Tasmania
Explore the possibilities

2015 Review

Tasmanian Response to the Staff Discussion Paper CGC 2013-01

"Remoteness Classification"

Department of Treasury and Finance

May 2013

Tasmanian Position

- Tasmania recommends that the Commonwealth Grants Commission consider commissioning GISCA to produce a modified SARIA with:
    - permeable borders;
    - Hobart and Darwin to be towns of 48 000 to 250 000 rather than capital cities, and consider the Gold Coast and similar cities to be centres of over 250 000, rather than non-capitals over 48 000;
    - no truncation and;
    - potentially two versions (one with enumerated census counts to be used in some assessments and usual resident census counts to be used in other assessments).

General comments on the Staff Discussion Paper

State government costs and SARIA

1. Putting aside Tasmania's unique population distribution, nationally, and in general, moving away from state capital cities, towns tend to become smaller and more spread out. This poses a service delivery challenge for state governments whose head offices are in the capital city, which is the largest city in each state. However, just because policy development and planning occurs in the capital city and the majority of the population reside in and around the capital, does not mean that state government costs are a function of the remoteness of its population in any particular way. It is an empirical question.

2. SARIA, like ARIA, is an unambiguously geographical approach to defining remoteness. The index value of a town reflects costs residents of the town face only in so far as road distance is related to travel time, petrol consumption and car wear and tear should residents leave the town to travel to another town.

3. It is an empirical question as to how well the index is a proxy for cost of living/service provision differentials. For example, a given high index score could mean the town itself is small and isolated with very few goods and services available that are more costly due to a lack of competition and higher freight costs. In contrast, a large remote town, with a similar high index score, could have a critical population mass resulting in a variety of affordable goods and services and yet be two days drive from the capital city. Rockhampton (Queensland) and Dunalley (Tasmania) have a SARIA score of around 1.5 each despite Dunalley having a population of 310 people and Rockhampton having a population of around 60 000 people (a Category B service centre). While Rockhampton is seven hours from Brisbane and Dunalley is 40 minutes from Hobart, the question of

who is more remote (in other words disadvantaged) is not clear. It is also noted that Hobart is a Category B service centre in ARIA.

4. Also, of itself, SARIA says nothing about state government costs as state government service delivery models differ by state and deriving a national average (policy neutral) cost function due to location is an empirical question. SARIA does not 'reflect' state government costs, as such, but is used to validate a conceptual case about how state government costs are a function of where residents live.

5. For Regional Location, in the 2010 Review, regression of state service wage, non-wage and housing cost data against remoteness (as measured by SARIA) produced cost curves that were generally upward sloping, but this was not always the case. Individual state cost curves by remoteness were quite varied within and between schools and police. For example, for schools, the national average regional wage cost curve by remoteness showed 'Highly Accessible' and 'Accessible' regions to be equally costly regions; then the curve dipped down with 'Moderately Accessible' and 'Remote' as lower cost regions. Then the curve tipped up to show that 'Very Remote' regions are the highest cost regions. The 'Remote' and 'Very Remote' costs were then adjusted as evidence was found that states with 'Remote' areas tended to have their junior teachers in their remote areas, distorting the curve. The final curve had 'Moderately Accessible' as the low cost region and 'Remote' as almost equally as costly as 'Highly Accessible' and 'Accessible'.

6. It could be argued that the data were of poor quality, or it could be argued that the conceptual argument for higher wages by remoteness due to the need to entice workers to unattractive locations was simply not entirely correct for schools.

7. It could also be the case that what are deemed remote regions are not as remote as SARIA is measuring (for example due to use of untruncated indexes or the impermeable borders assumption and the distance to the capital city). Although, it is noted that the CGC have said that the difference between ARIA and SARIA is not very significant with few towns affected by these assumptions.

8. From State Visits during the 2010 Review, the CGC were concerned that the 'Remote' and 'Very Remote' costs were not high enough from what they had seen in the Northern Territory and Western Australia. The Commission considered increasing the tail ends of the cost curves using judgement. This was not pursued in the end, but it does illustrate that there is a tendency to assume that a state's population distribution affects state government service costs in a certain way and then attempts are made to manipulate the data to make it fit a conceptual case.

9. It is also the case that the data were not comparable across states and so an index was created relative to 'Highly Accessible' and an average of the indexes was derived as the national (policy neutral) cost curve by SARIA region.

10. It can be seen that Regional Location was a complex and controversial assessment area during the 2010 Review with numerous debates and problems with the data provided by states.

