orders and do not reflect typical justice services and costs?

Tasmania agrees that 2019-20, 2020-21 and 2021-22 data include the effects of the COVID-19 related public health orders. Data from these years reflect atypical activity in regard to offenders proceeded against by police and the typical justice services.

There will be several cost categories where expenditure may not be typical during the COVID-19-affected years, particularly in areas such as transport and traffic policing. However, it is noted that policing costs are highly impacted by relatively fixed costs such as labour. The cost of delivering court, prison and other legal services were increased during the COVID-19 years.

10.3 If data from 2019-20 to 2021-22 are not fit for purpose, do states support using data from 2022-23 to update the justice assessment? If so, can states provide an indication of when 2022-23 data could be provided to the Commission?

Tasmania confirms that 2022-23 data better represent typical policing activity and offending behaviours than 2019-20 to 2021-22 data. Tasmania further confirms that 2022-23 data are unlikely to have been materially affected by the COVID-19 pandemic, given that public restrictions, lockdowns, and COVID-19-centric policing activity and instances of offending had all concluded by July 2022.

Tasmania is also supportive of using 2022-23 data for courts, prisons, and other legal services. However, it is noted that some ongoing impacts from COVID-19 related decisions may remain. For example, as discussed above, capital modifications were made to prison and court facilities during COVID-19 to facilitate social distancing, in addition to managing COVID-19 outbreaks within prison facilities. These modifications, in addition to business continuity and other risk management practices may continue to affect the jurisdictions differently.

Data requirements for 2022-23 shown in attachment A are consistent with data previously provided to the Commission and could be provided by early 2024.

10.4 If data from 2022-23 are considered fit-for-purpose but are not available in time for inclusion in the 2025 Review, do states support updating the assessment in an update following the 2025 Review?

Tasmania supports updating the assessment as soon as fit-for-purpose data are available.

10.5 Do states agree that the Commission:

- apply a cost weight for juvenile detainees in the prisons assessment if material?*
- not make any changes to the juvenile detainees age groups in the prisons assessment?*

Tasmania supports in principle the approach being proposed by the Commission to consider a separate cost weight for juvenile detainees, if material.

Tasmania supports no change being made to the juvenile detainees age groups in the prisons assessment until there is increased consistency across states.

II Transport

11.1 Do states agree that the 2020 Review model for assessing urban transport needs remains appropriate?

Tasmania agrees that the initial impact of COVID-19 was a major disruption to public transport use, and notes that the demand for public transport has been changed by COVID-19 with the percentage of workers working from home increasing from 25 per cent to 35 per cent as shown in Figure 4 of the Commission's Consultation Paper.

Tasmania notes the Commission's preliminary view that the impact of COVID-19 challenged the validity of the assumption in its urban transport model that the supply of public transport will equal demand. However, this major disruption to normal transport use was temporary and will adjust to new levels of demand.

Notwithstanding the impact of COVID-19 on public transport use, Tasmania continues to have fundamental concerns with the current urban transport model.

The Commission's model is based on the premise that increasing population weighted density (PWD) leads to higher per capita urban transport costs. Tasmania has concerns with this assumption.

Tasmania agrees that the demand for transport is likely to be higher in high density cities than in low density cities because of greater traffic congestion and limited parking. However, it does not agree that higher demand from high PWD has a direct or linear relationship with higher net urban transport expenses.

Higher PWD can result in economies of density. So, while urban transport demand is higher, it is within a tighter spatial area than a lower density city. Higher PWD can lead to lower costs through more efficient utilisation of capital. The fixed transport infrastructure is used for an increasing number of passengers allowing synergies in service provision and lower costs^{1,2,3}.

To reduce infrastructure costs per capita, states are pursuing higher density cities, rather than urban sprawl - this includes public transport. Transport routes are more interconnected and infrastructure is more intensively used. This would lower unit costs.

