

Commonwealth Grants Commission 2020 Methodology Review

Tasmanian Government Submission to the Commonwealth
Grants Commission *Draft Report on GST Revenue Sharing
Relativities (2020 Methodology Review)*

27 September 2019



Tasmania
Explore the possibilities

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Introduction

Tasmania welcomes the opportunity to make this submission in response to the Commonwealth Grants Commission (the Commission) 2020 Methodology Review Draft Report (Draft Report).

Tasmania would also like to thank Commission Staff for the assistance and consultation they have provided during the Review thus far.

As noted in the introduction to the Draft Report, the changes to the assessment methodology are largely evolutionary, being a combination of improvements in the way expenditure categories reflect service delivery, and improved data being available to assess disabilities. Tasmania would broadly agree with that outcome, although there are a number of exceptions which are the focus of this submission.

In this submission, and in line with the approach requested by the Commission, Tasmania has responded to each of the Commission's assessment category recommendations on an exception basis and where state views have been sought. Tasmania has not commented on proposals that it supports or does not oppose.

Proposed implementation of Australian Government's response Productivity Commission Inquiry into HFE

In the Draft Report, the Commission outlined its preliminary understanding of the requirements for its future work in light of the Australian Government's new equalisation arrangements enacted in the *Treasury Laws Amendment (Making Sure Every State and Territory Gets Their Fair Share of GST) Act 2018*.

Tasmania considers that it is important for the states to have a good understanding of how the Commission intends to implement the changes to HFE, and for the Commission's approach to produce outcomes not dissimilar to those on which the legislation was based.

It is understood that the new requirements of the Australian Government's changes to HFE do not affect the Commission's equalisation task for the 2020 Methodology Review. This is because the Commission will still be required to firstly calculate an equalisation to the strongest state (full equalisation) before equalising to the strongest of NSW or Victoria (reasonable equalisation). However, Tasmania remains concerned at the implications for the future of HFE that could flow from this change.

In Chapter 4 of the main report, the Commission provided a description of how it intends to implement the new HFE arrangements. The Commission notes that;

This approach differs from that proposed by the Productivity Commission and the Australian Treasury. In the CGC modelling, standard state relativities are derived using application year estimates of the GST pool and state populations. If standard state relativities are based on application year pools and populations, then the calculation of standard state relativities could differ, most likely only slightly, depending on the estimates used. The CGC's approach avoids the question of which application year pool and population estimates to use in the calculations.

It is understood, through officer discussions, that the Commission's proposed methodology differs from the Australian Treasury modelling by applying the new equalisation standard in the three assessment years, while the Australian Treasury's methodology applied the new equalisation standard in the application year.

Given the importance of ensuring that the Commission's methodology accurately reflects the new HFE arrangements, Tasmania modelled the Commission's approach and compared its proposed implementation with the Australian Treasury modelling. Based on that analysis, Tasmania agrees with the Commission that the differences between the Australian Government's illustrative method and the Commission's proposal are not significant.

Land Tax

In the Land Tax attachment to the Draft Report, the Commission proposes to:

- Exclude other land-based taxes and assess them equal per capita in the Other Revenue category rather than in this category.
- Reduce the assessment discount from 25.0% to 12.5%.

Tasmania does not have any comments to make on the proposal to assess other land-based taxes in the Other Revenue category and supports the reduction in the discount and would support its elimination when there is evidence that there has been sufficient improvement in the comparability of State Revenue Office data across all states.

Stamp Duty on Conveyances

In the Stamp Duty on Conveyances attachment to the Draft Report the Commission proposes to:

- Exclude Stamp duty on motor vehicle transfers and assess it equal per capita in the Other Revenue category.
- Discontinue the adjustment to treat concessional rates of duty for first home owners as an expense.
- Exclude from the category some property transfers where the Commission determines they should not affect state revenue capacities, and assess them equal per capita in the Other Revenue category, rather than equal per capita in this category.
- Assess duty on non-real property transactions equal per capita in the Other Revenue category.
- Differentially assess duty on land rich transactions by listed companies instead of equal per capita.

Tasmania does not have any comments to make on the above proposals.

The Commission has also sought state views and any data or analysis that can assist it to determine the size of adjustments for differences in the scope of transactions for:

- the unit trust adjustment for Queensland, Western Australia and South Australia; and
- the off-the-plan adjustment for Victoria.

The Commission also considers that three states (Queensland, Western Australia and South Australia) have wider unit trust provisions that capture transactions that other states do not. Therefore, they make an adjustment to reduce their dutiable value.

