

ACTIONS ARISING

TELEPRESENCE 3 APRIL 2014 2.00PM

DATA REQUESTS

Please get your data responses as quickly as possible. Otherwise, not all analysis will be able to be completed by Commission staff in time for the draft report in June.

Tasmania's response

Tasmania has provided the commission with all our data responses apart from the stock of road assets data request that is due at the end of May 2014.

MINING

In the latest round of State submissions, States suggested a number of proposals on the best way of assessing mining revenue capacity, ranging from grouping minerals to a mineral by mineral assessment.

The Commission is keen on exploring the range of options proposed by States, but will need data to do so. It will require both royalty and value of production data. Value of production data are available from ABS (but not for the last year).

Could States indicate whether they are able to provide royalty revenue (all years) and value of production (for the last year) data for the following minerals:

In addition, could States indicate which minerals they believe should be separately assessed under a mineral-by-mineral approach.

Tasmania's response

Availability of royalty and value of production data

| | Royalty revenue | | Value of production data | |
|---------------------|------------------|----|--------------------------|----|
| | Yes | No | Yes | No |
| Onshore oil and gas | Yes | No | Yes | No |
| Uranium | Yes | No | Yes | No |
| Bauxite | Yes | No | Yes | No |
| Coal – domestic | Yes ¹ | No | Yes ¹ | No |
| Coal – export | Yes | No | Yes | No |
| Iron ore – lump | Yes | No | Yes | No |
| Iron ore – fines | Yes ¹ | No | Yes ¹ | No |
| Gold | Yes ² | No | Yes | No |
| Silver | Yes ² | No | Yes | No |
| Copper | Yes ² | No | Yes | No |
| Lead | Yes ² | No | Yes | No |
| Nickel | Yes ² | No | Yes | No |
| Zinc | Yes ² | No | Yes | No |
| Diamonds | Yes | No | Yes | No |

1. Tasmania has a very limited number of producers of domestic coal and iron ore (fines). Royalty and production data are provided to Mineral Resources Tasmania on a commercial-in-confidence basis. Tasmania is only able to provide the data to the CGC if it is treated as strictly confidential. If the CGC has a need to release the data, for example to other jurisdictions via the CGC simulator, it would need to do so in a way that protects confidentiality.
2. Tasmania is unable to provide separated royalty revenue data for gold, silver, copper, lead, nickel and zinc as some mines produce more than one mineral but only apply one royalty assessment. However, we are able to provide royalty data for these minerals as a group.

Separate royalty data can be provided for the other minerals indicated i.e. iron ore, coal, bauxite, uranium, and oil and gas.

Which minerals should be separately assessed under a mineral-by-mineral approach?

Tasmania's response

As outlined in our response to Discussion Paper 2013-07S, Tasmania supports a broad, disaggregated assessment structure based on mineral type (rather than royalty rate). Tasmania considers the assessment should be disaggregated to the greatest extent that the data and materiality considerations will allow; that is, a separate assessment of any minerals where disaggregation will have a material effect and data are available to support such an assessment.

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

MINING RELATED EXPENDITURE

Roads

We are still waiting on two States to submit their data responses.

Commission staff will provide a map/list of roads that other States have identified (although due to time and resource constraints, this may not be until after the draft report). We will remove roads that were mistakenly included due to them already being on the synthetic road network or roads that are already included in our local road length calculation (based on density).

Can States that provided additional roads please indicate, for each road, why they thought that road was connected to a 'major economic activity'. For example, the mine contributes over \$x million or tourist numbers are over x thousand etc.

Tasmania's response

Tasmania notes that “major economic activity” is not defined. Nevertheless, Tasmania provided a list of roads, their lengths in kilometres and whether sealed or unsealed, that are not on the “synthetic network” that provide access to important economic activities and/or provide the means by which the goods produced can be sent to either domestic or export markets.

Tasmania is concerned that States providing commission staff with lists of roads to be added to the synthetic network could potentially erode the policy neutrality of the existing synthetic network. Tasmania has doubts as to whether this project can be completed satisfactorily given the short 2015 Review.

