

2025 Methodology Review Draft Report

Tasmanian Government Submission

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I Introduction

Tasmania welcomes the opportunity to make this submission in response to the Commonwealth Grants Commission's (Commission) Draft Report for the 2025 Methodology Review (Draft Report).

Tasmania would like to extend its appreciation to Commission staff for the assistance and consultation provided throughout the Review process to date.

This document provides Tasmania's response to the Draft Report. While Tasmania supports many of the preliminary positions expressed by the Commission in the Draft Report, there are some areas of concern that are discussed in more detail in the relevant chapters.

Tasmania has not commented on proposals that it supports or does not oppose.

The Commission has flagged its intention to issue addendums to the Draft Report for the mining revenue and transport assessments. Tasmania will comment on these assessment categories in a subsequent submission once the addendums have been provided.

While generally supportive of the proposed methodology in the Draft Report, Tasmania has provided comment on the following categories:

Schools

Tasmania opposes the use of the lowest socio-educational advantage (SEA) decile in the government schools regression.

Tasmania has significant concerns that the proposed change, while recognising the disproportionate impact of extreme disadvantage, fails to reflect costs associated with disadvantage more broadly or address the issue of compound disadvantage.

Tasmania contends that any methodology change which aims to recognise compound disadvantage should not result in a reduced proportion of assessed spending allocated to disadvantaged students. Nor should it fail to recognise material differences in the distribution of student disadvantage beyond the most disadvantaged 10 per cent.

Tasmania firmly believes that the recognition of compound disadvantage should be in addition to, rather than at the expense of, broader measures of disadvantage.

Health

Tasmania does not support the Commission's proposed changes to the community and public health assessment and asserts that the current proxy should be retained.

Tasmania remains concerned that the Australian Institute of Health and Welfare (AIHW) community mental health data are not complete or comparable at this stage and are therefore not fit for purpose.

In addition, there appear to be limited similarities between socio-demographic user populations of non-admitted allied health services and community and public health services.

There is insufficient evidence that the proposed changes will improve the assessment of this component or make it more responsive to developments affecting this part of the health system.

Housing

Tasmania does not support an individual-based assessment of social housing as it appears to overstate that additional expenditure is associated with household size and overcrowding.

Tasmania suggests that service costs may not necessarily change in direct proportion to the number of persons in the household and would support an alternative approach that appropriately balances the individual and household-based approaches, incorporating elements of both.

Should the Commission proceed with an individual-based housing assessment, Tasmania requests a review of the Indigenous cost loading to ensure it remains fit for purpose.

Roads

Acknowledging the limitations that exist in the current data, Tasmania is not opposed to the proposed methodology for the roads assessment. However, should better data become available, Tasmania encourages the Commission to reconsider both the drivers of urban road length and the make-up of the rural road network.

Wage costs

While Tasmania supports the proposed changes to the wage costs assessment, Tasmania is of the view that the Commission's model continues to overestimate the impact of Tasmania's relative lower private sector wages and as a result, underestimates Tasmanian public sector wage costs.

It is Tasmania's position that fundamental differences in Tasmania's private sector compared to its mainland counterparts are being overlooked. Tasmania has continued to investigate possible sources of bias and would welcome the opportunity to work with the Commission in any further analysis of this issue after the 2025 Methodology Review.

Socio-economic status

Tasmania supports the Commission's proposal to retain the 2020 methodology for socio-economic status.

However, Tasmania strongly supports the development of an appropriate methodology to capture the compounding impact of disadvantage across all expenditure assessments and welcomes the opportunity to work with the Commission going forward to develop improved measures.

2 Schools

The Commission has proposed the following changes to the schools assessment in the Draft Report:

- change the threshold for socio-educational disadvantage in both the government and non-government schools components;
- include cost weights for secondary students and fixed costs for secondary schools; and
- monitor and, if necessary, amend the measures associated with First Nations students.
 - In the proposed methodology, a First Nations students variable is included. Future updates using the proposed methodology would allow for a change to reflect potential changes in the funding of First Nations students and the interaction with funding of other groups. For example, if appropriate, the Commission could include a variable for concentration of First Nations students in a school or a variable for First Nations students in remote schools.

Tasmania is supportive of the Commission’s proposal to include secondary school variables in the 2025 methodology. However, Tasmania notes that the conceptual case is not as clear for the proposed changes in the non-government schools assessment relating to socio-educational disadvantage and First Nations variables.