The data for the unit trust adjustment (reducing the duty capacity of these three states) appears to have been sourced from information provided ten years ago by Western Australia during the 2010 Review. Tasmania has

no additional up-to-date information to provide as an alternative to the 3.0 per cent adjustment currently applied.

Tasmania supports a continuation of the off-the-plan adjustment for Victoria until either:

- Victoria is able to reliably report relevant transactions by purchase price rather than dutiable value; or
- the impact of Victorian legislation to restrict the concession to owner-occupiers makes the adjustment immaterial.

Mining Revenue

In the Mining Revenue attachment to the Draft Report the Commission proposes to:

- Exclude Commonwealth payments to Western Australia and the Northern Territory under revenue sharing agreements. They are to be assessed actual per capita with other Commonwealth payments. In the 2015 Review, they were assessed actual per capita in this category.
- Assess nickel royalties in the other minerals component. In the 2015 Review, they were separately assessed.
- Separately assess lithium royalties if it becomes material to do so. Until then, they will be assessed in the other minerals component, as they were in the 2015 Review.

Tasmania does not have any comments to make on the above proposals.

The Commission has also sought state views on the extent to which states raise non-royalty revenues and how these non-royalty revenues should be treated in the 2020 Methodology Review.

Treatment of non-royalty mining revenue

The Commission has noted in the Draft Report that some states are raising, or considering raising, non-royalty mining revenue. Examples given were Queensland's voluntary contributions for coal producers and Western Australia's mining related lease rentals.

The Commission notes that non-royalty revenues are classified as 'other state income' in GFS and so would be treated equal per capita (EPC) in the Commission's Other Revenue assessment category.

Tasmania agrees with the Commission's comments that this treatment is inconsistent with the treatment of mining revenues. This could act as an incentive for states to replace mining royalties with non-mining royalty revenue and benefit from a reduction in their assessed mining revenue raising capacity.

Tasmania raises approximately \$1.7 million in non-royalty revenue, predominantly from mining lease rentals (\$1.2 million).

Given that there is the potential for states to manipulate mining revenues in order to maximise their GST share by substituting royalty revenue (through lower royalty rates) for non-royalty revenue, Tasmania suggests that non-royalty revenue be included in the Mining Revenue assessment and treated actual per capita (APC).

The impact on each state of substituting royalty revenue for non-royalty revenue will vary depending on the relative size of its revenue base, the extent to which it replaces royalty revenue with non-royalty based revenue, and whether other states act in a similar way.

If a state is a dominant mineral producer, it will influence average royalty rates and so, by reducing its royalty rate, it will directly reduce its assessed royalty revenue. However, this reduction in royalty revenue would be offset by the increase in non-royalty revenue, as it is assessed APC. Thus, its total revenue would be un-affected and it would not gain any benefit from undertaking this change in its mining revenue raising arrangements.

If a state did not reduce its royalty revenue (by reducing royalty rates) but decided to increase its total revenue with non-royalty revenue, and if it is assessed APC, its assessed revenue would be increased by the amount of non-royalty revenue. As a result, its GST share would fall. This would act as a disincentive to implementing this revenue strategy to minimise GST impacts. Alternatively, if it could be identified that the increase in non-royalty revenue did not come at the expense of royalty revenue, then it could be assessed EPC. However, this may be difficult to ascertain.

If a state is not a dominant mineral producer, substituting non-royalty revenue for royalty revenue does not reduce its assessed royalty revenue by the amount of non-royalty revenue. This is because there is little impact on the average royalty rate and on its assessed revenue from this action. Therefore, its total revenue would be assessed to be larger, with a corresponding reduction in GST revenue. Thus, substitution of royalty revenue for non-royalty revenue in this case would also act as a disincentive to implementing this revenue strategy to minimise GST impacts.

While assessing non-royalty revenue APC is not entirely neutral in its impact, it is considered a fairer approach than enabling a state to reduce its assessed mining revenue capacity by replacing differentially assessed royalty revenue with other revenue that is assessed EPC.

Schools

In the Schools attachment to the Draft Report the Commission proposes to:

- Re-specify its regression models used to estimate cost weights for Indigenous status, socio-economic status, service delivery scale and remoteness.
- Remove the Commonwealth funding of non-government schools component from the Schools category and treat it as out of scope. This means that neither these expenses, nor their associated Commonwealth payments, are included in the Commission's assessments.
- Remove the student transport component from the Schools category, and assess these expenses in the Transport category.
- Use total actual enrolments. In the 2015 Review, pre-year 1 student data were imputed from year 1 student data.

Tasmania's comments on the above proposal are limited to the re-specification of the regression model to estimate cost weights, and noting the move of the Student Transport component to the Transport assessment.