Our preference, as stated in our submission, would be a thorough investigation as part of a Data Working Party type approach that is not part of the 2015 Review. This would allow Option 2, as presented in the annotated agenda for the telepresence on 3 April 2014 (which is clearly the most robust option) to be explored. Option 2 involved the following steps:

- i. Identify the “major economic activities” that warranted an additional road
- ii. Develop criteria under which a “major economic activity” attracts a road under average policy
- iii. Identify all major economic activities nationally that meet the criteria
- iv. Undertake mapping exercise to link those to other centres

This appears to be the most robust and nationally consistent approach. However, this would include judgement at each level. What is a “major economic activity”. What is average policy for access to sites of major economic activity? The issue of average policy is potentially a complicated issue requiring Treasury to consult with our transport and mining related agencies. For example, it is possible that some companies pay for road costs or contribute to a proportion of it.

Tasmanian state roads that may be eligible to be added to the synthetic network are set out below:

1. State Government roads on King Island (i.e. North Road to Currie, Currie Road from Currie to Grassy): While the contribution of King Island's economy to Tasmania's GSP is not available, the more significant economic activities on King Island include:
 - King Island Dairy;
 - King Island Beef;
 - King Island Kelp Industries; and
 - King Island Renewable Energy Integration Project (KIREIP is an initiative of Hydro Tasmania and is being developed with the assistance of the Australian Renewable Energy Agency and the Tasmanian Government).
2. Savage River Mine to Burnie via the Ridgley Highway plus the road linking Savage River Mine to the end of Corinna Road (i.e. Waratah Road (B23) from Savage River Mine to the Murchison Highway, then the Ridgley Highway to Burnie and from Savage River Mine on the Waratah Road (B23) becoming Corinna Road, connecting with the Western Explorer Road (C249).

While the iron ore from the Savage River Mine is piped as slurry north to the coast at Port Latta for on-shipment, the roads above provide access to the mine.

The Ridgley Highway also transports mining ores, machinery and parts, aggregates, hardwood and softwood etc. The Ridgley Highway is classified by Tasmania's Department of Infrastructure, Energy and Resources as a "Regional Freight Road".

According to DIER, Regional Freight Roads link major production catchments to the Trunk Roads. They carry a large number of both heavy freight and passenger vehicles. Together with Regional Access Roads, they provide safe and efficient access to Tasmania's Regions. Regional Freight Roads facilitate:

- heavy inter-regional and sub-regional freight movement;
- passenger vehicle movement;
- commercial interaction; and
- tourist movement.

The road to the south of the Savage River Mine also provides access to tin deposits and construction materials.

3. Zeehan-Strahan Road (B27) from Strahan to Zeehan: This road allows the movement of fresh fish, animal feed, aggregates. Zeehan and Strahan are also significant tourist destinations with around 190 000 tourists (visitors aged 14 years and over) visiting Zeehan and Strahan in 2013 representing around 18 per cent of total state visits.
4. Gordon River Road (B61) to the Lyell Highway: Provides access to the Gordon-Pedder power station. The combination of Lake Gordon and Lake Pedder represents the largest storage in Hydro Tasmania's system and the largest storage of water in Australia.

Gordon is the largest power station in Tasmania. Placed underground, it has 432 MW of generating capacity supplied by an 80 metre vertical intake. The dam on the Gordon River holds the water back with a 140 metre high concrete arch construction.

5. Coles Bay Road from Tasman Highway turnoff: Provides access to Freycinet National Park, which is a significant tourism area. Around 167 000 tourists visited Coles Bay in 2013 representing 16 per cent of total visits.

WAGES

Written responses would be appreciated by the end of April.

Attachment A of the paper shows the results of the 2009 SET regression including the proposed adjustments. If States wish to replicate these results, you need to modify the SAS code previously supplied as follows:

- **remove effects coding and use ordinary 'State' dummies**
- **remove all variables named as *dum_f***
- **remove variables lg_hrs_under15, lg_hrs_over60.**

Tasmania's response

Notwithstanding that Tasmania has longstanding issues with the interstate wages assessment method, the proposals to simplify the SET modelling appear sensible.

Tasmania sees merit in: removing effects coding and using simple dummy variables; removing the female interaction variables; and removing the variable hours worked less than 15 and greater than 60.

Tasmania will provide a final position after the consultant's report is available.

RAWLINSONS

Any written comments States may wish to make in relation to the paper 'A Capital Cost Index' (CGC 2014-02S) circulated before the meeting would be appreciated by the end of April 2014.