However, it is noted that at some point there can be diseconomies as PWD increases, systems become congested and inefficient⁴ and require significant network upgrades, or changes in transport mode (such as undergrounding rail). The relationship between PWD and economies of density can therefore vary.

Given this relationship is unclear, the use of PWD as an explanatory demand variable for net urban transport expenses is questioned.

¹ Bitzan, J. & Karanki, F. 2022. "Costs, density economies, and differential pricing in the U.S. railroad industry." *Transport Policy*. 119: 67-77.

² Farsi, M., Fetz, A. & Filippini, M. 2007. "Economies of Scale and Scope in Local Public Transportation." *Journal of Transport Economics and Policy*. 41(3): 345-360. – Found economies of scale in light rail and bus networks.

³ Gschwender, A., Jara-Diaz, S. & Bravo, C. 2016. "Feeder-trunk or direct lines? Economies of density, transfer costs and transit structure in an urban context." *Transport Research Part A: Policy and Practice*. 88: 209-222.

⁴ Coulombel, N., & Monchambert, G. 2023. "Diseconomies of scale and subsidies in urban public transportation." *Journal of Public Economics*. 223.

States influence demand for urban transport through a wide range of policies, including through setting fares and concessions, and the level of infrastructure investment. The urban transport model coefficients for passenger numbers by mode are derived from Census data on actual passenger journeys to work. The number of passenger journeys can be policy influenced through improvements to services, such as more routes and more frequent journeys, and fare subsidies.

The Commission makes some allowance for this and data issues by blending the assessment 75 per cent based on the regression model and 25 per cent based on the proportion of state populations living in urban areas. However, Tasmania believes that a more balanced blending ratio should be adopted to minimise the risk that these policy influences are significantly overstating operating costs that are outside the control of a state.

Since COVID-19 there has been a change nationally in commuter behaviour, with fewer passengers travelling to work and instead working from home.

ABS Census Journey to Work data show the 4.7 per cent of working population reporting working from home in 2016 whereas in 2021, this had grown to 21 per cent in 2021. The Household Income and Labour Dynamics (HILDA) Survey 2022 found almost 40 per cent of the workforce had worked at least one hour from home, up from 25 per cent in 2019. While COVID-19 was the main driver of this change, there is some evidence⁵ that working from home is unlikely to return to pre-pandemic levels.

Some estimates^{6,7} suggest that commuter journeys only account for 30 to 40 per cent of all journeys. With the growing trend to working from home, this proportion may decline over time.

Tasmania has previously contended that there is a sound conceptual case that, contrary to the emphasis placed in the model on commuters as a key determinant of urban transport expenditure, service levels and network complexity are driven in-part by the needs of persons of low socio-economic status and the elderly. These population cohorts may be unable to drive, or do not own a car or are unable to afford to use it regularly and so have no other option but to use public transport, if it is available. These journeys tend not to be commuting to work but for other purpose such as attending appointments, shopping and other non-work related purposes, and generally occur in off peak times.

It is noted that for the 2020 Methodology Review, the consultant concluded that the inclusion of a socio-economic variable did not improve the explanatory power of the regression equation. Tasmania maintains that low socio-economic status and age are key drivers of urban transport in the state. Tasmania's Department of State Growth advises that 42 per cent of total Metro Tasmania passengers were concession customers in 2018-19. An ageing population and high proportional dependence on income support indicate that high rates of public concession transport subsidies will continue to be required over the longer term.

Given the Commission is proposing changes to the model specification such as ferry use, and is also investigating the possibility of developing a new measure of socio-economic status (refer to the Socio-economic Status Consultation Paper and Tasmania's response in Section

⁵ Productivity Commission 2021, *Working from home*, Research paper, Canberra, pages 18-19

⁶ Household Travel Survey, 2012-13 Sydney

⁷ Metro Tasmania Annual Report 2021-22

14), it is Tasmania's position that the model should be retested for inclusion of socio-demographic variables such as low socio-economic status and age.

