COMMONWEALTH GRANTS COMMISSION (CGC)

2015 REVIEW

STAFF DISCUSSION PAPER CGC 2013-01

REMOTENESS CLASSIFICATION

NSW TREASURY COMMENTS

JUNE 2013

Generally, NSW Treasury considers that either one or the other geographic classification – SARIA or ARIA – should be used, rather than some combination of the two. Picking and choosing assumptions from both risks an overall inconsistent approach.

On balance, NSW Treasury considers SARIA should continue to be used, updated for the 2011 Census. We consider the 2006 criteria should be maintained. If some of the assumptions of ARIA were used, it would be more consistent just to use ARIA as a whole.

NSW Treasury is unconvinced by the data on bulk-billing and Year 12 retention rates provided by the CGC that Hobart and Darwin exhibit the service use characteristics of regional centres rather than capital cities. Hobart and Darwin exhibit many of the attributes of capital cities. The 2011 Census shows that Hobart, Darwin and Sydney have a similar share of the total public administration workers residing in their respective states. Hobart and Darwin are accepted as capital cities for the purposes of COAG's work in the development of strategic capital city plans.

NSW Treasury is not convinced that State borders are permeable for the influences that are deemed important in the location assessment . State borders are permeable in that services and goods flow between the States. The cross border use of state government services is captured in the cross border assessments and in bilateral or multilateral government agreements. However, the more significant issue is whether the administrative association of state service providers in border locations with regional or state administrative centres within their state, rather than with towns across the border, has a significant influence on the cost of service provision. No evidence has been provided to support a change.

Similarly, no evidence has been provided to support the truncation of distances or the use of enumerated populations rather than usual resident populations, both of which are features of ARIA.

General

The CGC uses the remoteness classification for two purposes: to reflect the cost to States of providing services in different areas; and to divide the population into groups that have different patterns of use of certain services.

In the 2010 Review, the Commission used the State based Accessibility and Remoteness Index of Australia (SARIA) to classify where people live and to measure the population in that region. This index measures the remoteness and accessibility of areas on the basis of their distance from the State capital city and other centres of various sizes within the State.

The Commission notes that it will consider, as part of the 2015 Review, if the Accessibility and Remoteness Index of Australia (ARIA) better reflects the drivers of the cost of providing State services.

The main differences between SARIA and ARIA are the treatment of capital cities, permeability of borders, truncation of scores and the population estimates used.

Treatment of capital cities

The Commission argues that Darwin and Hobart have use patterns for some services (bulk billing and year 12 retention) that are more like regional cities than State capital cities.

Under ARIA, Hobart and Darwin would change from capital cities to smaller centres. Hobart and Darwin would change from highly accessible to (at best) accessible. The populations of other centres would also change, because they would no longer be as close to a State capital. The Commission expects this to increase the GST requirements of Tasmania and the Northern Territory.

Under ARIA, the treatment of Newcastle, the Central Coast and Wollongong would also change from non-capital cities over 48,000 to cities over 250,000. This would have a significant impact on NSW – shifting people from the more remote end of the spectrum into the highly accessible category.

It is not entirely clear from the statistics included in the CGC's paper that Hobart and Darwin do exhibit the service use characteristics of regional centres rather than capital cities. Darwin's bulk billing rates are at the lower end of capital city electorates in the 1000-1050 SEIFA score range, but not that significantly different to some. Hobart's year 12 retention rates do not appear to be significantly lower than a couple of other major capital cities. Additionally, the year 12 retention rates are not adjusted for socio-economic status, which also would have an important influence.

Hobart and Darwin have many of the attributes of capital cities. In the 2011 Census, over 12,000 of the 19,370 (or 62 per cent) employed in 'public administration and safety' (public administration) in Tasmania lived in the Greater Hobart area. In the Northern Territory, 13,043 public administration workers, or around 63 per cent of the Northern Territory's public administration workers resided in Darwin.

This is similar to other states.

- In New South Wales, 61 per cent of public administration workers reside in Sydney
- In Queensland, 55 per cent of Queensland's public administration workers reside in Brisbane.

At June 2012, the population of Greater Darwin was 131,700, which accounted for 56 per cent of the Northern Territory's total population. Darwin has a higher concentration of the Territory's population than Greater Brisbane does of Queensland's. In 2011-12, the population of Greater Darwin increased by 2,600 people or 2 per cent, the second fastest growth of all capital cities, behind Greater Perth (3.6 per cent).