Re-specified regression model to estimate cost weights

It is understood that the new regression model estimates the drivers of school expenses to be the remoteness, socio-economic status (SES) and Indigenous status of school students. The model directly measures the SES of students within each school, replacing the previous method that measured the SES of a whole school based on the school location.

Because the model is based on the number of students of low SES, rather than the SES characteristics of the school, the regression model has a linear relationship with the number of low SES students in a particular school. That is, it does not matter if a school has few, or many, low SES students; rather, it is the total number of low SES students in the State that drives the SES cost loading in the model. Other cost loadings for remoteness and indigeneity are assessed independently of SES.

Under the Commission's revised model for Government schools, there is a base weighting of 1.00 per student and an additional weighting of 0.66 for low SES students. This implies that the student attracts the same cost weighting, as they move schools, irrespective of the concentration of low students within the school community.

Tasmania considers that the Commission's proposed application of its low SES weighting does not account for the school's cost where a high proportion of the students are of low SES.

International studies, such as PISA¹, show that student achievement is not merely a function of student SES, but also further compounded by school SES.

As shown in Figure 1, PISA found that all students perform relatively poorly when they attend disadvantaged schools; however, disadvantaged students suffer the most. The average score of a disadvantaged student in a disadvantaged school in scientific literacy was 451 score points, which was significantly lower than the OECD

¹ Programme for International Assessment (PISA) 2015: Reporting Australia's Results, Australian Council for Educational Research (ACER) 2017. Page 218.

average of 493. In comparison, the average score for advantaged students attending advantaged schools was 578 points, which was even higher than the average score for Singapore which is the highest ranking country for scientific literacy. This difference between disadvantaged and advantaged students and disadvantaged and advantaged schools was 127 points and represents more than four years of schooling.

Figure 1 - extract from PISA Report

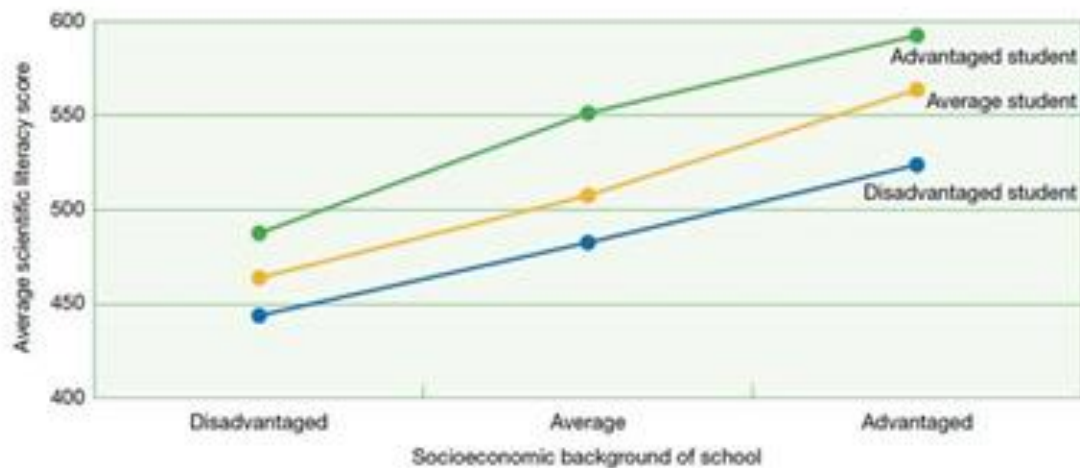


FIGURE 6.7 Scientific literacy achievement of students and schools by socioeconomic background

The benefit to disadvantaged students of not attending disadvantaged schools is also evident. Disadvantaged students in average socio-economic level schools scored about 25 points, or almost a year of schooling, higher than those in disadvantaged schools. Similarly, disadvantaged students in advantaged schools scored another 33 points, which was equal to more than one year of schooling.

Therefore, if a constant low SES weight is applied to each student, irrespective of the school they attend, this may understate the true level of disadvantage if the school is located in a disadvantaged area.

It is noted that the Australian Government's Schooling Resource Standard² (SRS) provides a loading amount based on the percentage of students in the lowest two quartiles of socio-educational advantage (SEA) developed by the Australian Curriculum, Assessment and Reporting Authority (ACARA). The SEA measures the occupational and educational status of students' parents by looking at factors like occupation, completed school education and highest level of post-school education.

The greater the percentage of a school's students in each of the bottom two quartiles of the SEA, the higher the loading, up to a maximum of 50 per cent for Quartile 1 and 37.5 per cent for Quartile 2.

