

**TASMANIAN GOVERNMENT RESPONSE TO PRODUCTIVITY COMMISSION  
DRAFT RESEARCH REPORT  
ECONOMIC IMPLICATIONS OF AN AGEING AUSTRALIA**

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## Introduction

Overall, the Tasmanian Government considers the analysis undertaken by the Productivity Commission (the Commission) in the draft research study, the *Economic Implications of an Ageing Australia* (the draft report), is sound. In a number of respects it represents an important advance on the analysis contained in the Commonwealth Treasury's *Intergenerational Report* (2002).

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The Tasmanian Government considers the Commission's analysis of the drivers of population ageing and its likely economic and fiscal impacts for Australia as a whole to be robust.

However, the Tasmanian Government has some specific concerns relating to the presentation of the Commission's conclusions, particularly in relation to the relative fiscal pressures facing the Commonwealth and state and territory governments (the states) and in relation to the relevance of certain assumptions to Tasmania. This response will address these and related issues in the following order:

1. Presentation of conclusions;
2. Commonwealth-State financial relations;
3. Excess expenditure growth;
4. Tasmanian demographic assumptions;
5. Health expenditure assumptions;
6. Education expenditure assumptions;
7. Housing assistance assumptions;
8. Public order and safety expenditure assumptions;
9. Transport expenditure assumptions; and
10. Policy responses.

## 1. Presentation of conclusions

The base case presented in the draft report represents the Commission's best judgment as to the likely long-term demographic, economic and fiscal developments that Australia is facing, assuming constant policy settings. However, given the uncertainty surrounding many of the assumptions made in constructing this base case, the Tasmanian Government considers that in a number of instances, particularly in the 'Key Points;' at the start of each chapter, the draft report attaches too great a degree of certainty to its base case. The Tasmanian Government believes that there would be benefits to the Commission undertaking a more complete analysis of the implications of a number of alternative scenarios. In a report of this nature, there is a trade-off between considering a sufficiently wide range of alternative scenarios and in reaching clear and meaningful conclusions.

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The Commission has provided a range of arguments to support its base case. The Tasmanian Government appreciates that there is a risk of the report losing focus if it is expanded to consider too wide a range of possible alternative scenarios. However, it would be useful for the Commission to provide a more complete analysis of the economic and fiscal implications of varying a number of key assumptions simultaneously. For example, the study would be advanced if it contained projections of the economic and fiscal outcomes arising from alternative demographic scenarios such as the P1 and P2 scenarios described on page 2.36 of the draft report. It is important that the report adequately consider the circumstances under which the fiscal pressures facing Australian governments might be worse than under the base case and the likelihood of such circumstances arising.

## 2. Commonwealth-State relations

The Tasmanian Government has significant concerns in relation to the Commission's characterisation of the differences in fiscal pressures facing the Commonwealth and the different states. The Tasmanian Government's concerns relate to two issues – the likely future growth in Commonwealth Specific Purpose Payments (SPPs) and the adequacy of Horizontal Fiscal Equalisation (HFE) for addressing differences in age-related fiscal pressures between states.

### 2.1 Specific Purpose Payments (SPPs)

Chapter 13 of the draft report presents the Commission's conclusions concerning the overall level of fiscal pressure facing Australian governments and the incidence of this between the Commonwealth and the states. The Commission projects that under its base case, age-related government spending would increase by 6.8 percentage points of GDP by 2044-45, with 6.1 percentage points of this borne by the Commonwealth Government and 0.7 percentage points by the states. This conclusion is contingent on the Commission's assumption that Commonwealth SPPs (SPPs) to the states grow in line with the projected demand for the relevant state government services.

The Tasmanian Government notes that the Commission has qualified this assumption by considering the possibility that the growth in demand for services may outpace the growth in SPPs, with the resultant fiscal pressure being borne by the states. However, the Tasmanian Government considers that the draft report does not adequately capture the high degree of uncertainty surrounding future growth in SPPs and that the Commission's conclusions, in their current form, could easily be misinterpreted or misused in future negotiations on SPPs.

The concerns of the Tasmanian Government in relation to SPPs could be addressed, in part, by changes to the presentation of the draft report, with a greater emphasis in Chapter 13 on the uncertainty surrounding the future growth in SPPs. Moving some of the material in Appendix J to Chapter 13 would address this issue.