Tasmania does have significant concerns with the proposed methodology for socio-educational disadvantage in the assessment of government schools.

2.1 Changing the threshold for socio-educational disadvantage in government schools

The Commission’s current methodology estimates state need for expenditure on government schools using a regression model which incorporates the key drivers of state spending, including socio-educational disadvantage.

Currently, the Commission measure of socio-educational disadvantage uses a regression variable for students in the most disadvantaged quartile of the SEA measure. This measure was developed by the Australian Curriculum, Assessment and Reporting Authority (ACARA) to capture the occupational and educational status of students’ parents.

In its submission to the schools consultation paper, the Northern Territory noted that “the Territory’s government school student profile is characterised by a high share of Indigenous, remote and socio-economically disadvantaged students”.¹ The Northern Territory submission raised (among other issues) that the current methodology fails to adequately account for the degree of disadvantage and incorrectly assumes that there is no interaction between different forms of disadvantage.

¹ Northern Territory response to Tranche 1 consultation papers, page 15.

In response, the Commission has investigated alternative forms to the current socio-educational disadvantage variable, stating:

The Commission has found that in government schools, the most disadvantaged 10 per cent of students attract considerably higher funding than the 11th to 25th percentiles of students. This supports the Northern Territory's contention that the current method underestimates the needs of the most disadvantaged students.²

The Commission is now proposing to change the threshold of socio-educational disadvantage in its regression from the lowest 25 per cent to the lowest 10 per cent. In the Draft Report, the Commission notes that this more granular assessment results in a small (1 per cent) improvement in the explanatory power of the model and a lower amount of total spending allocated to disadvantaged students.

Tasmania supports the Northern Territory's contention that multiple forms of disadvantage have a compounding impact on service delivery. Tasmania has consistently made similar conceptual arguments, most recently during the Commission's visit to Tasmania in March 2024.

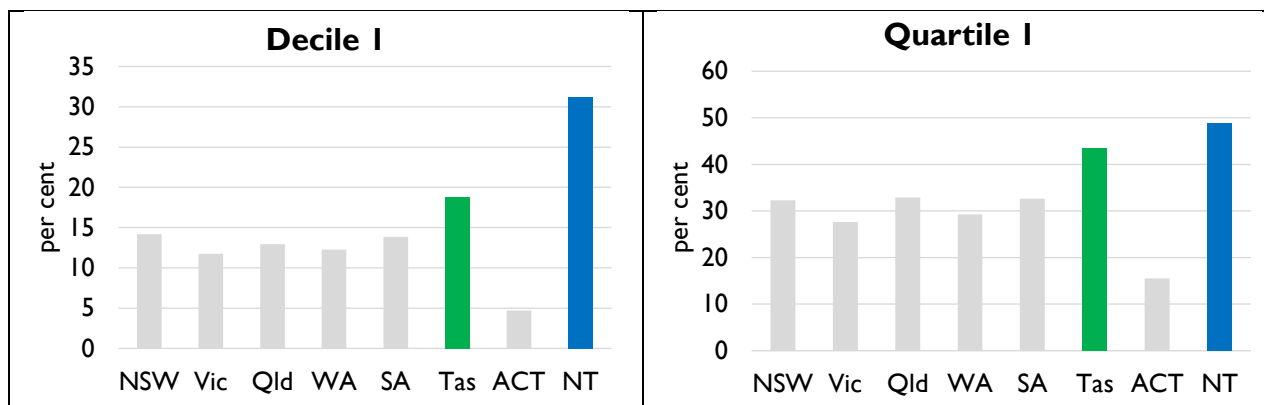
Tasmania would like to acknowledge the intent and the importance of reviewing the socio-educational disadvantage variable. Tasmania strongly supports the development of an appropriate methodology to capture the compounding impact of disadvantage across all expenditure assessments. However, Tasmania has significant concerns that the proposed change, while recognising the disproportionate impact of extreme disadvantage, fails to address the issue of compound disadvantage. Tasmania firmly believes that the recognition of compound disadvantage should be in addition to, rather than at the expense of, broader measures of disadvantage.

State funding encompasses all students, including all levels of advantage and disadvantage. Generally speaking, schools with higher proportions of disadvantaged students will receive larger allocations than those with a lower level of disadvantage. Tasmania is concerned that reducing the threshold for socio-educational disadvantage may reduce the achievement of horizontal fiscal equalisation (HFE) by not fully recognising the needs of students with more moderate levels of disadvantage.