For example, the loading will be a percentage of the per student amount, starting with 15 per cent (\$1,391 per primary student and \$1,829 per secondary student) for the first student in the lowest SES quartile (Q1). This loading increases up to 50 per cent where more than 75 per cent of enrolments in a single school are in Q1. (\$4,635 per primary student i.e. $0.50/0.15 \times \$1,391$, and \$6,096 per secondary student).

² <https://www.education.gov.au/what-schooling-resource-standard-and-how-does-it-work>.

In the Draft Report for the Schools assessment, Figure 2 on page 16 suggests that there is a non-linear relationship between the proportion of students in the bottom ICSEA³ quartile and the cost per student. This suggests that the lowest SES students are more costly when the proportion of students in the school increases.

Tasmania considers that the Commission may be underestimating the level of SES disadvantage when looking at SES scores in isolation. A compounding effect creates a higher level of disadvantage per student when students attend a school in an area where a significant proportion of the student population is disadvantaged. This could be addressed by including an additional loading for the impact on costs due to the concentration of disadvantaged students within a school, similar to that used by the SRS. That is, a loading of 1.3 (1.5/1.15) could be used where the concentration in a school is greater than 75 per cent low SES.

Student transport

It is noted that the Student Transport expense component has been removed from the Schools category and will be assessed in the Transport category. Tasmania's comments on this proposal are discussed in the Transport assessment.

³ Index of Community Socio-Educational Advantage.

Welfare

In the Welfare attachment to the Draft Report the Commission proposes to:

- Assess non-NDIS disability expenses with aged care on an equal per capita basis.
- Use the Australian Bureau of Statistics (ABS) Experimental Index of Household Advantage and Disadvantage (IHAD) as the low SES indicator in the other welfare component.
- Remove service delivery scale from the family and child services component.
- Assess expenses for the National Redress Scheme for Institutional Child Sexual Abuse equal per capita with expenses on non-NDIS disability and aged care services.

Tasmania's comments on the above proposal are limited to the proposals to assess non-NDIS expenses EPC and the removal of the service delivery scale factor for family and child services.

Non-NDIS differential rather than EPC assessment - conceptual case and supporting evidence

Tasmania does not support the assessment of non-NDIS expenses as EPC as suggested by the Commission.

Tasmania supported the Commission Staff proposal in the Welfare Draft Assessment Paper (paragraph 32, page 9) to re-allocate the remaining non-NDIS disability expenses from the Disability Services component to the Other General Welfare component and assess them using the same measure of low SES population, as it was not materially different to do so.

In the 2019 Relativity Update new Issues Paper, Commission Staff proposed that non-NDIS expenses would continue to be assessed based on each state's share of the total number of people eligible in a year to be covered by NDIS when fully operational, together with cross-border, wage costs and regional costs factors. Staff proposed to retain this assessment for the 2019 Update whether or not it becomes immaterial.

This was confirmed in the 2019 Relativity Update final report where it was stated: "*the assessment of non-NDIS expenses would continue until they were no longer material*" (page 41). All states except Queensland supported the retention of the current Non-NDIS Disability assessment.

However, in the Draft Report, the Commission proposes to assess both aged care and non-NDIS disability services EPC.

Tasmania agrees that aged care services should be assessed EPC, as it is a Commonwealth responsibility. However, it has concerns that non-NDIS services are not to be differentially assessed within the Disability Services component as is currently the case.

The Commission argues that state spending may vary on non-NDIS services. However the Commonwealth funds these services and any residual services are affected by policy decisions.

Tasmania does not agree with this statement, there is an ongoing requirement for the states, not the Commonwealth, to support those with a disability that are not eligible for, or do not seek to become a participant in, the NDIS.

Australian jurisdictions are subject to a range of instruments, including the *National Disability Strategy 2010-2020* and the *United Nations Convention on the Rights of Persons with Disabilities*.

Specifically, Tasmania is subject to the principles of the *Disability Services Act 2011* (Tas) and the *Bilateral Agreement between the Commonwealth of Australia and the State of Tasmania on the National Disability Insurance Scheme*⁴ which states in Part 3, 10 (h):

where required, [Tasmania will] provide continuity of support for clients of Commonwealth or Tasmanian specialist disability programs who are found to be ineligible for the NDIS, to assist them to achieve similar outcomes.

While the NDIS is responsible for providing disability support⁵, it does not provide services for all people with a disability. There will be people who do not meet the NDIS eligibility criteria or who are unable, or unwilling, to access the scheme. This will place pressure on the State Government to continue to fund alternative disability services.