Tasmania's response

Rawlinsons have not been able to provide specific reasons for the variations in the cost indices by building type by State in Figure I. Tasmania notes that primary schools in Canberra appear to be very costly, relative to Sydney, followed by Darwin. Commission staff have sent the equivalent 2007 version of Figure I to States which shows that primary schools in Darwin appear to be very costly, followed by Canberra, although the costs relative to Sydney are not as extreme compared to the 2012 data. These varied results may reflect the smaller number of projects in the smaller capitals cities.

According to commission staff, Rawlinsons have said that the indices for smaller cities such as Darwin and Hobart are just as representative of the underlying costs in the city as those for the big cities. However, they noted costs in the smaller cities can be affected more by the flow-on from a few large projects, such as the recent oil/gas projects in Darwin. Rawlinsons consider this a genuine reflection of market conditions and hence cost at the time.

Given this, the commission will have to be mindful of the need to update the capital cost index with new data regularly so that the index does reflect actual building industry market conditions that State governments face when investing in infrastructure. For example, a large one-off project in a small jurisdiction may cause flow-on effects but only for a short period of time.

Tasmania agrees with commission staff that applying the Rawlinson regional cost index of the closest region with a similar degree of remoteness to centres not covered by the Rawlinsons data should result in more accurate indications of the cost differentials between State capitals and regions.

Tasmania agrees with commission staff that any remaining differentials are likely to be highly location specific and their overall impact on the GST would be dampened by the small proportion of the population (or asset stock) in those remote regions.

Commission staff point out that the indices do not cover some costs differentials such as those arising from land acquisition and site specific topography. Staff note that land is assessed EPC in part because land values and the need for land acquisition are affected by policy. Staff also noted that some site specific factors, such as slope, can be mitigated by design considerations with limited impact on costs. Tasmania agrees with this position.

Commission staff state that Rawlinsons indices probably do not reflect road non-labour input cost differentials since such inputs are few and probably volatile region-by-region. Tasmania considers that this is likely given that road inputs are sourced near where the road is being built and would not entail many items (unlike the variety of inputs required to build a school for example).

Staff also state that the indices may not reflect relative costs for plant, equipment and other non-land investment. According to staff, this could be dealt with by 1) assuming no cost disabilities applied to plant and equipment, 2) continuing the current approach of applying wages and regional costs or 3) applying Rawlinsons' indices.

If Rawlinsons does not cover plant and equipment cost differentials, and there is no evidence that there are differentials, then Tasmania would choose Option 1. If States can produce reliable evidence, Option 3 could be recommended to the Commissioners with a discount to recognise that while there probably is a cost gradient, commission staff and States are not certain of its actual slope.

The reasons for the differences between the Rawlinsons capital city index and the Riders Digest tender price index

Tasmania's response

Riders Digest does not provide Hobart data. Tasmania is unable to provide any comments.

The reasonableness of assuming building codes are predominantly driven by technical considerations and the requirements applying in areas with similar conditions are broadly consistent across States.

Tasmania's response

The Tasmanian Planning Commission has advised that, in Tasmania, building standards are no stricter than that contained in the National Construction Code. The *Tasmanian Building Act 2000* requires that all building and plumbing work be undertaken at a national standard.

There are variations to the national code for Tasmania but these are of a technical nature rather than from policy considerations. For example, Tasmania has only recently had reticulated gas available. However, as gas is not widely available there are variations to the national code specific to Tasmania that exempts Tasmania from requiring gas hot water cylinders be used instead of electric hot water cylinders.

In Tasmania's case it would be true to say that building codes are predominantly driven by technical considerations.

Tasmania is unable to comment as to whether building codes in other states are consistent with other states for similar conditions.

SCHOOLS

Staff are seeking input from States on what the average policy is for determining the overall level of State own funding of non-government schools. It is not clear from the January/February submissions how this amount is determined.

Could you please provide:

- **a brief description of your State's policy**
- **how this might be reflected in an assessment. For the purposes of this exercise, please assume that your State's policy is the average policy.**

Responses are sought by the end of April.

Tasmania's response

Tasmania described its total non-Government school funding commitments in its January 2014 submission in response to the proposed assessments.

A little more detail can be added with regard to the escalation of State non-government school funding. However, if the description is not suitable for your purposes, could you please advise where additional detail is needed.