As an alternative to including socio-demographic variables which, given the model's focus on commuter journeys may not improve the model's predictive power, an alternative approach could be to split the assessment into two components, commuter journeys and other travel.

The Commission could estimate the proportion of total urban expenditure related to commuter journeys and journeys for other purposes and develop a regression model for each component. This way differing drivers of demand can be captured in each model. That is, journey to work by mode as the driver for commuters, and low socio-economic status, age, and student travel for other travel purposes.

11.2 Do states consider the urban transport net expense data from 2019-20 to 2021-22 are likely to be overstated?

Tasmania notes the Commission's view that the impact of COVID-19 on urban transport use is likely to be reduced fare revenue as a result of maintaining services despite reduced passenger numbers. This reduction in revenue would suggest the net expense data may be overstated for 2019-20 to 2021-22.

Tasmania considers this view to be reasonable. In Tasmania, passenger numbers did decline over this period, with Metro Tasmania's patronage during the 2020 calendar year declining to approximately 6 million passengers, a decrease of 26.3 per cent compared to the 8.2 million passengers recorded in 2019 with an associated reduction in revenue. However, throughout the COVID-19 period, all general access services and school bus services continued operating, with the largest service provider, Metro Tasmania, continuing to run approximately 2 500 services per day over this period. The Department of State Growth sets the service levels to be provided by operators and instructed operators to maintain their services over this period. Service providers did not report significant levels of cancelled trips over this period.

The reduction in passenger numbers was reflected in fewer passengers per bus, rather than fewer buses being operated. Despite some service level impacts from COVID-19, the nature of providing transport services is such that many of the costs are more fixed than variable, especially in the short to medium term. There were also additional operational costs such as a much more rigorous cleaning regime for buses.

11.3 If 2019-20 to 2021-22 data are not fit for purpose, do states support updating the regression with data from 2022-23? Can states provide an indication of when this data could be provided to the Commission?

Tasmania agrees that data for 2022-23 is likely to more reliably reflect typical net expenditure than data for 2019-20 to 2021-22 and would more likely be fit-for-purpose to be used in updating the Commission's urban transport regression model.

Tasmania will be able to provide 2022-23 data to the Commission in accordance with the Tranche 1 data submissions due 2 April 2024.

11.4 If 2022-23 data are considered fit-for-purpose but are not available for inclusion in the 2025 Review, do states support updating the assessment in an update following the 2025 Review?

Tasmania's position is that the assessment should be updated as soon as fit-for-purpose transport expense data are available.

11.5 Do states support retaining the 2020 Review proxy variable data in the regression model until fit-for-purpose net expense data are available?

It is noted that the Commission's preliminary view for the 2025 Methodology Review is to retain 2020 Methodology Review net expenses data and associated coefficients in the model and not update the coefficients in the model until state net expense data reflective of more normal passenger transport usage are available after the 2025 Methodology Review.

Tasmania agrees that the model should not be updated until fit-for-purpose data are available.

11.6 Do states agree that the 2021 Census journey to work data were distorted by the COVID-19 lockdowns and are not a fit-for-purpose measure of current passenger numbers?

Tasmania agrees that 2021 Census journey to work data were distorted by COVID-19 lockdowns and this varied from state to state due to the variation in the duration of lockdowns. Accordingly, Tasmania agrees these data are not fit-for-purpose for the measurement of passenger numbers.

Notwithstanding these temporary distortions, journey to work data consistently understate the proportion of Tasmanians using public transport. This is because only 36 per cent of Tasmanian passengers use Metro Tasmania's service to travel to work⁷.

Other journeys are driven by socio-demographic factors, as discussed in the response to consultation question 11.8.

As previously mentioned, Tasmania questions the assumption in the model that public transport is primarily driven by commuters, particularly given the changing working patterns to working from home as noted by the Commission in the Transport Consultation Paper.

11.7 If the 2021 Census journey to work data are not fit for purpose, do states support the continued use of 2016 Census journey to work data in the model?