In Tasmania's response to the Commission's Draft Assessment paper on Welfare, evidence was provided from the *ABS Survey of Disability, Aging and Carers 2015* that indicated that Tasmania has the highest proportion of persons with a disability (25.8 per cent) and the highest rate of persons with a severe or profound activity limitation (7.8 per cent). Even after adjusting for age, because the age profile of the community affects disability rates, Tasmania still has the highest disability rate at 22.6 per cent.

This means, potentially, there will be a significant number of persons requiring disability services who do not meet NDIS eligibility criteria, or are otherwise unable to enter the scheme, and who will need to access state provided disability services.

Data and analysis

Data provided to the Commission for the 2018 Relativity Update included non-NDIS disability expenditure of \$123.9 million. Total non-NDIS disability expenditure for 2017-18 was \$526 million as shown in Table 10 of the Draft Report Welfare attachment. An EPC treatment for 2017-18 would result in assessed non-NDIS expenditure of only \$11 million, as shown in Table 10 of that attachment.

However, in 2017-18, Tasmania had not reached full scheme. There were 4 416 participants at 30 June 2018 out of 10 587 eligible NDIS participants, leaving 6 171 yet to transition.

In data provided to the Commission for the 2019 Relativity Update, Tasmania projected its non-NDIS expenditure to be \$13.72 million at full-scheme by 30 June 2019. This is still a significant non-NDIS expenditure for Tasmania.

Tasmania therefore argues that, if material, non-NDIS expenditure should continue to be included in the Other Welfare Services component and assessed with the same measure of low SES population used in that component. This analysis is shown in Table I as follows:

⁴<https://www.coag.gov.au/sites/default/files/agreements/tasmania-ndis-bilateral-agreement.pdf>

⁵<https://www.coag.gov.au/sites/default/files/communique/NDIS-Principles-to-Determine-Responsibilities-NDIS-and-Other-Service.pdf>

Table 1 Comparison of EPC and differentially assessed treatment of non-NDIS expenses

	\$m	\$pc
Other Welfare expenses	666	27
Non-NDIS expenses	526	21
Total	1 192	48
Aged care	909	37

Illustrative category assessment, Other welfare services (excluding non-NDIS expenditure), 2017-18

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
EPC	27	27	27	27	27	27	27	27	27
SDC assessed expenses	1	-3	1	-6	6	17	-11	26	0
Regional costs factor	2	-1	-1	-1	1	-1	-1	3	0
Wage costs factor	0	0	0	0	0	0	1	0	0
Assessed expenses	29	23	27	21	33	42	15	60	27

Illustrative category assessment, Non-NDIS and Aged Care, 2017-18 (EPC)

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
EPC	58	58	58	58	58	58	58	58	58
Assessed expenses	58	58	58	58	58	58	58	58	58

Illustrative category assessment, Other welfare services (including Non-NDIS expenditure), 2017-18

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
EPC	48	48	48	48	48	48	48	48	48
SDC assessed expenses	1	-5	2	-10	11	30	-20	47	0
Regional costs factor	3	-2	-1	-1	1	-1	-2	5	0
Wage costs factor	3	-2	-1	-1	1	-1	-2	5	0
Assessed expenses	55	39	47	35	61	76	24	106	48
Redistribution	6	-9	-1	-13	13	28	-24	58	0

Illustrative category assessment, Aged care, 2017-18 (EPC)

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
EPC	37	37	37	37	37	37	37	37	37
Assessed expenses	37	37	37	37	37	37	37	37	37

Net impact of moving non-NDIS to Other welfare services component, 2017-18

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
Net impact \$pc	4	-5	-1	-7	7	13	-13	25	0
Net impact \$m	34	-33	-5	-18	12	7	-5	6	0

Table I shows that the net impact of moving non-NDIS expenses from an EPC assessment to the Other Welfare Services component redistributes up to \$25 per capita to the Northern Territory. While the difference is immaterial under the proposed materiality threshold of \$35 per capita, the inclusion of non-NDIS expenditure in the Other Welfare Services component results in a redistribution that is material, with a redistribution of \$58 per capita for the Northern Territory.

Service Delivery Scale

It is unclear why the Commission intends to remove service delivery scale (SDS) from the Family and Child Services component, as there is no discussion of that decision in the Welfare attachment to the Draft Report.

In the 2015 Methodology Review Final Report, the Commission decided to include an SDS adjustment in the Family and Child Services component, noting that:

We have recognised that states face different service delivery costs in certain parts of the State where the small size and dispersed nature of many communities leads to above average staffing levels⁶.

The Commission has not explained in its Draft Report why this is no longer the case.

Conclusion

Based on the above analysis it is argued that non-NDIS expenditure remains a material expense and should continue to be assessed, as is currently the case. An appropriate assessment is by inclusion in the Other Welfare component.