The Commonwealth Department of Education has calculated Tasmania's non-government school funding commitment under NERA/Better Schools (and presumably the DoE has performed similar calculations for other States). It may be useful for the commission to seek clarification from the DoE with regards each State's funding of non-government schools.

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

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

Under the NERA Heads of Agreement, Tasmania is to ensure that its existing funding to non-government schools, on a per student basis, is escalated by three per cent per annum (1.09 per cent in 2014, 2.0 per cent in 2015 and 3.0 per cent in 2016 and thereafter). The Commonwealth has adopted Net Recurrent Income (NRI) data published on the MySchool website for 2011 as the initial base line data for comparison and as a measure of existing funding levels. The NRI is broken down to Commonwealth and State components. The State component effectively equates to the State recurrent grant attributable to Preparatory to Year 12 enrolments together with State grants to non-government schools relating to student assistance in support of levy relief to low income families.

The application of the Schooling Resource Standard (SRS) is being phased in. In 2014 10.3 per cent of the additional funding, as measured by the gap between the SRS and the NRI, is to be allocated. The transition percentage rises to 61.6 per cent by 2019 although the newly elected coalition government has only committed to four years of funding.

The State share of the additional funding requirement also varies over time and is initially slightly different for catholic and independent schools. In 2014 the State share is set at 11.55 per cent for catholic schools and 11.66 per cent for independent schools. The State share of

the additional funding increases over subsequent years rising to 35 per cent by 2019 for both non-government sectors.

The tables below provide an illustrative calculation of the impact of the SRS on Catholic school funding.

Catholic School Funding under NERA/Better Schools

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|-----------|-----------|-----------|-----------|-----------|-----------|
| Primary FTE | 392.5 | 395.6 | 397.7 | 402.0 | 404.8 | 407.6 |
| SRS Primary Rate | 9,271 | 9,605 | 9,951 | 10,310 | 10,682 | 11,067 |
| Capacity to Contribute (CTC) | 10.57% | 10.57% | 10.57% | 10.57% | 10.57% | 10.57% |
| SRS Primary Rate Post CTC | 8,291 | 8,590 | 8,899 | 9,220 | 9,553 | 9,897 |
| Total Loading Rate | 1,997 | 2,060 | 2,132 | 2,204 | 2,281 | 2,363 |
| Theoretical per student amount | 10,288 | 10,650 | 11,031 | 11,424 | 11,833 | 12,260 |
| Commonwealth Base line NRI per student | 5,715 | 5,984 | 6,265 | 6,560 | 6,868 | 7,191 |
| State Base line NRI per student | 2,132 | 2,175 | 2,240 | 2,307 | 2,377 | 2,448 |
| Total Base line NRI per student | 7,848 | 8,159 | 8,505 | 8,867 | 9,245 | 9,639 |
| Additional Required per student | 2,440 | 2,491 | 2,526 | 2,557 | 2,589 | 2,621 |
| Transition % - Gap Between NRI & SRS | 10.26% | 20.52% | 30.78% | 41.04% | 51.30% | 61.56% |
| Transitioned Additional Funding | 250 | 511 | 777 | 1,049 | 1,328 | 1,613 |
| Commonwealth Share of Additional | 88.45% | 88.45% | 82.50% | 82.50% | 73.75% | 65.00% |
| State Share of Additional | 11.55% | 11.55% | 17.50% | 17.50% | 26.25% | 35.00% |
| Transitioned Commonwealth Additional per student | 221 | 452 | 641 | 866 | 979 | 1,049 |
| Transitioned State Additional per student | 29 | 59 | 136 | 184 | 349 | 565 |
| Commonwealth Total per student | 5,937 | 6,436 | 6,907 | 7,426 | 7,847 | 8,240 |
| State Total per student | 2,161 | 2,234 | 2,376 | 2,491 | 2,725 | 3,012 |
| Total per student | 8,098 | 8,670 | 9,283 | 9,917 | 10,573 | 11,252 |
| Theoretical amount payable | 4,037,723 | 4,213,031 | 4,387,131 | 4,592,233 | 4,789,895 | 4,997,166 |
| Commonwealth Base line NRI | 2,243,158 | 2,367,226 | 2,491,706 | 2,636,829 | 2,780,083 | 2,931,119 |
| State Base line NRI | 836,841 | 860,353 | 890,890 | 927,470 | 961,980 | 997,775 |
| Total Base line NRI | 3,080,000 | 3,227,579 | 3,382,596 | 3,564,299 | 3,742,063 | 3,928,894 |
| Additional Required | 957,723 | 985,452 | 1,004,535 | 1,027,934 | 1,047,832 | 1,068,272 |
| Transitioned Commonwealth Additional amount payable | 86,907 | 178,847 | 255,070 | 348,015 | 396,408 | 427,430 |
| Transitioned State Additional amount payable | 11,349 | 23,354 | 54,106 | 73,821 | 141,094 | 230,155 |
| Total Transitioned Additional amount payable | 98,256 | 202,201 | 309,175 | 421,836 | 537,502 | 657,584 |
| Commonwealth Total amount payable | 2,330,065 | 2,546,073 | 2,746,776 | 2,984,844 | 3,176,491 | 3,358,549 |
| State Total amount payable | 848,190 | 883,707 | 944,996 | 1,001,291 | 1,103,074 | 1,227,929 |
| Total amount payable | 3,178,255 | 3,429,780 | 3,691,771 | 3,986,135 | 4,279,565 | 4,586,478 |
| Determination of Base Line NRIPS | | | | | | |
| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| Commonwealth NRI Total Amount | 1,986,653 | | | | | |
| State NRI Total Amount | 766,464 | | | | | |
| Total NRI Funding | 2,753,117 | | | | | |
| Primary FTE | 385.0 | | | | | |
| Commonwealth Base line NRI per student | 5,160 | 5,346 | 5,554 | 5,715 | 5,984 | 6,265 |
| State Base line NRI per student | 1,991 | 2,036 | 2,109 | 2,132 | 2,175 | 2,240 |
| Total Base line NRI per student | 7,151 | 7,382 | 7,664 | 7,848 | 8,159 | 8,505 |
| Net Recurrent Income (NRI) Indexation | | | | | | |
| Commonwealth | | 3.60% | 3.90% | 2.90% | 4.70% | 4.70% |
| State | | 2.29% | 3.58% | 1.09% | 2.00% | 3.00% |