Tasmania has concerns with the model's emphasis on using journey to work data to determine the regression model coefficients. However, if the Commission retains the model in its current form, then it would be appropriate to continue to use 2016 Census journey to work data, albeit outdated, as the 2021 Census journey to work data are not fit for purpose.

⁷ Metro Tasmania Annual Report 2021-22

11.8 *Do states agree that 2021 Census distance travelled to work data were not significantly distorted by COVID-19 lockdowns and are a reliable measure of network complexity?*

Tasmania agrees that 2021 Census distance travelled to work data were not significantly distorted by COVID-19 lockdowns but disagrees that this would be a reliable measure of network complexity.

Again, Tasmania considers the emphasis on travel to work in the model as a proxy for urban transport demand is overstated. Likewise, Tasmania questions the appropriateness of using distance to work as a proxy for network complexity. The model assumes the further passengers commute, the more complex the transport system.

Tasmania would argue that high density cities such as Sydney would also have complex networks because of their high degree of interconnections.

Whilst relating to telecommunications, Metcalfe's law states that the value of a network is proportional to the square of connected nodes. There would be parallels to other networks including transport⁸. Hence complex networks are exponentially more valuable than simple networks since they offer many options for connecting locations. Thus, economic development is commonly associated with network complexity.

Is network complexity a cost driver? As noted, there can be economies of density and a more complex (integrated) network may have lower cost per capita than a less dense urban area. Network complexity may already be captured in the population weighted density variable.

As shown in Table 6 in the Commission's Consultation Paper, for 2021, Perth's commuting population had the longest median distance to work of 12.5 kilometers while Canberra had a median distance to work of 11.5 kilometers. The complexity of Perth's and Canberra's transport systems would not be as great as Sydney where the median distance to work was shorter at 10.5 kilometers. Using distance to work is not a good indicator of network complexity.

Distance travelled to work represents only part of the activity on public transport, with concession, student travel (little of which is likely to be work-related) making up other activity. It is also likely that concession travel is more complex from a network perspective than travel to work. Commuter travel is travel from dormitory suburbs usually into employment hubs located in central business districts.

In Tasmania, travel by concession passengers is more diverse than journey to work travel and often involves travel from different types of communities to a variety of locations to access services, amenities and undertake social activities which may be in a variety of different locations. These services also need to be provided over a wider time period, as opposed to commuter services, which generally focus on peak periods. In Tasmania's experience, providing these services involves more network complexity than commuter services.

Tasmania has a disproportionate number of its population who are on income support (concession card holders), who have more varying and complex public transport needs. This need is not captured in the current model.

⁸ Jean-Paul Rodrigue. 2020. "The Geography of Transport Systems", New York, Ch 2.1

11.9 Do states agree that, if material, 2016 Census journey to work data should be adjusted using the Bureau of Infrastructure and Transport Research Economics measure of passenger kilometres travelled until the 2026 Census data are available?

Tasmania agrees with this proposal.

11.10 Do states agree that if net expense data are available before the 2026 Census passenger numbers it is appropriate to use Bureau of Infrastructure and Transport Research Economics data to index actual passenger numbers?

Tasmania agrees with this proposal.

11.11 Do states support retaining the 2020 Review blending ratio for the urban transport assessment?

In Tasmania's view, the Commission should adjust the blending ratio for the urban transport assessment, reducing the weight applied to the regression model component and increasing the weight applied to the urban population component. As noted in Tasmania's response to Consultation Question 11.1, this would help to address concerns about the model's deficiencies in the use of PWD as a proxy for demand, addressing policy neutrality, its exclusion of the transport demand from the elderly and person of low socio-economic status, and its commuter journey focus.

11.12 Do states support replacing the ferry dummy variable in the urban transport model with the proportion of total commuters using ferry services?

Tasmania acknowledges the Commission's preliminary view to replace the current ferry dummy variable with a modelled ferry use variable because of the introduction of a ferry service in Hobart in 2021. Retaining the dummy variable assumes all states that have a ferry service require the same service per capita regardless of use or complexity of service which the Commission views as inappropriate given Tasmania's small ferry operation.

