

Update and Supplementary Issues for the 2015 Review

Tasmanian Government Submission

September 2014



Tasmania
Explore the possibilities

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Changes to econometrics used in schools education and regional costs

In paragraph 6 of the staff discussion paper, staff expressed that “*whether the high costs for remote indigenous students are allocated to the remoteness factor or the indigeneity factor is sensitive to the specification of the model*”, and asked about States’ experiences in this regard.

It is not possible to answer the staff question directly, because indigeneity is not a factor in Tasmania’s school funding model.

Tasmania’s Fairer Funding Model (FFM), which forms part of the overall School Resourcing Package, does not specifically take the indigeneity of students into account. The review that led to the development of the FFM concluded that, in Tasmania, indigenous influences and other high needs influences tend to be accounted for in socio-economic considerations, rather than indigeneity *per se*.

However, indigenous students in Tasmania tend to have both a higher proportional representation in lower SES groups and in schools in remote locations.

To assist staff, the following description of the three key components of the FFM (core, need and location) is provided.

Core

The core funding component is provided to all schools to cover the common elements for the school to operate at a basic level. The core element comprises a base allocation and a per-capita element and represents 75.1 per cent of the 2014 FFM. The core element addresses a base level of need across all schools.

Need

Need funding is based on the parental occupation of each student in each school. The Occupation Educational Needs Index (OENI) data are obtained confidentially from the school enrolment form that parents complete.

The Need element is a per capita allocation weighted by the OENI and represents 20.2 per cent of the 2014 FFM. The Need allocation is also adjusted by a scaling factor to give a greater weighting to high OENI schools and a lesser weighting to low OENI schools. This is to ensure schools with the highest level of need are targeted.

In terms of addressing the needs of indigenous students, it was concluded that this was best addressed through socio-economic indicators. The review opted for parental occupation as an indicator of need as it had the strongest correlations with a range of educational performance indicators.

The Occupation categorisation is as follows:

Parental occupation is a flat classification having only one level with six categories:

Group	Description	Weighting
1	Senior management in large business organisation, government administration and defence, and qualified professionals	0
2	Other business managers, arts/media/sportspersons and associate professionals	0.25
3	Tradespeople, clerks and skilled office, sales and service staff	0.5
4	Machine operators, hospitality staff, assistants, labourers and related workers	0.75
8	Not in paid work in last 12 months	1
9	Not stated or unknown	Excluded

The OENI gives a weighting to each enrolment according to the parental occupation group. Indigenous students have a proportionally higher representation in group 4 and group 8 than non-indigenous students.

Conversely, non-indigenous students have a proportionally higher representation in groups 1, 2 and 3. Based on the OENI calculations for the 2014, indigenous students have an average OENI score of 0.6699, compared with non-Indigenous students which have an average OENI score of 0.4880.

Location

Schools location funding is determined on the ABS population size of the area where the school is located. The location funding is then distributed according to the geographic remoteness of the school using the Accessibility/Remoteness Index of Australia (ARIA+).

The location element comprises a base allocation and a per-capita element that varies according to ARIA+ (it does not apply to major centres – population centres of 10 000 or more). The location element represents 4.7 per cent of the 2014 FFM.

In terms of remoteness loadings, this is specifically school-related in terms of location and does not differentiate between indigenous and non-indigenous students. However, concentration of indigenous students in remote locations will be supported through this element.

Cost weights

Tasmania raised its concerns regarding the use of State dummies in its January 2014 submission, and to their subsequent exclusion without an apparent attempt to attribute variations between States to specific policies, in its September 2014 response to the Draft Report. Please refer to Tasmania's response to the Draft Report in this regard.

Service delivery scale

Tasmania agrees that the creation of a variable that captures the fixed cost of schools is preferable to forcing the regression through the origin. This appears to be consistent with the previous advice of the commission's econometric consultant.

Post-secondary education user charge

Tasmania supports the staff recommendation to net all post-secondary education user charges off the post-secondary education expenses rather than assessing them as other revenue.