Parameters

| | Schools Resourcing Standard (SRS) Indexation | Net Recurrent Income (NRI) Indexation | | Transition % - Gap Between NRI & SRS | | State Share of Additional Funding | | Commonwealth Share of Additional Funding | |
|------|--|---------------------------------------|--------------|--------------------------------------|-------------|-----------------------------------|-------------|--|-------------|
| | | State | Commonwealth | Catholic | Independent | Catholic | Independent | Catholic | Independent |
| 2014 | Base Year | 1.09% | 2.90% | 10.26% | 10.29% | 11.55% | 11.66% | 88.45% | 88.34% |
| 2015 | 3.60% | 2.00% | 4.70% | 20.52% | 20.53% | 11.55% | 11.65% | 88.45% | 88.35% |
| 2016 | 3.60% | 3.00% | 4.70% | 30.78% | 30.78% | 17.50% | 17.50% | 82.50% | 82.50% |
| 2017 | 3.60% | 3.00% | 4.70% | 41.04% | 41.04% | 17.50% | 17.50% | 82.50% | 82.50% |
| 2018 | 3.60% | 3.00% | 4.70% | 51.30% | 51.30% | 26.25% | 26.25% | 73.75% | 73.75% |
| 2019 | 3.60% | 3.00% | 4.70% | 61.56% | 61.56% | 35.00% | 35.00% | 65.00% | 65.00% |

The following supposes that the agreement that Tasmania and most other States signed up to continues to have validity. However, the Commission of Audit Report, and recent media reports suggest that this is far from guaranteed.

In its January 2014 submission, Tasmania suggested that the 2010 Review assessment of States' non-Government school expenditure needs was no longer suitable. Tasmania recommended that the commission develop a holistic education assessment that incorporates a needs-based assessment for State expenditure on both government and non-government schools.

As described, Tasmania's total non-Government school expenditure is transitioning to an SRS needs-based funding model, and it is assumed that the other States' non-Government school funding is also transitioning to similar models.

In this context, it would no longer be appropriate to assess States' non-Government school expenditure based only on a percentage of the Government school assessment, because during the life of the 2015 Review it would no longer reflect 'what States do'.