Options in the Staff Discussion Paper

Use the 2006 based SARIA in the next review

11. Although the Staff Discussion Paper suggests that SARIA+(2006) is an option for the 2015 Review, in reality, updating SARIA+(2006) with new Census data is consistent with 2010 Review methods (which is the starting point for the 2015 Review). Even if no change is made to the Location assessment methods, the development of SARIA+(2011) can still occur as it is a data update not a method change.

12. It is also the case that 2011 Census data are more robust than 2006 Census data. Therefore, using SARIA+(2006) as the remoteness classification to be used in the 2015 Review is not a credible option.

Use the 2011 based ARIA (ABS remoteness areas) in the next review

13. Should ARIA+(2011) be used instead of a new SARIA+(2011), the Staff Discussion Paper states that the most significant changes come from the change in treatment of Hobart and Darwin from capital cities to smaller centres. For Australia as a whole, there is not much difference between SARIA and ARIA. However, Tasmania and the Northern Territory become much more remote under ARIA, especially the Northern Territory.

14. It is certain that states like Western Australia, the Northern Territory and Queensland will not support ARIA+(2011) as it has truncated indices at three times the national average. This truncation is somewhat arbitrary and it is reasonable to conclude that state government costs do not necessarily level out at three times the national average. ARIA+(2011) would disadvantage states with relatively large amounts of people in remote and very remote areas.

15. Therefore, ARIA+(2011) is not a credible option as it has a truncation assumption that several states will not accept and any analysis of a new cut-off point is not possible in the time available. It is also the case that state government costs do not necessarily level out at three times the national average.

Commission a 2011 version of SARIA maintain the 2006 criteria

16. It appears that SARIA+(2011) is the default remoteness classification unless evidence can be produced that causes a switch to ARIA+(2011) or a modified SARIA.

17. It is also the case that there is a very tight timeframe for the remoteness classification debate. According to the Discussion Paper, by 20 June 2013, CGC Staff are seeking a decision from Commissioners on the remoteness classification to use. There is very

little time to verify the need for changes to SARIA+ (notwithstanding the fact that SARIA+ assumptions are not clearly verified either).

18. This means that any intensive data mining to support a conceptual case for even a change to SARIA+ may not produce enough evidence in the time allowed.

19. However, it is becoming clear that, conceptually, SARIA+ does have some flaws. Tasmania considers that the Commission should exercise judgement given the lack of time to produce and analyse evidence and given the persuasive conceptual cases regarding a change in SARIA's assumptions.

20. A modified SARIA is a more sensible approach as discussed below.

Commission a 2011 version of SARIA and adopt some of the following assumptions used in ARIA:

Borders are permeable

21. The Staff Discussion Paper states that the impermeable border assumption has a relatively minor impact on the differences between the two classifications (ARIA and SARIA) since very few towns are affected by it.

22. The Staff Discussion Paper states, conceptually, SARIA is probably better at capturing some costs state governments face in administering services. For example, Queanbeyan (NSW) does not get its school administrators from Canberra.

23. However, it is also likely that if the Buronga (NSW) public school toilets need fixing, the NSW government may hire a plumber to drive 2.4 km from Mildura (Victoria), rather than 156 km from Balranald (NSW). This would be captured in the regional non-wage assessment.

24. The Staff Discussion Paper states that the cost of goods and services sourced in Buronga (NSW), and the additional allowances required to pay staff to entice them to work in Buronga are likely to be lower than they would be if Mildura (Victoria) did not exist, and if the nearest capital city was 13 hours away, rather than the six hours it is to Melbourne. If this is true, it appears that these towns are not as remote as SARIA implies. In other words, less of a state's population would be classified as remote.

25. In the Staff Discussion Paper, paragraph 19 states, in terms of the use patterns of the population, the assumption of impermeable borders is inappropriate. The level of private or Commonwealth Government provision of services is unlikely to be affected by state boundaries. The job opportunities available to people and the impact that has on their use of services is also likely to be significantly affected by the proximity of towns across state borders. Populations in these towns may use services, or be offered services; more like accessible areas (the distance to Category A in one state is distorting how remote they really are). Tasmania considers that, conceptually, this is a reasonable hypothesis; however, it is not easily substantiated by reliable data in the time available.

26. In the Staff Discussion Paper, CGC Staff suggest that the 'impermeable borders' assumption in SARIA is probably false in reality. Because of the relatively small populations living in areas affected by this difference in classification, it has a relatively minor impact.

27. It is reasonable to assume that states generally do not provide services to residents of other states. When this does occur, there are bilateral or multilateral agreements to compensate the state that experiences a net increase in costs. Or, if there is no agreement, the CGC captures the impact in its Cross-border assessments if it is material and there are reliable data available.