Tasmania also contends that the rationale for including an SDS factor has not changed, and that it should be retained unless it is found that the adjustment is immaterial.

⁶ 2015 Methodology Review Final Report Chapter 13 Welfare p227.

Transport

In the Transport attachment to the Draft Report the Commission proposes to:

- Introduce a new urban transport expenses assessment. The assessment blends state shares of urban centre population with the new model that measures urban transport needs through an assessment recognising the influence of population density, passenger numbers by mode of transport, the presence of ferry services, distance to work and topography, to measure state urban transport needs.
- Introduce a new urban transport investment assessment. The assessment blends state shares of the square of urban population and the model developed for the assessment of urban transport expenses.
- Include all ABS Significant Urban Areas (SUAs) as in the urban transport assessment, instead of only those with a population above 10 000.
- Treat non-urban transport expenses on an EPC basis.
- Include student transport expenses in the urban transport component.

Tasmania's comments on the above proposal relate to all the proposals except the decision to include all ABS SUAs in the Urban Transport assessment.

Modelled passenger numbers

The Commission has advised that there is some outstanding work to validate and confirm the explanatory variable data, especially the modelled passenger numbers.

Rather than estimate the number of public transport passengers in an SUA as a function of the number of persons residing in each remoteness area, the Commission is considering modelling passenger numbers using national average passenger use rates. The Commission has advised that its analysis has demonstrated that the rate of public transport use is related to both urban population size and whether or not heavy rail is present in that urban centre. As such, the Commission is proposing to adopt three use-rate categories, broken down by population size:

- heavy rail passenger numbers;
- bus and light rail passenger numbers for urban centres with heavy rail; and
- bus and light rail passenger numbers for urban centres without heavy rail.

Tasmania agrees that this approach is simpler than the alternative proposed by the consultants, and it is supported.

However, Tasmania remains concerned that the model places a disproportionate emphasis on the peak commuter and student market as the key demand drivers of urban transport costs. There is only limited consideration of non-work related trips. Tasmania's urban areas are characterised by small, dispersed populations, and low-density development. Journey to work demand is of significance only in the Hobart SUA with little commuting on public transport in the rest of Tasmania.

Tasmania contends that the model does not capture all of the costs associated with providing urban transport, such as the off-peak passenger demand. The off-peak demand is a significant proportion of total costs for small jurisdictions that have low peak demand.

These concerns are discussed in more detail below.

Limitations of the proposed Urban Transport assessment - conceptual case and supporting evidence

Based on consultant's advice⁷ the Commission has developed a new regression model to assess urban transport costs.

The proposed assessment is based on a number of urban centre characteristics such as population density, passenger numbers by mode of transport, presence of ferry services, distance to work and topography. The Commission weights the cost of urban transport at 75 per cent based on the new regression model (with no SUA population limit) and 25 per cent based on the current urban density model that uses the proportion of state populations living in SUAs of 20 000 and above.

It is not clear in the Draft Report why the Commission has used this cost weighting allocation. However, Tasmania agrees with the Commission's concerns with the use of proxy data in the model. To address its concerns, the Commission proposes to blend the assessment with an assessment based on the econometric model and a broad assessment based on the proportion of the population living in urban areas. An alternative to blending the assessment would be to apply an appropriate discount (for example 25 per cent) to the assessment as is the Commission's practice when it has concerns about data.

Tasmania provided comments to the Commission on the consultant's Stage 2 report and raised concerns about a number of aspects on the specification of the model:

- excluding a student transport variable when the Commission is proposing to remove student transport from the Schools assessment and include it in the Transport assessment;
- excluding a variable to capture low socio-economic status means that the model places greater emphasis on the commuter market as the key demand driver of urban transport costs. There is only limited consideration of non-work related trips. The journey to work demand is of significance only in the Hobart SUA with little commuting on public transport in the rest of Tasmania; and
- the inclusion of both population density and passenger number variables when they may be correlated.

It appears these issues have not been addressed in the proposed specification of the regression model.

Student transport

In the current methodology, the drivers of student transport expense are the number of rural students and the average distance travelled. States with an above average number of rural students and/or distance travelled are assessed as requiring more GST. The Commission's split between urban and rural expenses was based on administrative data. Census data was used to calculate the average distance travelled by rural students. The Commission contends that, because of data reliability issues, it is no longer able to continue this assessment.