From 2013-14 onwards, Tasmania's funding of non-government schools will be partially based on the needs of government school students (as reflected in its government school student recurrent costs), and partially based on the needs of non-government school students (as reflected in the State contribution to bringing funding of non-Government schools up to SRS).

It would be inappropriate to base the assessment of States' non-government school funding on the needs of government school students, as the demographics of government and non-government school students and schools are likely to vary significantly at a State level, and between states.

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

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

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

Future Commonwealth funding of both government and non-government schools is currently in a state of flux, with the Coalition Government appearing uncommitted to NERA/Better Schools, and the recently released National Commission of Audit Report variously recommending that the Commonwealth vacate school funding altogether, or cap it in real terms at 2017 levels. The 2014-15 Australian Budget, to be handed down on 13 May 2014, may provide some more clarity on the Commonwealth's immediate intentions in this regard.

HEALTH

Tasmania's response

Tasmania stands by its previous submission position (refer submission of 31 January 2014) concerning the proposed structural changes to the health assessments.

These new comments on now-proposed changes to specific elements of the Health assessment are set against that background.

Staff now propose to allocate block funded hospitals expenses based on the user profile of hospitals in similar regions to remove the urban bias in the known data. Tasmania supports this as an in-principle approach in preference to the original proposal but is unclear as to how representative these user profiles would be of block funded hospital use and cost profiles. Tasmania reserves further comment until it has had an opportunity to review the data following the release of the draft assessment report.

In relation to the emergency, outpatient, and community health services, Tasmania supports the assessment of an economic environment factor from a conceptual perspective. We understand the CGC staff objective in proposing to calculate these factors using either GP bulk billed services or, in the case of Outpatients, bulk billed specialists, pathology and imaging services from Medicare, standardised by Indigeneity and remoteness. However, we share South Australia's caveats regarding potential perverse outcome measures due to non-standardisation of other potential drivers of low health status and hence high bulk billed presentations (age, low SES).

Tasmania also continues to be concerned about the percentage of Emergency Department expenses to which this economic environment factor is now proposed to be applied. It is noted that the ABS patient experience survey data measures the percentage of GP-substitutable Emergency Department presentations, not the percentage of Emergency Department expenses.

A (rough) examination of Tasmanian actual patient data profiles across the different hospital services (admitted patients, emergency department and outpatients) confirms that Tasmania's outpatient SDC profile is more similar to the admitted patients SDC profile, than to either the emergency services profile or simple population profile. In this context, Tasmania supports the proposed use of the admitted patient SDC profile as the proxy basis for the Outpatient SDC profile in the absence of a direct measure of the Outpatients SDC profile.

The staff propose to construct an Outpatients Economic Environment factor based on specialists, pathology and imaging bulk billed services from Medicare, standardised by Indigeneity and remoteness.

Tasmania notes that the “bundled” nature of these services will mean the measure needs to be constructed on an internally consistent basis. National Medicare bulk billing statistics suggest that while pathology accounts for over one third of total bulk billed events, specialists roughly 8 per cent and imaging 6 per cent, when measured on the basis of Medicare benefit paid, they each have roughly equal weights.

With regard to the percentage of expenses to which outpatient expenses should be applied, Tasmania reiterates our previous submission arguments that we see no rationale for linking the level of outpatient service substitutability to that for emergency services and consider that there is a reasonable first-principles basis to infer a higher degree of substitutability is likely to apply to outpatient services (refer January 2014 submission).

With respect to the proposed Community Health SDC drivers, we are unclear as to whether age was deliberately omitted within the annotated agenda outline or if this was simply an oversight.

This said, a rough examination of Tasmanian patient profiles suggests that the Emergency Department profile does not have a marked age gradient and we agree that the Emergency Department profile is likely to be the best proxy for community health services. The potential deficiency observable in the Tasmanian Emergency Department data in terms of its use as a proxy for the Community Health SDC profile is the relative absence of remote and very remote patients in the data (due to the Emergency Departments not being located in these areas of Tasmania). It is probable this will also be present in the national data profile.

In the absence of direct data to otherwise support an assessment, we agree that a Community Health economic environment factor equivalent to that for Emergency Department Services, but applied to 50 per cent of Community Health expenses, is not unreasonable. Similarly, with respect to OATSIH grants we have no specific insights and would accept a 50 per cent substitutability assumption as a reasonable assumption in the absence of direct evidence.