As shown in Figure 1, the relative distribution of students in the most disadvantaged quartile differs to the relative distribution of students in the lowest decile. However, across both measures, the distribution for both the Northern Territory and Tasmania is markedly greater than other jurisdictions.

² Paragraph 54, schools chapter, Draft Report

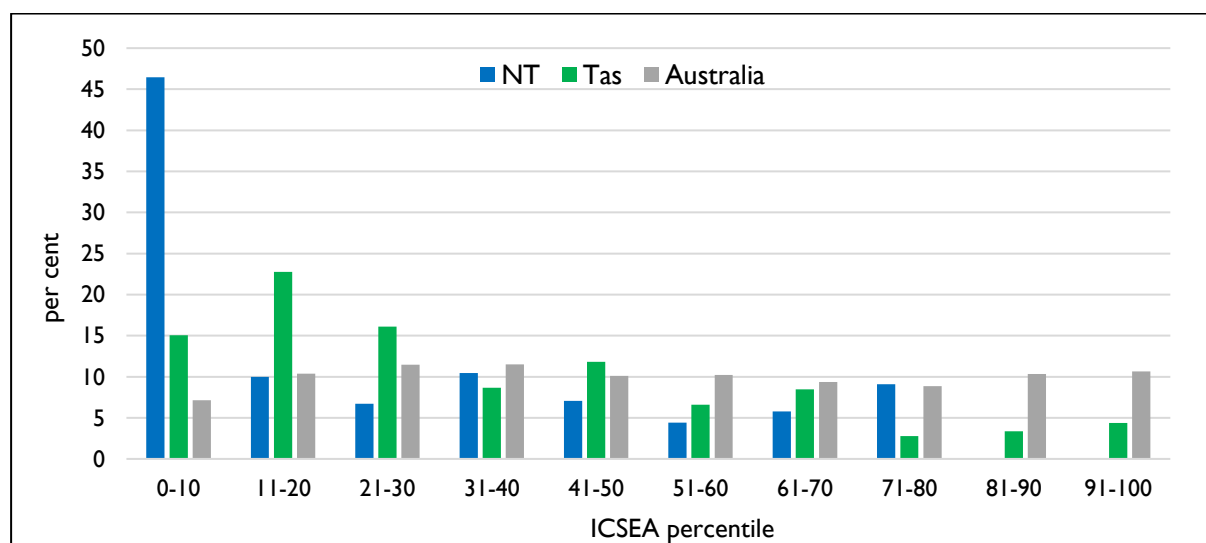
Figure 1: Proportion of students in the most disadvantaged socio-educational decile and quartile, government schools, 2021



Source: ACARA schools data presented in Figure 3 of the schools chapter, Draft Report.

While states and territories (states) can access quartile level SEA data, the proposed more granular decile level SEA data are not available to states for analysis. As such, Tasmania has examined the Index of Community Socio-Educational Advantage (ICSEA) as a proxy for the SEA at decile level. ICSEA is a scale of socio-educational advantage that is computed for each school. As demonstrated in Figure 2, Tasmania has a much higher proportion of students in the second and third most disadvantaged deciles than all other states.

Figure 2: Proportion of students by ICSEA decile, government schools, 2023



Source: ACARA schools data, School Profile 2023.

The Commission has noted a lack of confidence in its model when considering the two decile levels above the most disadvantaged. The Commission also noted unexpected results when testing other combinations of variables for socio-educational disadvantage including the bottom two quartiles and both the bottom decile and quartile simultaneously. Tasmania is concerned by these findings and would suggest that this is likely to be due to multicollinearity across the various measures of disadvantage. Tasmania does not consider the negative cost weights to be evidence that moderate levels of disadvantage are not associated with state expenditure, rather they perhaps indicate that this is not a suitable approach for capturing compound disadvantage.

Moreover, Tasmania is concerned that the Commission's proposed change results in a reduction in the assessed need for expenditure relating to disadvantaged students. Rather than recognising the varying degrees of disadvantage, the proposed change effectively

discounts all but the most extreme disadvantage and delivers some perverse results. For example, the proposed methodology would increase the assessed GST needs of the ACT, despite its below-average proportion of disadvantaged students, and decrease the assessed GST needs of Tasmania, which has an above-average proportion of disadvantaged students.

The Commission appears to justify the proposed change to the methodology on the basis of a minor improvement in the fit of the model. In light of the concerns raised in this section, Tasmania does not believe that to be compelling evidence that HFE is improved with this approach. Furthermore, the proposed approach appears to address a singular element of the Northern Territory's concerns at the expense of recognising the differentiating costs of government schools for moderate and extreme disadvantage.