Low socio-economic status disability for Other general welfare services

In responding to the draft report, Tasmania reiterated its support for SEIFI as the basis for assessing the socio-economic status disability within the Other general welfare category.

However, we now appreciate that the ABS is not intending to update the SEIFI using 2011 Census data and agree with the staff evaluation that the 2006 SEIFI is now dated.

The commission made the case for individualised rather than area-based measures of disadvantage within the Other General Welfare assessment as part of its original rationale for the adoption of SEIFI. Tasmania supported that conclusion and continues to support it now in relation to the staff rejection of an alternative IRSEO/NISEIFA area-based measure in this assessment.

Tasmania also endorses the staff conclusion that such measures of homelessness as are available do not provide a good indicator of disadvantage for the commission's purposes.

Tasmania further notes that while there is a reasonable degree of concordance between the 2011 Census equivalised household income measure and the 2006 Census SEIFI measure, there is clearly an issue with the NT and, to a lesser extent, with the ACT measures.

In conclusion Tasmania supports the staff intention to recommend that the commission use the proportion of one-parent families as an up-to-date broad indicator of disadvantage in the Other General Welfare assessment.

Revised weights for the Justice assessment

Tasmania accepts the staffs proposed recommendations to the commission regarding the Justice Expenses assessment.

Adjustments to June disaggregated estimated resident population data

Tasmania supports the proposal to adjust disaggregated 30 June ERPs in proportion to match 31 December State population totals for each assessment year.

According to commission staff it is conceptually more appropriate and avoids situations where EPC assessments can have an effect on the GST because June population shares differ to December population shares.

Backcasting of national specific purpose payments and agreements

As a general principle, Tasmania supports the backcasting of major changes to Commonwealth-state financial relations providing the application year changes are reliably known and the data required to backcast these are reliable.

In this context, Tasmania supports the staff proposed recommendations to backcast the Skilled Workforce Development, Affordable Housing and Disability Services SPPs on an EPC basis consistent with their 2015–16 distribution.

Tasmania also agrees that there is an principle case for backcasting 2015–16 Students First funding and believes that the application year changes are sufficiently reliably known and the data required to backcast are sufficiently reliable to support backcasting in accordance with the backcasting guideline.

However, backcasting of the Students First funding in 2015–16 is expected to result in a degree of double counting of Commonwealth funding in the assessment years 2011–12, 2012–13 and 2013–14.

That is, under the previous arrangements, Commonwealth schools-related payments consisted of the National Education SPP payments and a range of education-related NP payments. It is Tasmania's understanding that the funding attached to a number of these NPs is being progressively subsumed within the Students First funding envelope on NP expiry. Specific examples of relevant expiring NPs not being paid in 2015–16 but which were paid in one or more of the assessment years include the Improving Literacy and Numeracy NP, and the Smarter Schools – Low SES Communities NP.

The specifics of the net backcasting quantum proposed for Students First funding relate to the base funding rather than the loadings. Related to this, Tasmania believes there remains a question as whether it is appropriate to retain an impact treatment for those loadings-related NP payments made in the assessment years.

Tasmania does not support backcasting the NHR payments. While we agree that the shift to NHR growth funding from 2014–15 represents a major change in Commonwealth-state relations and should therefore be backcast in principle, we do not agree that the States forecast data are sufficiently reliable to support backcasting, even on the hybrid basis of 2014-15 MYEFO estimates (the staff proposed recommendation). In the absence of reliably known application year changes and reliable data on which to backcast, Tasmania’s position is that backcasting should not occur.

Treatment of payments not made in the application year

Tasmania supports the staff proposed recommendations. None of the ceased payments were backcast into the assessment years when they commenced in the application year as they did not represent a major change in Commonwealth-state financial relations. Accordingly, Tasmania does not consider there is a case for backcasting their cessation, notwithstanding that, in aggregate, they may represent a material reduction in the level Commonwealth financial transfers for 2015–16.