28. On balance, Tasmania would recommend that the assumption that borders are not permeable should be relaxed in the new remoteness classification to be used in the 2015 Review as it makes no real difference between classifications, but more importantly, it is more realistic.

Consider Hobart and Darwin to be towns of 48 000 to 250 000 rather than capital cities, and consider the Gold Coast and similar cities to be centres of over 250 000, rather than non-capitals over 48 000

29. This potential change to SARIA+, or use of ARIA+(2011), is likely to have the most impact on the GST distribution.

30. While there is not enough time to fully substantiate Hobart as a Category B service centre, the existing remoteness classification's assumptions are not fully substantiated either (SARIA+ categorises Hobart and Darwin to be Category A service centres).

31. SARIA relies on road distance as a surrogate for remoteness (or ease of access to goods and services) and on the population size of a town or city as a surrogate for the availability of services. Road distance represents how easy it is to access services and town size (the destination) represents the range and quality of goods and services. However, these assumptions have not been clearly validated.

32. In 1999, GISCA did test the assumption that the range of services available from an urban centre is related to the size of its population when constructing the original ARIA. This has not been revisited since. According to GISCA, analysis showed that there was a relationship between population size and the availability of many commercial services. According to GISCA, there was also a relatively strong relationship between population size and the availability of services where government had a role in provision, funding or planning (for example health and education). No further detail was provided. This is not necessarily a sufficient validation of the assumption. No specific mention is made of state government services except health and education.

33. Conceptually, it would seem reasonable to expect that people do travel to bigger centres in their own state to access private sector services, Commonwealth Government services, state government services and local government services. People

may travel from their town to their capital city for certain state government services that are not available from any other large urban centre in their state. However, while Rockhampton is seven hours from Brisbane, it has approximately 60 000 people. Presumably this means travel to Brisbane would be quite rare by car for Rockhampton residents. The question is, why would a Rockhampton resident travel to Brisbane? How unique are capital cities in terms of being "the major focus of state government service delivery"? How superior are services in Brisbane compared to Rockhampton, or Hobart versus Geelong? While it is intuitively appealing that capital cities are the 'major focus' and have the best services (however defined) and this has been tested somewhat by GISCA, it remains an empirical question that has not been fully explored and validated during the development of ARIA and therefore SARIA.

34. SARIA's measure of remoteness includes a component for the distance from the state capital city, while in ARIA, this component is the distance from the nearest city of over 250 000 people. Large non-capital cities with over 250 000 people could have a range of state government and private goods and services that are of a good standard and could be similar to capital cities. This is an empirical question and one that does not appear to have been fully explored as it is (presumably) a difficult, time consuming and expensive exercise to undertake. While GISCA did some analysis of this question over ten years ago and found service levels, including government services, especially education and health, do increase with centre size, it is not clear whether services (the range and quality) continue to increase to the point where capital cities have the best state government and private goods and services (however defined). It is possible that goods and services available taper off at some critical population level so that a large non-capital city town has very similar state government and private goods and services to its capital city. For example, the Gold Coast (around 0.5 million people) may have a similar range and quality of state government and other services as Brisbane (1.9 million people).

35. States pay staff to work in unattractive places and remote areas may have higher non-wage costs for state governments, the question is, is SARIA overstating the unattractiveness (remoteness) of certain places and overstating the accessibility of Hobart and Darwin, for example, and all the benefits that accessible places have?

36. Paragraphs 13 and 14 of the Discussion Paper show evidence that use patterns in Hobart and Darwin are similar to smaller non-capital cities. SARIA is used to divide the population into groups that have different patterns of use of certain services. The question then is, do small capital cities have use patterns like other small cities? Do large non-capital cities have use patterns like large capital cities? It is unlikely that, in the time available, that this question can be fully assessed. However, Tasmania is of the view that, conceptually, it is the case that Hobart is more like a regional mainland town rather than a major metropolis like Sydney or Melbourne.

37. But, it should be noted that Tasmania and the Northern Territory have to provide the same suite of state government services as all other jurisdictions in the Australian

Federation. Presumably, like all other states, some services will be supplied in one location (most likely the capital city as it is the largest population centre).

38. While the Tasmanian Government does provide the full suite of state government services, the state's population distribution is unique or 'idiosyncratic' in that it is small and decentralised with four small urban centres. Other states have very large non-capital cities. Whereas Tasmania has a 50/50 split of its population in the north and south of the state and four main population centres that are very small by national standards (Hobart, Launceston, Devonport and Burnie).