Tasmania would support an improved approach to capture the impact of disadvantage, both on a compounding basis across drivers of disadvantage and more granular linear consideration across the spectrum of moderate and extreme.

However, Tasmania does not support the current proposal as it appears to only recognise extreme disadvantage at the expense of other valid drivers of states' costs. As the bottom SEA quartile as a group has a sound conceptual basis and also gives reliable model estimates, Tasmania recommends that the Commission retain the current SEA variable based on the bottom quartile for the 2025 Methodology Review.

3 Health

The Commission has proposed the following changes to the health assessment in the Draft Report:

- treat the Commonwealth payments for public hospital and public health services under the National Partnership on COVID-19 Response as impact and assess state spending associated with the national partnership on an actual per capita basis;
- base the non-state sector adjustment for admitted patients on privately insured patient expenses, instead of privately insured patient separations; and
- update the assessment of community and public health as follows:
 - use the AIHW data on ambulatory community mental health to determine per capita use rates for mental health services for the socio-demographic groups used in the health assessment; and
 - expand the current proxy for activity (emergency department triage categories 4 and 5) to include selected non-admitted patient services, applied to the balance of the component.

Tasmania is broadly supportive of the proposed health assessment. However, Tasmania has several concerns with the proposed changes to the community and public health component.

3.1 Assessment of community and public health

In the current methodology, the health category is assessed in five components. The community and public health assessment represents approximately 13 per cent of the overall health category and is based on the use of proxy data to estimate service use and cost.

The current proxy used to estimate activity is national weighted activity unit data on emergency department triage categories 4 and 5. These are lower priority emergency department services which provide treatment for less severe injuries and chronic or minor conditions. This data set was chosen for a number of reasons including that the activity is closer than other emergency department services to the types of primary health services provided in community health centres.

Tasmania notes that during the 2020 Methodology Review, the Commission was able to validate the use of emergency department triage categories 4 and 5 as a proxy using community health service data provided by some states. However, the ongoing use of the proxy data was questioned through the COVID-19 pandemic when emergency department triage activity was being driven by different factors and did not reflect the significant increase and change in the pattern of state spending on community and public health.

For the 2025 Methodology Review, the Commission has been investigating whether the community and public health assessment can be improved, either through the development of a direct measure of activity or through an alternative proxy indicator of activity based on a broader measure of hospital services.

3.1.1 Ambulatory community mental health services

In the Health consultation paper, the Commission proposed adding a sub-component to the methodology to directly assess community mental health using adjusted activity data from the AIHW. Tasmania and several other states raised data concerns with this approach. These data concerns included inconsistency in reporting between states, lack of cost weights for episode length and complexity, and a lack of data to associate costs with socio-demographic composition and remoteness.

Noting concerns that the services covered by AIHW data do not represent the full range of community mental health services provided by states, the Commission has proposed to narrow the proposed sub-component. In the Draft Report, the revised approach is to directly assess specialised community mental health activity for ambulatory services only, that is, those services delivered in non-residential and non-admitted patient care settings.

Expenses relating to ambulatory services are a relatively small proportion of community and public health expenses, representing around 18 per cent of total related expenses in 2022-23. The Commission has proposed that the remainder of the community and public health assessment will continue to be based on the use of proxy data (see 3.1.2 below).

In the proposed methodology, the Commission will combine expenditure data from the Productivity Commission's Report on Government Services (RoGS) with activity data from AIHW.

As noted in Tasmania's submission to Tranche 1 papers, while Tasmanian community mental health activity data capture is good, Tasmania's expenditure data need more time to develop and improve. Tasmania has concerns that the community mental health data available in RoGS may not be complete or comparable between and across jurisdictions and therefore are not yet fit for purpose. These concerns extend to the ambulatory services component.

Moreover, the Commission has noted that the ambulatory services captured are predominantly provided in major cities and inner regional areas and are much less common in outer regional and remote areas. Therefore, Tasmania is concerned these data may significantly underestimate the costs of delivering community mental health services to Tasmania's dispersed population.

Tasmania is also concerned that the scope of ambulatory services differs across the proposed RoGS and AIHW data sets. For example, same day admitted patient care and 'in reach' services are included in RoGS³ and excluded from AIHW⁴. The additional services included in RoGS may cause the proposed assessment to overstate the share of spending on the ambulatory mental health service sub-component.