Tasmania is not opposed to this change. However, the inclusion of a ferry use variable will require re-estimating the regression model and will have an impact on other variable coefficients. As noted earlier, if the model is to be re-estimated to include a new ferry use variable, then the Commission should also take the opportunity to investigate including socio-demographic variables such as low socio-economic status and age. It should also review the appropriateness of the PWD variable, the current journey to work and distance to work proxy variables for estimating passenger use and network complexity.

11.13 Do states agree that using a regression model to recognise the growth in passenger numbers in urban areas is a more suitable method for modelling passenger numbers?

The current approach uses modelled passenger numbers to update the urban transport model estimate of net expenses. The modelled passenger numbers are based on urban centre populations grouped into six population ranges and the availability of heavy rail.

Tasmania agrees with the Commission that the use of fixed population ranges to estimate passenger numbers could lead to significant variations in model outcomes when a population in an urban area is just above or below the population threshold used in the range. A

regression model may be a more suitable approach and avoids having to recalibrate ranges as urban populations grow.

11.14 Do states support the follow changes to the non-urban transport assessment:

- *assessing non-urban rail passenger expenses based on shares of non-urban train commuters?*
- *assessing all remaining expenses based on shares of non-urban populations?*

The Commission proposes to assess non-urban transport in two components: non-urban rail expense (80 per cent) and other non-urban transport modes (20 per cent), reflecting the relative proportions of total expenses they each contribute.

Tasmania does not support the Commission's proposal to assess non-urban rail passenger expenses based on states' shares of non-urban train commuters.

In the Transport chapter of the 2020 Methodology Review final report (paragraph 55, page 333), the Commission acknowledged that the number of public transport passengers is not a policy neutral measure of need. For example, Queensland provided evidence that state policies (fares, concessions or service frequency, for example) can affect the number of passengers using its public transport services. Tasmania contends that using actual non-urban passenger numbers would not be a policy neutral measure.

In addition, the Commission's proposed non-urban transport assessment of expenses appears significantly out of step with actual expenditure. Based on the information in Tables 9 and 10 of the Commission's Transport Consultation Paper, New South Wales had 48.1 per cent of total non-urban train commuters (2016 Census)

Total non-urban rail expense was \$1 415 million in 2020-21. Using shares of passenger numbers as the non-urban rail transport disability driver as proposed by the Commission, New South Wales would be assessed as requiring to spend \$681 million (48.1 per cent of \$1 415 million). However, New South Wales's actual passenger rail expense was only \$135 million in 2020-21. While the data is for different periods, there nevertheless appears to an issue with the reliability of the data and therefore it may not be fit for purpose.

Tasmania would support the Commission's proposal to assess 20 per cent of total non-urban expenses based on shares of non-urban populations. For the remainder, given the policy neutrality concerns in using rail passengers as a driver, Tasmania suggests that equal per capita assessment would be more appropriate.

12 Native Titles and Land Rights

12.1 *Do states agree that the actual per capita assessment of Native Title expenditure remains appropriate?*

Under the 2020 Methodology, the Native Title and land rights assessment recognises the costs incurred by states relating to national and state legislation.

States' expenditure relating to Native Title and land right matters vary depending on the number and type of claims and the number and nature of future acts processed. However, all states are bound by the national framework that ensures consistency in approach to resolving Native Title and land rights compensation.

In Tasmania's view, national legislation ensures that Native Title and land rights expenses continue to not be appreciably policy-influenced and the current actual per capita assessment remains appropriate.

12.2 *Do states anticipate that treaty processes will affect how they negotiate Native Title and land rights claims?*

Tasmania agrees that treaty processes set up by states could lead to a divergence in the way states administer and negotiate land rights claims. As such, states' Native Title and land rights expenditure may become policy influenced and warrant a differential assessment. Tasmania agrees with the Commission that it may be difficult to develop suitable cost drivers for a differential assessment. If that were the case, then an equal per capita assessment would be more appropriate than an actual per capita assessment.