In para 125 of the Draft Report the Commission states that:

The urban transport expense data by urban centre collected from states indicate that states mostly included student transport expenses in their urban transport returns and, therefore, the urban transport assessment would mostly capture student transport needs. The Commission

⁷ The Commission used consultants Jacobs and Synergies Economic Consulting to develop a new econometric model of urban transport expense.

considers that this is a better equalisation outcome than an EPC assessment, which was preferred by South Australia and the ACT.

The Commission proposes to move the school transport expense from the Schools category to the Urban Transport component of the Transport category.

However, the new urban transport model does not contain any specific variable that is affected by the level of student transport services. The consultants found that school enrolments were correlated with population and concluded that it was not necessary to include a school enrolment variable, as it did not add to the explanatory power of the model.

As mentioned, the variables in the regression model are passenger numbers based on journeys to work (not to school), distance to work, population density, slope and the presence of ferry services. It is argued that by moving student transport expenses to the Urban Transport component there should not be any effect on the Urban Transport assessment. This is because the proxy population variable would already include the student population. The addition of student transport expenses should therefore be treated EPC.

However, Tasmania contends that a separate assessment should be made, if it is material, for student transport costs that are outside of the urban transport task.

There is no specific variable in the proposed regression model to address the costs faced by states to operate dedicated student bus services separately from the general urban transport system. The model assumes the student transport task is already captured by the general access urban transport system. That is, students travel to school using the same urban transport services as other users.

Tasmania does operate a significant number of dedicated student bus services in addition to the general access services. These dedicated services accounted for around 19 per cent of total bus passenger subsidies as shown in Table 2 below.

Data and analysis

Tasmania's urban transport task for 2018-19 is as follows:

Table 2 - Tasmanian urban passenger numbers and operating costs 2018-19

	General metropolitan (Metro Tasmania)	Dedicated school buses	Rural buses
Commuter and other adult passengers	6 500	n/a	
Students - urban	10 700 (split not available)		
Students from regional to urban SUAs		11 000	
Adult concession	11 100	n/a	
Total passengers	28 300	Not available	Not available
Total annual operating cost	\$44.433m	\$16.403m	\$27.722m

Data source: Tasmanian Department of State Growth, the agency responsible for urban transport.

Off-peak urban transport

From the above table, commuters are seen to account for only 23 per cent of the total urban transport task.

Analysis

It is acknowledged that the size of the urban transport system is determined by the size of the peak load, which will be when commuters, together with other passengers such as students, are travelling to work.

However, the proposed model appears driven by the number of peak commuter passengers, as the model includes passenger numbers by mode of transport using 2016 Census data on journeys to work. The model also uses a distance from work variable based on Census data.

While smaller states do not have the same dominant peak load as highly urbanised states such as NSW and Victoria, they can still have a significant off-peak load because of a relatively higher number of concession passengers. The off-peak load also includes weekend services that provide for the non-commuter market.

Tasmania would also argue that persons of low socio-economic status tend to live further from city centres and often there is little option but to use public transport. These include many non-work related journeys.

Based on the above table, the proportion of passengers that can be considered off-peak is the number of concession passengers (40 per cent). The remainder are considered peak passengers (60 per cent).

In the consultant's Stage 1 report on page 14, a table is included that shows the percentage share of train and bus trips by purpose of journey for Sydney from the *Household Travel Survey 2012-15, Sydney*. The data shows that commuter and student transport account for 63 per cent of journeys, which is consistent with the Tasmanian data.

In a recent report to the Transport and Infrastructure Council⁸, estimates of the distribution of weekday and weekend public transport demand were included. The report found that the peak periods of 7.00 am to 9.00 am (morning peak), the 3.00 pm to 4.00 pm (student afternoon peak), and 4.00 pm to 6.00 pm (afternoon commuter peak) accounted for 54 per cent of the total weekday public transport demand.

From the evidence collected, the off-peak transport task ranges from 36 per cent to 46 per cent of the total urban transport task.

No other estimates of peak and off-peak shares of urban transport demand were found. However, more evidence could be collected from annual state data returns.

It is therefore argued that the Commission's proposed approach does not adequately capture the cost of off-peak services, which have different cost drivers that are not captured in the proposed model, which is primarily driven by meeting the peak demand.

Table 3 compares the Commission's proposed assessment that splits urban transport expenses into 75 per cent urban centre characteristics and 25 per cent population living in urban centres with an alternative that includes a separate off-peak component.

⁸ Australian Transport Assessment and Planning Steering Committee, May 2018, Australian Transport Assessment and Planning Guidelines, M1 - Public Transport, pages 16,17.

The alternative splits the 75 per cent urban characteristics component into 45 per cent urban centre characteristics (peak load) and 30 per cent off-peak load (that is a 60:40 split). The 25 per cent population living in urban centres component is unchanged.