39. This means that Hobart is likely to be more like a regional mainland town in terms of the availability of goods and services due to small scale and its impact on cost. The way people use state government services would likely be different as well. It is a question that requires analysis but the time available is too short. Judgement will have to be applied due to the lack of data at this time.

40. It is also the case that forcing Hobart to be Category A under SARIA, which differs from ARIA's treatment of Hobart, was not based on a thorough analysis of evidence, but more on an assumption based on its capital city status and Tasmania's statehood.

41. It is also noted that the CGC did change Darwin's remoteness categorisation in Admitted Patients because its characteristics were like that of a non-capital city small town, i.e. one with very few private hospital services available (i.e. like a more remote town with less private and public goods and services available).

Truncate the impact of distance at three times the national average

42. The Staff Discussion Paper questions whether truncation should occur should SARIA be used as the remoteness classification used by the CGC. According to GISCA, truncation occurs in ARIA to avoid very long distances from a large city from having a disproportionate impact on a town's remoteness. This implies that some very remote towns are not as remote or 'disadvantaged' as the SARIA index score would suggest as there are potentially Category B, C, D and E towns to access for goods and services, but these indices are overwhelmed by the very long distance to the capital city.

43. However, conceptually, it would be hard to argue against the idea that 'Very Remote' places, for example Broome, should be reclassified as Remote. Broome itself is large enough to have public and private goods and services available, however, an ARIA truncated index value of 9 for Broome compared to an untruncated SARIA score of 24.7 is a large difference. Broome is 1 800 kilometres from a Category C town, which is an example of just how massive the Australian continent is.

44. Tasmania acknowledges that the impact of distance on state government service delivery costs would not necessarily cease at three times the national average distance. It is also the case that untruncation is probably overstating the remoteness of some towns as extreme distances from a Category A city can overwhelm the index value.

45. Determining some other cut-off would be a very difficult exercise and not one that could be completed in the time available. Tasmania is therefore of the view that the real choice is between truncation at three times the national average and no truncation.

46. As discussed earlier, Tasmania recommends untruncation as the impact of distance on state government service delivery costs would not necessarily cease at three times the national average distance.

Use enumerated census counts rather than usual resident census counts.

47. ARIA uses enumerated census counts, while SARIA uses usual resident census counts. The 2011 Census appears to show that FIFO workers in particular are having a noticeable impact on town populations and therefore brings into question which Census count to use in the remoteness classification. The Staff Discussion Paper suggests that enumerated population may better reflect the nature of the service centre.

48. According to the Staff Discussion Paper, the central question is whether, given the itinerant nature of the populations in these towns, whether the level and range of services provided by both state government and non-state government providers are more similar to those of towns with similar usual resident populations or similar enumerated populations. The CGC have little data upon which to make a recommendation. Certainly Tasmania has no data to provide.

49. The characteristics of FIFO workers are an important issue. The majority of FIFO workers are probably male and do not fly in with their families or partners. The question is, are state government services planned for residential populations or the fairly recent phenomenon of FIFO workers? What type of state government services would FIFO workers use? It is likely that schools are not set up for the impact of FIFO workers. Hospitals, police and public order may be affected. This is a matter for states with many FIFO workers to inform the debate.

50. Also, FIFO worker use patterns may be different to a town's residents. States like Western Australia and Queensland may be able to shed some light on this question.

51. Tasmania acknowledges that the choice of enumerated population or usual resident population will be a significant issue in the 2015 Review, especially as it relates to Western Australia's concerns that some state government expenses related to mining may not be fully captured.

52. Tasmania acknowledges that, conceptually, a case can be made that FIFO workers are having an impact on state government services in certain categories, for example, conceptually, it may be that enumerated population would be more appropriate for, say, Services to Communities and Transport Services, while usual resident population would be better for other categories such as Schools and other social infrastructure related categories.

Conclusion

53. Tasmania recommends that the CGC consider commissioning GISCA to produce a modified SARIA since:

- the impermeable border assumption is not realistic on the whole (it also does not cause a significant difference between classifications);
- conceptually, Hobart and Darwin are likely to be more like smaller regional towns on the mainland in terms of the state government and private provision of goods and services and large non-capital cities are likely to be very well serviced like a capital city;
- truncation should not occur as it is impossible to know where the cut-off should be, notwithstanding the fact that untruncation probably does make some towns more remote than they really are; and
- enumerated population may be more appropriate for some assessments, while usual resident population may be more appropriate for other assessments.