In summary, Tasmania lacks confidence in the scope of the proposed datasets for this assessment and the consistency and representativeness of data between states. Taken together with the absence of cost weights to account for the complexity and length of service contacts, Tasmania does not believe the proposed assessment for ambulatory community mental health is an improvement over the existing methodology.

³ See definition of Ambulatory mental health care service, <https://meteor.aihw.gov.au/content/699980>

⁴ See data attributes of Community mental health care NMDS 2021-22, <https://meteor.aihw.gov.au/content/727348>

As a result of these ongoing data concerns, Tasmania does not support the Commission's proposal to introduce an ambulatory community mental health assessment in the 2025 Methodology Review.

3.1.2 Community and Public Health - balance of assessment

As noted above, the Commission is also seeking to introduce an alternative proxy indicator of activity based on a broader measure of hospital services beyond the emergency department. Specifically, the Commission is proposing to expand the current proxy for activity to include a subset of non-admitted patient allied health services.

In the Draft Report, the Commission notes that its analysis has indicated that there are no consistent patterns of use or target population groups within the community and public health component, and therefore no way of determining an overall pattern of socio-demographic use. Nonetheless, the Commission has indicated a desire to use a proxy measure with service use rates for each socio-demographic group that are broadly in line with actual use rates of community and public health services.

The Commission states in the Draft Report:

The merits of broadening the proxy indicator to include all, or a subset of, non-admitted patient services have been assessed on the basis of similarity of service types and level of access to non-admitted patient services compared with community and public health services. This is on the assumption that if service types and access levels are similar then socio-demographic usage patterns would be similar.⁵

If the Commission decides to proceed with an expanded proxy, Tasmania does not support the inclusion of COVID-19 clinics as the Commission has proposed a separate assessment of COVID-19 related expenditure.

More broadly, Tasmania is concerned that the assumed relationship between non-admitted patient services and community health services has not been tested. It is not clear why socio-demographic usage patterns should be similar between these different service types.

In the Draft Report, the Commission attempts to demonstrate similarities between these service types by comparing general service categories and wait times. However, Tasmania is concerned that these are not directly comparable. For example, data for public dental services indicate a very long waiting period of 630 days, primarily due to the inclusion of adults placed on a general or prosthetic public dentistry waiting list.⁶ However, adults waiting for prosthetics are not representative of the majority of public dental services, which are predominantly targeted at younger people and children.

Another example is cancer screening services. The Commission's analysis also draws comparisons between a 58 day wait time from a positive cancer screen to a diagnostic assessment for bowel cancer. Tasmania contends that while the community health service in this case is the screening test itself, individuals who receive a positive test must then see their GP for a specialist referral.⁷ Diagnostic assessments for bowel cancer are performed by a gastroenterologist or colorectal surgeon which would not be classified as a community health service.

⁵ Paragraph 83, Health chapter, Draft Report

⁶ See data scope of the [Public Dental Waiting Times national minimum data set](#)

⁷ [National Bowel Cancer Screening Program | Australian Government Department of Health and Aged Care](#)

While the Commission's analysis looks at general service categories and wait times, Tasmania contends that there are other factors likely to impact usage patterns. As Tasmania noted in its submission to the Health consultation paper, community health services are self-referred whereas non-admitted patient services are accessed via referral from a GP. Tasmania would suggest that service characteristics such as location, access (via referral) and target patient groups would likely result in different socio-demographic usage patterns between non-admitted patient and community health services.

Tasmania notes that during the 2020 Methodology Review, the Commission was able to validate the use of emergency department triage categories 4 and 5 as a proxy using community health service data provided by some states. Tasmania suggests that the reasonableness of any subsequent change or expansion to this proxy should also be tested using state data.

Overall, the proposed expansion of the current proxy appears to add complexity to the model, without any evidence that it improves the reliability of the assessment. As such, Tasmania does not support expanding the current proxy to include non-admitted patient services.

Moreover, Tasmania would suggest that the major concern with the current proxy related to a finite issue, COVID-19, which has now resolved. Tasmania notes that the finite nature of implications from the COVID-19 pandemic are considered by the Commission, supported by state feedback, to have no ongoing implications for the health assessment. As such, it is Tasmania's position that the Draft Report does not appear to evidence an improvement to the 2020 methodology for this element.