Tasmania notes that the use of treaty negotiations in Native Title and land rights claims is only recent and supports continued monitoring of treaty negotiations and their implications for the assessment.

Tasmania has not had any Native Title claims to date and is currently undergoing a comprehensive review of the model for land return. As such, Tasmania is not able to comment on whether or how treaty processes will affect potential negotiations of Native Title and land rights claims.

13 Commonwealth Payments

13.1 *Do states agree the guideline for deciding the treatment of Commonwealth payments remains appropriate?*

The Commission uses a guideline to determine which Commonwealth payments should impact GST relativities. Under the guideline, unless a Commonwealth payment has been quarantined from affecting GST relativities under specific terms of reference, payments which support state services, and for which expenditure needs are assessed, will impact relativities.

The guideline allows the Commission to assess Commonwealth payments on a case-by-case basis and to exclude payments from the calculation of relativities that are not considered to support a state service and where needs are not assessed.

Tasmania agrees that the current guideline for deciding the treatment of Commonwealth payments remains appropriate.

13.2 *Do states agree to a default treatment of 'impact' in cases where there is substantial uncertainty about the payment's purpose or whether relative state expenditure needs are assessed? It remains open to states to provide evidence in support of no impact.*

In the Consultation Paper, the Commission notes that it can be challenging to determine the appropriate treatment for a minority of payments. These issues can be due to uncertainty about the purpose of payments or whether relevant expenditure needs are assessed.

Tasmania supports the Commission's view that, for these limited cases, adopting a default treatment of the payment impacting GST would improve the clarity and consistency of treatment for payments.

If states disagree with the Commission's initial default 'impact' assessment, then they can make a case and provide evidence to the Commission to support a 'no impact' treatment.

13.3 *Do states agree to discontinue the assessment of Commonwealth own-purpose expense payments?*

Whilst most Commonwealth own-purpose expense payments (COPEs) relate to Commonwealth functions, some payments can be for state-type services.

The Commission has noted that the absence of reliable and comprehensive information has proven difficult in the assessment of COPEs as the Commission is only able to include those payments brought to its attention by states or the Commonwealth.

The total value of COPEs has declined over the past decade and halved since the 2020 Methodology Review. In 2020-21, COPEs were around 0.1 per cent of the total Commonwealth payments that impacted the Commission's calculations of assessed need.

The Commission's preliminary view is to simplify its assessments by removing COPEs from the scope of payments it considers.

Given the small size of most payments and their limited impact on materiality levels, Tasmania agrees with this view.

13.4 Do states agree that the guideline for determining the GST treatment of Commonwealth payments should be applied in cases where payments include elements aimed at addressing pre-existing structural disadvantage?

Where a Commonwealth payment is made to a state to address pre-existing structural disadvantage, and the Australian Government does not want the payment to be offset by the GST distribution methodology, the Australian Treasurer can quarantine these payments by issuing specific Terms of Reference directions.

Tasmania is therefore of the view that the existing guideline to determine GST treatment of Commonwealth payments should continue to apply, and that the issue of pre-existing structural disadvantage is best addressed through the Terms of Reference.

14 Socio-economic status

14.1 *Do states agree that an annual MADIP-based measure of socio-economic status for non-Indigenous people has the potential for a more contemporaneous assessment?*

The Commission's current methodology measures socio-economic status for non-Indigenous people using five-yearly census-based Non-Indigenous Socio-Economic Indexes for Areas (NISEIFA) data. For First Nations people it uses another five-yearly census-based area-based index, the Indigenous Relative Socio-Economic Outcomes (IRSEO) index.

As the Commission notes in the Consultation Paper, SEIFA is the predominant measure of socio-economic status in Australia. The main drawback relates to contemporaneity - the SEIFA score of an area at census time is not necessarily an accurate representation of the score for that area over the next five years.