Treatment of other Commonwealth payments

Tasmania does not support the proposal that “*the commission only exercise its discretion in relation to the treatment of Commonwealth payments where doing so will make a material change at the proposed disability materiality threshold and the impact can be assessed reliably*” (refer page 21, of the staff discussion paper).

In our January 2014 submission Tasmania opposed the then-proposal to treat any Commonwealth payments which fell below the \$30 materiality threshold as “no impact” regardless of the purpose of the payment.

The draft report indicates that the commission has decided not to adopt a materiality threshold for Commonwealth payments. The arguments advanced by the States in opposition to this proposal included the potential for this to result in structuring of agreements in a manner to fall below materiality thresholds resulting in a proliferation of small NP agreements.

It seems to Tasmania that there is a similar incentive with this new proposal which focuses more specifically on payments where the commission can “exercise its discretion” such as facilitation payments. The difference between an initial upfront “project payment instalment” and a “facilitation payment” is (arguably) semantic rather than a clear distinction of purpose. Were the commission to make “facilitation” payments below a certain materiality threshold automatically subject to a “no impact” assessment, it could be inviting a proliferation of small NPs with “facilitation” payments.

The underlying driver of the proposed new Commonwealth payments guideline as outlined in the draft report reflects the commission focus on achievement of HFE. Outside of terms of reference directions, it effectively gives the commission unfettered discretion to focus on HFE in its case by case treatment of Commonwealth payments. This new proposed recommendation would work against that objective.

Treatment of Commonwealth payments commencing in 2014–15 and 2015–16

Staff propose not to backcast Commonwealth payments commencing in 2014–15 and 2015–16 as set out in Table A-2 of the staff discussion paper because they are not the result of major changes in Commonwealth-state financial arrangements. Tasmania agrees with the staff position.

Commission staff expect that an amendment will be made to the 2015 Review Terms of Reference by the Commonwealth that will require the commission to ensure the Infrastructure Growth Package payments from the Asset Recycling Fund have no impact on the relativities. This is also Tasmania’s understanding.

Water for the future

Tasmania is open to the option of splitting expenses into ‘environmental spending’ and ‘other’ if State data shows environmental spending is the main purpose of the third component of the program and that the interstate pattern is not overly influenced by State policy.

Tasmania has completed the associated data request for the Water for the Future NPP. We found data are available to enable us to provide a split of expenditure for environmental purposes and other purposes. However, the majority of funding received by Tasmania under the third component of the Water for the Future NPP, the Sustainable rural water use and infrastructure, is used for irrigation programs.

In the absence of information that demonstrates environmental spending is the main purpose of the third component of the program, and that this is not overly influenced by State policy, Tasmania supports the staff proposal to retain the current approach to all three components of the program.

Attachment A – Proposed treatment of Commonwealth payments

Table A-1 Proposed treatment of Commonwealth payments commenced in 2013-14, *Federal Financial Relations, Budget Paper No. 3, 2014-15*

Commonwealth payment	Description	2013-14 \$m	Proposed treatment	Reason for No impact treatment	Tasmania's position
Health					
Supporting National Health Reform Arrangements – <ul style="list-style-type: none"> Public hospital system – additional funding 	Funding to offset downward adjustments in National Health Reform funding during 2013-14. This funding will increase certainty to Local Hospital Networks from these within-year adjustments.	170.5	Impact		Agree – additional funding to provide public hospital services for which needs are assessed.
Health Services – <ul style="list-style-type: none"> Expansion of the BreastScreen Australia Program 	Funding to improve the early detection of breast cancer by expanding the target age range of the BreastScreen Australia program from women 50 to 69 years of age to women 50 to 74 years of age. This builds on the existing BreastScreen Australia program.	5.5	Impact		Agree – additional funding to provide public health services for which needs are assessed.
Education					
Students First funding	Students First funding replaced the National Schools SPP and various schools-related NP payments (Rewards for great teachers, Smarter schools – low socio-economic status school communities, Empowering local schools) from January 2014. It includes recurrent funding for government and non-government schools, capital funding and special circumstances funding for non-government schools and funding for non-government representative bodies.	6 872.0	Impact for govt schools (backcast 2015-16 distribution into assessment years); no impact for non-govt schools		Refer discussion in the main body of Tasmania's response under the heading <i>Backcasting of National Specific Purpose Payments and Agreements</i>