In summary, Tasmania is not convinced that a relationship between non-admitted patient and community health usage patterns exists. Nor does Tasmania believe there is a need to change the proxy for a category that has no consistent patterns of use or target population groups. The current proxy has been validated with state data, and Tasmania therefore recommends the Commission retains its current approach to Community and Public Health for the 2025 Methodology Review.

4 Housing

The Commission has proposed the following changes to the housing assessment in the Draft Report:

- introduce an individual-based assessment; and
- introduce an adjustment to rebalance the social housing/non-social housing split in ABS census data using AIHW data on social housing households.

Tasmania is not opposed to the Commission's proposal to introduce an adjustment to the social housing/non-social housing split to address data issues with the ABS census data. Tasmania notes that this change is only expected to affect the assessment of needs for investment in social housing via a change to the capital stock factor.

However, Tasmania is concerned by the proposed introduction of an individual-based social housing assessment.

4.1 Introducing an individual-based assessment

The housing assessment considers recurrent social housing service costs such as maintenance, rent collection, and other property management activities. The current method of assessing social housing service expenses uses national average social housing usage rates by households within socio-demographic groups (low income, remoteness, and indigeneity). This means that, under the current methodology, the assessed need for services considers a household as one unit of service regardless of the number of persons in the household.

In its Draft Report, the Commission provided evidence that for some states (particularly the Northern Territory), there is a large difference between their national share of population (individuals) and national share of households, particularly in remote areas, which may be attributed to overcrowding.

The Commission indicated that overcrowding may lead to underestimated levels of assessed social housing expenses under the current household-based measure. That is, a state with below average levels of housing stock per capita is assessed as having below average social housing expense need regardless of household size.

To address this issue, the Commission has proposed that an individual-based assessment would better reflect the drivers of state spending. The proposed change will distribute GST according to the number of persons assessed to require social housing, rather than the number of households.

Tasmania recognises that the number of people is one of the key drivers of states' expenses associated with the provision and maintenance of social housing. However, it is unclear whether there is a direct linear relationship between household size and recurrent expenses for states.

Households vary in size for a multitude of reasons. Generally, public and community housing is typically one to three bedroom dwellings, whereas housing specifically for Indigenous communities typically has three or four bedrooms. AIHW data indicate that while most social housing dwellings meet the size requirements for their household composition (80 per cent in 2023), a portion of dwellings are either underutilised (15 per cent) or

overcrowded (5 per cent).⁸ This is caused by a mismatch between the available stock of dwellings and the needs of households. As at June 2023, around 60 per cent of public and community housing households consisted of a single adult.⁹

Tasmania would suggest that service costs may not necessarily change in direct proportion to the number of persons in the household. Rather, some costs will be more closely related to the number of dwellings. For example, expenses for planned maintenance (the scheduled replacement, upgrade or renovation of properties) would be expected to increase based on the number of dwellings but is unlikely to vary with the number of residents in a household. Similarly, costs associated with routine checks and inspections to ensure compliance with health and safety, legislative and duty of care obligations would be expected to increase in line with the number of dwellings, not the number of individual residents.

On the other hand, it seems reasonable to expect expenses for responsive property maintenance to vary depending on the number of residents per dwelling as more people living in a household may lead to more wear and tear or damage. Similarly, tenancy management services (which include allocations, lease sign ups and renewals, rent management, property inspections and tenancy issues) are likely to increase somewhat with the number of residents but not necessarily in a linear fashion.

Tasmania acknowledges that states may incur some additional costs in relation to household size and overcrowded housing. However, the proposed methodology appears to overstate that additional expenditure rather than appropriately balance the drivers of providing and maintaining social housing across jurisdictions.

Tasmania would suggest there is merit in investigating the relationship between social housing expenditure and household size to better understand the actual cost drivers of servicing households of varying sizes.

On balance, Tasmania believes this issue needs further consideration, and suggests the Commission incorporates this into its forward work program.

4.2 Indigenous cost weight

The current methodology includes a driver of costs for Indigenous-specific social housing to account for a range of higher relative costs such as larger household sizes, higher mobility, and overcrowding. The Commission proposes to retain the current Indigenous cost weight of 1.2 for the 2025 Methodology Review.

The Indigenous cost loading was introduced in the 2020 Methodology Review, which the Commission justified by:

Data collected from States and data from the Productivity Commission show that it costs more to provide social housing to Indigenous households compared to non-Indigenous households. This is mainly due to larger household sizes, high mobility of the Indigenous population and overcrowding.