Since the 2020 Methodology Review, new data have become available which provide the potential for the Commission to develop its own annual measure of socio-economic status. The Multi-Agency Data Integration Project (MADIP) is a person-level integrated data asset that combines information on health, education, government payments, income and taxation, employment, and population demographics (including the Census) over time.

The Commission has outlined further analysis using September 2023-released 2021 Census data, including an intended opportunity for consultation with states. Tasmania notes that the Commission is currently reviewing only the non-Indigenous measure of socio-economic status, as it has not yet received approval to use First Nations specific data sets.

Tasmania agrees that an annual measure, created using MADIP data, has the potential to be more contemporaneous than a five-yearly measure, such as NISEIFA.

However, increased contemporaneity may be offset by other issues, such as increased volatility (although its impacts will be smoothed by the Commission's three-year averaging process in determining annual relativities). A more contemporaneous measure may also be less accurate or reliable than using five-yearly census data for the intercensal years.

The Commission's preliminary view is to use MADIP based indicators of socio-economic status for non-Indigenous people set out in attachment I of the Consultation Paper. The proposed measure is based on two variables that indicate relative disadvantage (the proportion of non-Indigenous people in an area that receive selected Department of Social Services pensions and that have a prescription for certain lifestyle-related conditions), and one variable indicating relative advantage (the proportion of non-Indigenous people in an area that have high incomes).

In contrast, the NISEIFA measure currently in use combines a total of 15 variables that all indicate relative disadvantage based on education, occupation, employment, income, families and housing.

Socio-economic status is a complex concept, and the measure chosen should be appropriate for the context in which it is being applied. Rather than taking a simplified approach which attempts to replicate an existing measure, careful consideration should be given to the most appropriate indicators for the six assessments that are impacted by socio-economic status.

Based on the Commission's preliminary analysis, Tasmania is not convinced that the alternative MADIP-based measure demonstrates appropriate predictive power compared to using NISEIFA. Only one of the three examples given comparing MADIP based measures with NISEIFA appears to be a better predictor of socio-economic status and then only slightly better (Receipt of DSS pension and the use of cardio-vascular drugs).

MADIP is still in its infancy and yet to be used widely. Notwithstanding its ability to provide more contemporaneous data than NISEIFA, it is unclear at this stage whether a MADIP measure is robust, reliable and provides an appropriate measure of socio-economic status compared to the current measures.

Given the importance and significant funding attached to the Commission's assessments, Tasmania would like to see further modelling by the Commission to confirm that this is a reliable and robust predictor of socio-economic status.

Tasmania notes the Commission's observation that the 2021 Census indicators of socio-economic status were not affected by COVID-19 lockdowns. As such, they could continue to be a reliable indicator of socio-economic status if an alternative annual MADIP indicator is unsuitable. Tasmania would support that approach.

Acronym Table

Acronym	Definition
ABS	Australian Bureau of Statistics
ACEM	Australasian College for Emergency Medicine (ACEM)
AIHW	Australian Institute of Health and Welfare
COFOG-A	Classification of the Functions of Government - Australia
COPEs	Commonwealth Own-Purposes Expense Payments
ED	Emergency Department
GFS	Government Finance Statistics
GP	General Practitioner
GST	Goods and Services Tax
HFE	Horizontal Fiscal Equalisation
HILDA	Household, Income and Labour Dynamics In Australia
IHACPA	Independent Health and Aged Care Pricing Authority
IRSD	Index of Relative Socio-economic Disadvantage
IRSEO	Indigenous Relative Socio-economic Outcomes
MADIP	Multi-Agency Data Integration Project
NCCD	Nationally Consistent Collection of Data on School Students with Disability
NISEIFA	Non-Indigenous Socio-economic Index for Areas
NWAU	National Weighted Activity Unit
PWD	Population Weighted Density
RoGS	Report on Government Services
SEIFA	Socio-Economic Indexes for Areas
SRS	Schooling Resource Standard