Commonwealth payment	Description	2013–14 \$m	Proposed treatment	Reason for No impact treatment	Tasmania's position
Independent public schools	Funding to support increased autonomy in around 1 500 government schools, including through greater engagement of parents and local communities in school decision making and the provision of professional development for principals, school leaders and school communities.	10.0	Impact		Agree
Community services					
Pay equity for social and community service sector	Commonwealth's share of the wage increases arising from Fair Work Australia's decision on 1 February 2012 to grant an Equal Remuneration Order in the social and community services sector. This includes funding for its share of the wage increases for in-scope programs funded through existing SPPs (National Affordable Housing and National Disability Services) and NPPs (Homelessness, HACC/Transitioning responsibilities for aged care and Disability services, and National mental and health reform).	82.4	Impact		Agree – this funding supports delivery of standard State service responsibilities in areas where needs are assessed.
Infrastructure					
La Trobe Valley economic diversification (some made direct to local government)	<p>Up to \$10.9m funding for infrastructure projects to support economic diversification in the La Trobe Valley:</p> <ul style="list-style-type: none"> • Warragul Station precinct upgrade project – new rail underpass, a new car park and bus interchange at Warragul railway station • Moe rail precinct revitalisation project – new civic building to house community library, council service centre and call centre, and other community facilities. 	2.4	Impact for Warragul; No impact for Moe	Moe — needs for local government assets are not assessed	Tasmania has some concerns with boundary issues relating to expenditure between local government and State Government for this type of infrastructure. That is, does Commonwealth funding for certain local government infrastructure, such as community facilities, relieve State Government expenditure?

Commonwealth payment	Description	2013–14 \$m	Proposed treatment	Reason for No impact treatment	Tasmania's position
Murray – Darling Basin regional economic diversification program	Funding to support regional communities in adjusting to the changes brought about by the implementation of the Murray – Darling Basin Plan for water reform.	10.0	Impact		Agree
Townsville Convention and Entertainment Centre (all made direct to local government)	Funding for the construction of the Townsville Convention and Entertainment Centre to deliver on a commitment made as part of the 2010 election.	5.0	No impact	Needs for local government assets are not assessed	Agree
Environment					
Assistance for water infrastructure and pest management in drought-affected areas	To assist drought-affected farm business with installing water-related infrastructure and with managing the impacts of pest animals in drought-affected areas, with the pest management component contingent upon equal contribution from the States.	5.0	No impact	Needs for supporting drought-affected areas are not assessed	Agree
Assistance to farm business for water-related infrastructure	Funding to New South Wales and Queensland to supplement these States' existing Emergency water infrastructure rebate programs.	10.1	No impact	Needs for supporting drought-affected areas are not assessed	Agree
Implementation of National Insurance Affordability Initiative	Funding to reduce flood risk and bring about reductions in insurance premiums. Payments to Queensland are for the construction of a flood levee in Roma and improving the flood defences in Ipswich.	7.0	No impact	Needs for the protection of environment ¹ are not assessed	Agree

¹ In GFS, expenses for flood mitigation works in urban areas are classified to GPC 073 Sanitation and protection of the environment.