The 2016 Census also shows that the average household with at least one Indigenous person had 3.2 people and 10 per cent of this population resided in a dwelling with seven or more people. This is in comparison to a non-Indigenous household which had

⁸ AIHW Web report, Housing assistance in Australia 2024, <https://www.aihw.gov.au/reports/housing-assistance/housing-assistance-in-australia/contents/about>

⁹ AIHW Web report, Housing assistance in Australia 2024, <https://www.aihw.gov.au/reports/housing-assistance/housing-assistance-in-australia/contents/about>

2.6 people and 3 per cent of this population resided in a dwelling with seven or more people. Overcrowding increases wear and tear, which requires additional maintenance attendances. In addition, the high mobility of the remote Indigenous population necessitates additional tenancy management services to ensure that users of social housing are known and paying rents.¹⁰

While Tasmania supports the continued application of the Indigenous cost loading for the 2025 Methodology Review, it is unclear whether a fundamental change to methodology from a household to an individual basis would overlap with the impact of this cost driver.

In other words, Tasmania agrees that overcrowding is likely to increase social housing service costs and suggests that the current household-based approach in conjunction with an Indigenous cost weight approach in part addresses this additional cost. Changing to an individual-based approach and retaining the Indigenous cost weight may result in overstating the cost from overcrowding.

Should the Commission proceed with its proposal to introduce an individual-based housing assessment, Tasmania requests that the Commission review the Indigenous cost loading to ensure it remains fit for purpose.

¹⁰ Commonwealth Grants Commission 2020 Methodology Review Final Report, paragraphs 28-29, page 207.

5 Roads

Following consideration of state views, the Commission proposes to retain the 2020 Methodology Review assessment method with four modifications:

- the rural road network no longer includes routes to mines, national parks, gas wells and ports;
- the urban/rural split for light and heavy vehicle traffic volume is held constant for the duration of the review instead of being updated every two years;
- Rawlinsons cost gradient is used rather than the general cost gradient; and
- the assessment is discounted by 12.5 per cent.

Tasmania broadly supports the proposed assessment of roads for the 2025 Methodology Review.

Tasmania notes that, in the absence of a clear conceptual case, the Commission has proposed to retain population as the driver for urban road lengths despite a strong inverse relationship between population density and road length in capital cities.

Tasmania also notes the Commission's proposal to reduce the rural road network on the basis that it will simplify the model and avoid implying an unrealistic degree of precision.

Acknowledging the limitations that exist in the current data, Tasmania is not opposed to these approaches. However, Tasmania welcomes the Commission's commitment to investigate the suitability of a new data set—the National Service Level Standards—when it becomes available. Should better data become available, Tasmania would encourage the Commission to investigate whether both the drivers of urban road length and the make-up of the rural road network remain appropriate.

6 Wage costs

Following consideration of state views, the Commission proposes to:

- continue to use relative private sector wage levels as a proxy for relative public sector wage costs;
- continue to use the ABS Characteristics of Employment survey as the data source to measure differences in wage pressures between states;
- use hourly wages rather than weekly wages as the dependent variable, and to disregard the biased estimates from 2020 when constructing relative state wage cost;
- include three categories of usual working hours in the model to capture hourly wages;
- replace work experience and work experience squared with five-year age groups;
- maintain its suggested criteria for including control variables in the model, and to weigh these criteria against each other when considering a variable that does not strictly meet all criteria;
- maintain its ordering of stepwise inclusion of variables in the model, exclude detailed industry controls from the model and remove the gender interaction terms;
- smooth data over time using the proposed method but not to incorporate newer years of data into earlier estimates to avoid revision effects;
- maintain a 12.5 per cent discount, reflecting continuing general uncertainty about measurement issues and the use of the private sector wages proxy; and
- treat all categories in the same manner, and to estimate wage costs by applying the ratio of overall total wage to non-wage expenses to the other expenses in every category

Tasmania supports the proposed changes to the wage costs assessment such as smoothing data, changes to the model specification, and changes to the wage/non-wage split. However, there remain concerns with the overall methodology.

6.1 Private sector wages as a proxy for public sector employees

The wage costs methodology uses adjusted private sector wage levels as a policy-neutral proxy to assess public sector wage pressures. Tasmania has consistently raised concerns that this approach does not reflect public sector wage pressures faced by the State.

Tasmania continues to have concerns with the use of this proxy and remains of the view that national markets can affect public sector wage setting, particularly in Tasmania. Tasmania's concerns have been raised on numerous occasions and highlighted in the presentation to Commissioners during their visit to Tasmania in March 2024.