URBAN TRANSPORT INFRASTRUCTURE ASSESSMENT

Information and State views on the following issues relating to the urban transport infrastructure assessment would be appreciated by the end of April 2014.

Are there any further comments (not made during the telepresence) on the staff proposal to use all urban centres with populations greater than 20 000 people in the estimating a relationship between city populations and the value of non-financial transport assets (instead of using only the 8 capital cities).

Tasmania’s response

Tasmania considers that it would better reflect “what states do” to use all urban centres with populations greater than 20 000 people (provided the data quality is sufficient).

How might the ‘holistic’ assessment of urban transport needs Western Australia and South Australia were discussing during the telepresence be undertaken?

- **If a relationship between operating subsidies plus investment were estimated and used to calculate assessed expenditure, it is not clear how the impact of population growth would be appropriately recognised.**

- **If a holding cost type approach is what is being advocated, it would treat urban transport infrastructure needs differently from the needs for all other infrastructure (they would be recognised as the assets are used instead of up-front). Would the different treatments be appropriate?**
- **It is not clear how a proportion of revenue might be removed from the operating subsidies assessment (both from the standard and from the data used in the regression modelling) and reflected in the investment assessment (where it is only used in deriving the standard). The relationship between debt charges and gross expenses might be used to estimate an amount of revenue that could be deducted but we do not have these data. In addition, it is not clear that such an adjustment would have a material effect.**

Tasmania's response

At the telepresence, Western Australia and South Australia appeared to be arguing that fare revenue policies for Sydney public transport are potentially affecting the shape of both the operating cost and capital regression curves bringing into question their policy neutrality. While Tasmania agrees that the policy neutrality of the regressions is questionable on this basis, we are not able to provide an alternative or 'holistic' assessment.

If a relationship between operating subsidies plus investment were estimated and used to calculate assessed expenditure, Tasmania agrees that it is not clear how the impact of population growth would be recognised. However, Tasmania is not convinced the current approach to the treatment of capital needs is correct as we have argued in the past and in our latest submission.

Tasmania agrees that a holding cost type approach would treat urban transport infrastructure needs differently from the needs for all other infrastructure. Again, we would agree that it would be inconsistent although we are not convinced that the current approach to the treatment of capital needs is correct as we have argued in the past and in our latest submission.

Tasmania agrees that it is not clear how a proportion of revenue might be removed from the operating subsidies assessment and reflected in the investment assessment.

Numerous States have noted the outlier status of "Sydney" and the small number of data points. In response to the concerns regarding the small number of observations, commission staff are seeking further data from States to increase the number of data points.

However, despite this, it will remain the case that there will be very few data points at the high cost end of the curve (in contrast to the high number of observations at the high cost end in the regional location cost curves, i.e. in the more remote regions).

If the above issues cannot be addressed it follows that a discount should be considered.

Can States provide data on asset holdings by city each year? This will be necessary if disabilities are to be updated annually.

Tasmania's response

Tasmania can provide data, however, it would have to be notionally split. It is noted that commission staff split the asset data provided in early 2013 using boardings data from Metro Tasmania's Annual Reports.

In Western Australia's view, 'national' NNR needs are fully assessed in State-based road length and use measures. Would each State advise whether they agree or disagree with that view?

States should also explain why they agree or disagree. If you consider additional national disabilities exist, please explain what they relate to. Is there another way of measuring them rather than using the distribution of NNR funding?

Tasmania's response

Tasmania had not recognised this as an issue until raised by Western Australia and then subsequently in the annotated agenda. However, Tasmania's view is that Western Australia's argument is valid and that the additional needs associated with national network roads are, in principle, already captured in the road length and road use data and therefore the discount for national network roads on the basis of unassessed needs should be removed.

Tasmania has never supported recognition of "national" disabilities as a special case and has previously argued that it would be ill-advised for the Commission to begin to do so (refer July 2013 and January 2014 submissions on this point).

If capital grants for roads were general road construction assistance rather than assistance for construction on the national network, would that have an impact on how those payments, and State spending of the funds, should be treated?

Tasmania's response

Related to the above argument, Tasmania does not consider that the essential treatment logic would change if the capital grant were for general roads construction and not national network roads. If the needs are already captured through road use and road length, then there is no basis for assessment of "unassessed needs" (which Tasmania understands to have been the true underlying criterion for the 2010 Review Commission decision in relation to national network roads).