Commonwealth payment	Description	2013–14 \$m	Proposed treatment	Reason for No impact treatment	Tasmania's position
South Australian River Murray Sustainability program – • Irrigation efficiency and water purchase	Funding to South Australia to support the Murray-Darling Basin water reforms by contributing to a healthy working river system, strong communities and sustainable food and fibre production. This program supports efficient delivery and use of water by irrigation water providers and irrigators.	14.0	No impact	Terms of reference requirement	Agree
• Irrigation industry assistance	This program helps improve productivity of the South Australian River Murray industry.	9.0	No impact		Agree
• Regional economic development	This program provides funding for the redevelopment of the Loxton Research Centre, a program of industry-led research, and a regional development and innovation program.	7.0	No impact		Agree
Payments to support other State services					
2014 G20 leaders' summit security	Funding to upgrade Queensland's policing capacity to support the G20 leaders' summit in Brisbane and the finance ministers' and central bank governors' meeting in Cairns.	83.5	No impact	Needs are not assessed for this purpose	Agree
2018 Gold Coast Commonwealth Games	Funding to support the delivery of critical sports infrastructure for the 2018 Commonwealth Games that will boost economic activity in Southeast Queensland and leave a lasting legacy for Queensland and Australia.	156.0	No impact	Needs for special sporting infrastructure are not assessed	Agree
Assistance to Tasmania to implement national policy reforms	Funding to assist Tasmania with budget flexibility with expected challenges arising from the implementation of national policy reforms. This payment was to allow Tasmania to implement Schools reforms.	30.0	No impact	Terms of reference requirement	Agree

Table A-2 Commonwealth payments commenced in 2014–15 and 2015–16, Federal Financial Relations, Budget Paper No. 3, 2014–15

Commonwealth payment	Description	New in 2014–15 \$m	New in 2015–16 \$m
Health infrastructure			
Albury-Wodonga Cardiac Catheterisation Laboratory	One-off payment to Victoria for the new laboratory which will enable local residents suffering from heart conditions to access quality care without the need to travel long distances to capital cities.	5.0	
Bright Hospital - feasibility study	Payment to Victoria for the study which will examine the feasibility of redeveloping the Bright Hospitals	0.1	
Cancer Support Clinic in Katherine	One-off payment to the Northern Territory to support the purchase and installation of a chemotherapy chair and associated minor building modification to improve delivery of cancer support services in Katherine Hospital.	0.5	
Construction of Palmerston Hospital	Funding to the Northern Territory for the construction of the Palmerston Hospital which will provide a full emergency department, a paediatric ward, and medical and surgical services.	20.0	
Improving local access to health care on Phillip Island	One-off payment to Victoria for the upgrade of healthcare infrastructure on Phillip Island.	2.5	
Oncology Day Treatment Centre at Frankston Hospital	Payment to Victoria for the expansion and enhancement of the Oncology Day Treatment Centre at Frankston Hospital.	0.4	
Redevelopment of the Royal Victorian Eye and Ear Hospital	Payment to Victoria for the completion of the development of the Royal Victorian Eye and Ear Hospital.	50.0	
Upgrade of Ballina Hospital	Payment to New South Wales for the construction of a second operating theatre and upgrade of the medical imaging department, Ballina Hospital.	1.9	
Upgrade of Casino and District Memorial Hospital	One-off payment to New South Wales for the upgrade of the emergency department at the Casino and District Memorial Hospital.	3.0	
Warrnambool Integrated Cancer Care Centre in southwestern Victoria	One-off payment to Victoria for the construction of the Regional Cancer Centre in Warrnambool to provide cancer services to the southwest.	10.0	