In its submission to the wage costs consultation paper, Tasmania also raised the possibility that the indirect method currently used to measure geographic wage pressures may be inadvertently biased by unidentified non-geographic influences. Tasmania identified

workplace size and employee health as potential factors that may impact the wage costs assessment.

Tasmania acknowledges the Commission's investigation of these potential sources of omitted variable bias in the Draft Report. As the ABS Characteristics of Employment survey data set does not include workplace size, the Commission used alternative data sources including the Household, Income and Labour Dynamics survey data (HILDA) and Person Level Integrated Data Asset (PLIDA) data to investigate a possible bias.

Tasmania notes the significant limitations highlighted by the Commission with regard to these datasets, including the small sample size of HILDA and the significant impact of COVID-19 on the employment data in PLIDA (which comes from the 2021 Census). Nonetheless, Tasmania notes that the Commission was unable to rule out the possibility that the omission of workplace size is biasing the wage costs assessment. As a result, the Commission has stated its intention to continue to investigate this issue after the 2025 Methodology Review as further data become available.

Tasmania maintains its position that the Commission's model overestimates the impact of Tasmania's relative lower private sector wages and as a result, underestimates Tasmanian public sector wages. Notwithstanding the adjustments made by the Commission, Tasmania considers modelled private sector wages are too low for Tasmania to be representative of its public sector wages.

It is Tasmania's position that fundamental differences in Tasmania's private sector compared to its mainland counterparts are being overlooked. Tasmania has continued to investigate possible sources of bias and would welcome the opportunity to work with the Commission in any further analysis of this issue after the 2025 Methodology Review.

In addition to the ongoing investigation of workplace size, Tasmania would encourage the Commission to investigate the impact of regionality on wage costs. Tasmania notes there is a documented effect of regionality on wages, in that incomes are typically higher in capital cities.¹¹ Given Tasmania has the highest proportion of its population living outside the capital city, at 56 per cent compared to 32 per cent nationally, this may be a factor influencing the wage costs assessment.

As noted above, Tasmania is supportive of the proposed methodology changes for 2025, which aim to simplify the model and reduce the volatility of its wage costs relativities. Nonetheless, while the current private sector proxy is less policy contaminated than a direct measure of public sector wages, Tasmania remains of the view that it has significant limitations and encourages the Commission to again revisit its methodology before the next methodology review.

¹¹ Drew, J. (2018). Regional Inequality; Why It Matters, Why it Occurs and How It Might Be Addressed.

7 Socio-economic status

Tasmania notes that the Commission proposes to:

- retain the 2020 Methodology Review measures of socio-economic status for First Nations people and non-Indigenous people; and
- following the 2025 Methodology Review, the Commission proposes to work with states to identify if measures of First Nations and non-Indigenous socio-economic status can be developed that better meets the needs of the Commission than its current approach.

The Commission assesses socio-economic status to recognise the higher costs incurred by states in providing services to disadvantaged individuals, households and areas. Currently the impact is captured linearly in relevant expense assessments using a broad area-based approach.

Tasmania agrees with the conceptual case raised by the Northern Territory in its submission to the schools and socio-economic status consultation papers that complex disadvantage has a compounding effect on service provision costs. Tasmania is encouraged by the Commission's acknowledgement within the schools draft methodology of the additional costs associated with the most disadvantaged students. However, as discussed in the schools assessment, Tasmania believes that more work is needed to develop an appropriate methodology to capture this impact.

While the Commission's proposed change in the schools assessment does not address the issue of compounding disadvantage (because the proposed change captures only the extremes of disadvantage rather than the spectrum of moderate and extreme), Tasmania welcomes this line of enquiry.

Tasmania is strongly supportive of the Commission's continued investigation into the appropriate measurement of socio-economic status, particularly as new datasets mature, and welcomes the opportunity work with the Commission going forward to develop improved measures.

8 Acronym Table

Acronym	Definition
ABS	Australian Bureau of Statistics
ACARA	Australian Curriculum, Assessment and Reporting Authority
AIHW	Australian Institute of Health and Welfare
GP	General Practitioner
GST	Goods and Services Tax
HFE	Horizontal fiscal equalisation
HILDA	Household, Income and Labour Dynamics in Australia
ICSEA	Index of Community Socio-educational Advantage
PLIDA	Person Level Integrated Data Asset
RoGS	Report on Government Services
SEA	Socio-educational advantage