The Northern Territory and Tasmanian governments agreed at COAG in 2009 to develop strategic capital city plans for their capital cities putting in place short, medium and long term objectives to guide investment at all levels of government and the private sector.

Elsewhere in the paper, the CGC considers that 'towns over 12,000 people are fundamentally less isolated than other very remote locations.' This might also apply to 'capital cities': cities that are 'capital cities' – in the sense of being the seat of administration and the centre of arts, sport, and community life for a state – might be fundamentally 'less isolated' than other towns of a similar size that are not state capitals.

Impermeable borders

SARIA does not allow for proximity to a centre in another State to offset remoteness; ARIA does. The Commission notes that impermeability of borders is likely to be a minor issue. However, it is likely to be most significant for a state like New South Wales, with borders with the Australian Capital Territory, Queensland, Victoria and South Australia.

It is clearly the case that State borders are not impermeable. Private and Commonwealth provision of services are unaffected by State boundaries. Cross border use of State services occurs, though the impact of this is captured in the cross border assessments or in bilateral or multilateral agreements between States.

State service providers in border areas also will source some inputs from across the border.

However, the main issue is whether the administrative linkage of state service providers in border areas to state capitals or regional centres in the same state rather than towns across the border exerts a sufficient influence on their costs of service provision as to make it necessary to assume State borders are impermeable in this sense.

Given the lack of evidence supporting a change in treatment, NSW Treasury sees no reason to change.

Truncation of ratios

Distances are truncated in ARIA, i.e., once a town is three times the average distance for all Australian locations away from a town of a certain size, further distances are ignored.

The impact of truncation is greatest in Western Australia. The CGC notes that given that there can be a considerable cost difference between remote and very remote areas truncation is likely to be material.

No evidence is produced to support either argument. The Commission says that conceptually it considers the impact of distance does not cease at three times the national average distance. However, the Commission also considers that towns of over 12,000 people are 'fundamentally less isolated' than other very remote locations.

Following that line of thought, it becomes a question of at what population size does population size defeat distance from other centres in determining 'isolation', and what aspects of isolation are we trying to measure. If Alice Springs had a population above 250,000 it might not be considered 'isolated', despite being in the middle of Australia and a long distance from any other location of any real size. It would still presumably, in the CGC's view, have relatively higher costs of in-freighting materials, but it would not face the service delivery scale costs of smaller 'isolated' towns.

Given the lack of evidence supporting a change of treatment, NSW Treasury sees no reason to change. However, if the CGC decides to use other of the assumptions of ARIA, we consider that it should use truncated distances also, so that overall the CGC uses a consistent system, rather than one that picks and chooses various assumptions from both systems.

Population Estimates

ARIA uses the enumerated census count (i.e., where people happened to be on census night); SARIA uses usual resident census counts (i.e., where people usually reside).

Some towns – 46 in the 2011 Census – change classification depending on what population concept is used. Some of the causes are tourism related, e.g., ski field villages and beaches, but increasingly fly-in fly-out work practices are having an impact, and this is likely to be less seasonal.

The central issue is whether the level and range of services provided by state governments in these locations are pitched at the itinerant population or the usual resident population.

The Commission says it has little data upon which to make a recommendation.

NSW Treasury considers the CGC should continue to use the usual resident census counts. If there is little data on which to make a change, NSWeasury sees no need for change.

To the extent that FI-FO is causing a rethink, it is arguable that since families are not involved state provision of services may not be a large issue. If employers provide many of the immediate services (such as healthcare and housing) that workers need when in the location, it is not clear that FI-FO need place additional demands on state services. If private providers (such as doctors and hotel-motel operators and their families) come in to provide the services they presumably would be counted in the usual resident population.

SARIA (2011 Census based)

On balance, NSW Treasury sees no compelling evidence for changing the current remoteness classification system used by the CGC. NSW Treasury supports the use of SARIA (with the 2006 criteria) using 2011 Census data.

NSW Treasury considers that either one or the other geographic classification – SARIA or ARIA – should be used, rather than some combination of the two. Picking and choosing assumptions from both risks an overall inconsistent approach. If the CGC decides to use some of the assumptions of ARIA, it should use ARIA as a whole.

In the 2010 location assessment the share of interstate freight in total freight expenditure was estimated by the Commission using judgement at 50 per cent, and given the high degree of uncertainty a 50 per cent discount was applied. The interstate travel assessment was also based on a number of assumptions.

In the absence of sufficient data, NSW Treasury considers interstate freight and travel costs should not be assessed. New South Wales does not believe their inclusion improves the horizontal fiscal equalisation process.