A key disability factor for the off-peak urban transport task would be the relative number of concession card holders in each state compared to the national average. This data is taken from the Draft Report, Attachment I3, Welfare assessment, Table I1.

Table 3 Comparison of the Commission’s proposed assessments and a Tasmanian alternative

Illustrative assessment, urban transport component, 2017-18 (Commissions proposed assessment)									
	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
Urban centre characteristics (\$m) (75% weight)	4 499	3 202	1 696	1 012	595	47	91	27	11 168
\$ per capita	568	501	342	392	344	90	219	109	451
\$pc redistribution	117	51	-109	-59	-107	-361	-232	-341	0
Urban population (\$m) (25% weight)	1 199	986	722	399	253	61	74	28	3 723
per capita	151	154	145	154	146	116	178	113	150
\$pc redistribution	1	4	-5	4	-4	-34	27	-37	0
Wage costs	1.006	1.004	0.996	0.993	0.975	0.971	1.048	1.03	1.000
Assessed expenses (\$m)	5 726	4 200	2 406	1 401	826	105	172	56	14 891
Assessed expenses (\$pc)	723	658	485	542	478	201	413	226	601
Total redistribution	122.0	57.0	-116.0	-59.0	-123.0	-400.0	-188.0	-375.0	0.0
Illustrative assessment, urban transport component, 2017-18 (alternative assessment)									
	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
Urban centre characteristics (\$m) (45% weight)	2 699	1 921	1 018	607	357	28	55	16	6 701
\$ per capita	341	301	205	235	207	54	131	66	271
\$pc redistribution	70	30	-66	-35	-64	-217	-139	-205	0
Urban population (\$m) (25% weight)	1 199	986	722	399	253	61	74	28	3 723
\$ per capita	151	154	145	154	146	116	178	113	150
\$pc redistribution	1	4	-5	4	-4	-34	27	-37	0
Wage costs	1.006	1.004	0.996	0.993	0.975	0.971	1.048	1.03	1.000
Assessed expenses (\$m)	5 726	4 200	2 406	1 401	826	105	172	56	14 891
Assessed expenses (\$pc)	723	658	485	542	478	201	413	226	601
Urban off-peak (\$m) (30% weight)									
Equal per capita	180.3	180.3	180.3	180.3	180.3	180.3	180.3	180.3	180.3
Concession card holders ^(a)	22%	22.1%	23.7%	20.3%	27.7%	32.1%	13.5%	19.6%	22.6%
Concessions factor	0.973	0.978	1.049	0.898	1.226	1.420	0.597	0.867	1.000
Off-peak component (\$m)	1 391	1 126	939	419	382	134	45	39	4 467
Wages costs	1.006	1.004	0.996	0.993	0.975	0.971	1.048	1.030	1.000
Assessed expenses (\$m)	5 321	4 049	2 668	1 415	967	217	182	85	14 891
Assessed expense (\$pc)	672	634	537	548	560	414	437	346	601
Total redistribution	70.5	33.0	-63.7	-53.6	-41.5	-187.4	-164.5	-255.6	0.0

(a) Concession card holders in each state compared to the national average. This data is taken from the Draft Report, attachment I3, Welfare assessment, Table I1.

In summary, Tasmania considers that the proposed methodology for assessing urban transport expense is deficient because it focuses on the peak load urban transport task when it only represents around 60 per cent of passenger trips. The model does not appear to capture off-peak journeys by the older population, the unemployed, and other passengers not in the labour force. This could be addressed as outlined above by the inclusion of a separate off-peak component based on the share of the off-peak urban transport task, and applying a suitable off-peak demand disability factor such as the proportion of concession card holders, and/or persons of low SES.

The model also assumes that student transport is captured within the size of the general population and in the peak load transport task. However, the model does not capture additional school transport services that are provided outside the modelled Urban Transport assessment. In Tasmania's case, this is its extensive dedicated student transport service. If state data indicates that a separate assessment of dedicated student transport is material, this could be addressed by including a dummy variable in the model that captures whether a state provides dedicated student transport services. This information would need to be collected from states as part of the annual data collection process.

Conclusion

Tasmania thanks the Commission for the opportunity to make this submission in response to the Commission's Draft Report.

Tasmania remains a strong supporter of HFE and the Commission's role as the independent body responsible for developing the recommended GST distribution relativities to give effect to HFE.

Tasmania would also like to thank Commission Staff again for the assistance and consultation they have provided during the Review thus far.

Should you have any queries or require any further information regarding Tasmania's submission, please contact Mr Damien Febey on (03) 6166 4268 or email Damien.febey@treasury.tas.gov.au.