Commonwealth payment	Description	New in 2014–15 \$m	New in 2015–16 \$m
Health services			
Canberra Hospital - dedicated paediatric emergency care	One-off payment to the ACT for the development of a dedicated service for children within the emergency department of the Canberra Hospital.	5.0	
Other Health payments			
Adult public dental services	Funding to support the provision of dental services to adults who rely on the public dental system. It will contribute to long-term improvement in dental health by assisting low income adults to receive treatment.		200.0
Community Services			
National Occasional Care program	Funding to support non-Child Care Benefit approved child care service providers, particularly in rural, regional and remote areas.	3.1	
Payments from the DisabilityCare Australia Fund	Funding to assist the States with their contribution to the National Disability Insurance Scheme (NDIS) for 10 years by allocating some of the payments going into the DisabilityCare Australia Fund, which comes into effect on 1 July 2014. The States will be able to draw down from the Fund when they meet key conditions such as agreement to fully roll out the NDIS and milestones relating to the participation of people with significant and permanent disability in the scheme.		73.9
Trial of My Way sites	<p>This Agreement builds on the Agreement between the Commonwealth and Western Australia for disability reform signed on 5 August 2013, which provides for a two-year trial of two service delivery models.</p> <p>It supports the trial of the My Way model implemented by the WA Disability Services Commission (DSC) under State legislation in two sites: the Lower South West region from July 2014 and the Cockburn/Kwinana DSC region from July 2015. It will run in parallel with the NDIS trial site in the Perth Hills region.</p> <p>The trial will allow for the assessment and comparison of the merits of the My Way model with the NDIS model and allow the lessons learned to inform the national roll-out of disability reform.</p>	11.8	

Commonwealth payment	Description	New in 2014–15 \$m	New in 2015–16 \$m
Trial of My Way sites	<p>This Agreement builds on the Agreement between the Commonwealth and Western Australia for disability reform in the State signed on 5 August 2013, which provides for a two-year trial of two service delivery models.</p> <p>It supports the trial of the My Way model implemented by the WA Disability Services Commission (DSC) under State legislation in two sites: the Lower South West region from July 2014 and the Cockburn/Kwinana DSC region from July 2015. It will run in parallel with the NDIS trial site in the Perth Hills region.</p> <p>The trial will allow for the assessment and comparison of the merits of the My Way model with the NDIS model and allow the lessons learned to inform the national roll-out of disability reform.</p>	11.8	

Infrastructure			
<p>Infrastructure Growth Package —</p> <ul style="list-style-type: none"> Asset Recycling Fund Asset Recycling Initiative New investments Western Sydney Infrastructure Plan <p>(State allocations have not been determined for Asset Recycling Initiative and New investments)</p>	<p>The Commonwealth will establish an Asset Recycling Fund to provide funding for additional investment in high quality economic infrastructure.</p> <p>Asset Recycling Initiative — financial incentive to States that sell assets and reinvest the sale proceeds into new productive infrastructure. Funding will be allocated to specific projects as agreed between the Commonwealth and States.</p> <p>New investment — funding for high quality, high priority infrastructure projects and upgrades that support economic growth and employment.</p> <p>Western Sydney Infrastructure Plan — funding to enhance capacity and improve transport infrastructure, including the development of an airport at Badgerys Creek.</p>	<p>335.0</p> <p>201.7</p> <p>103.0</p>	
<p>Infrastructure Investment program (former Nation Building program) —</p> <ul style="list-style-type: none"> Bridges renewal component 	<p>Payments direct to local governments for the upgrade of bridges across the nation to deliver on a commitment made as part of the 2013 election. The program will renew and replace bridges to improve productivity and community access.</p>	60.0	

Commonwealth payment	Description	New in 2014–15 \$m	New in 2015–16 \$m
Environment			
Bushfire mitigation	Funding to implement long-term bushfire mitigation strategies and improved fuel reduction activities.	5.0	
Whale and dolphin entanglements	Funding to support the purchase of equipment and training aimed at improving responses to whale and dolphin entanglements. The funding forms part of the Commonwealth's broader Whale and Dolphin Protection Plan.	0.3	
Payments to support other State services			
Addressing insurance costs in North Queensland	Funding for a grants program for engineering inspections of North Queensland strata title properties. The assessments will provide better information to insurers which will enable them to set premiums that more accurately reflect individual property risks, and help residents of strata title properties to be fully aware of the risks to their properties from natural disasters.	3.1	
Developing demand-driver infrastructure for the tourism industry	Funding for projects that create and encourage tourism, and assist the tourism industry to meet the national tourism strategy, <i>Tourism 2020</i> .	11.0	
Port Arthur penitentiary restoration	Funding to support conservation works on the Port Arthur Historic Site's Penitentiary ruin in Tasmania.	1.5	