More broadly, the Tasmanian Government believes that the report should draw a fundamental distinction in its consideration of Commonwealth expenditure between different areas of Commonwealth expenditure. For example, personal benefit payments, Medicare, and the Pharmaceutical Benefits Scheme (PBS). These are Commonwealth responsibilities and in some cases, set out in legislation, and SPPs which relate to areas of state responsibility and represent a discretionary contribution by the Commonwealth to the relevant area of state government expenditure.

The report should place more emphasis on the fact that the states will experience demand pressures on some of these services, particularly health-related services, regardless of the Commonwealth's contribution, and will face significant fiscal pressures should the Commonwealth choose not to increase SPPs in line with the demand for these services. The presentation of fiscal pressures in Table 13.1 should therefore be amended to reflect the fact that, rather than the projected increase in age-related expenditure being split discretely between the Commonwealth and the states, some of this fiscal pressure will be borne unambiguously by the Commonwealth, some unambiguously by the states and some will be borne by the states but may be offset by increased payments from the Commonwealth.

The Tasmanian Government considers that the report should place greater emphasis on the problems that arise if states incur significantly greater fiscal pressures. In Appendix J, the Commission considers the possible responses available to the states, should they be forced to finance a greater share of the increased demand for services from population ageing than under the base case. The responses include borrowing, increases in state taxes and greater recourse to service rationing or user-pays arrangements.

There is some scope for addressing the cost of population ageing through improvements to the efficiency of state government services, including by improving coordination between levels of government in those areas where state and Commonwealth responsibilities interact (such as the interface between acute care and aged care). However, some of the long-term costs associated with population ageing will need to be financed through changes to taxation arrangements. The Tasmanian Government does not wish to comment on possible future changes to Commonwealth taxation policy, however, given the relative narrowness of state taxation bases if any adjustments to tax rates or bases are necessary to offset some of the fiscal pressures arising from population ageing, it would be more appropriate, on both equity and efficiency grounds, that this primarily occur at a Commonwealth level.

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<sup>1</sup> Draft report pp. J.13 – J.14.

The scenario of SPPs failing to grow in line with the demand for services means that some or all states need to increase taxes or limit the services that they provide. It is likely that this would disadvantage those states that are projected to age faster than Australia as a whole, as it would reduce the competitiveness of their tax arrangements or reduce the scope and quality of the services available to residents of those states relative to national standards. The impact of this would be compounded by the fact that those states, historically have had lower levels of economic activity than the national average and hence narrower tax bases. It is the Tasmanian Government's view that this discussion of the undesirability, in terms of equity and efficiency, of the states bearing a greater share of the costs of population ageing than the base case be more explicit and given greater prominence in the report.

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The Commission's consideration of possible state responses to relative reductions in SPPs recognises that the shifting of fiscal pressures to the states through reductions in SPPs would be undesirable. The Commission notes that the Commonwealth has "wider tax and other policy options available to meet the fiscal pressures of ageing."<sup>2</sup> However, this discussion is confined to Appendix J. There would be benefits if the base case were made more explicit and was explored further.

The Commission could give greater prominence to its recognition in Appendix J that, even if SPPs grow in line with the demand for state government services in the long-run, there is likely to be a lag between the response by state governments to increased demand and any corresponding increase in SPPs by the Commonwealth.<sup>3</sup> This presents the opportunity for the Commonwealth to shift fiscal pressures to the states by cutting or inadequately indexing SPPs than placing similar constraints on own-purpose expenditure in periods of budget difficulties. This suggests that the Commonwealth's capacity is unlikely to respond quickly to fiscal pressures on the states arising from population ageing because of the more direct fiscal pressures it will also be facing.

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## 1.2 Horizontal Fiscal Equalisation (HFE)

In Chapter 11, the draft report states that:

...States that are more exposed to future fiscal pressures associated with ageing are likely to receive greater distributions of the national GST revenue. This facet of HFE renders redundant any calculations of the future distribution of GST among jurisdictions.<sup>4</sup>

The Commission further notes that, in its judgement:

...ageing-related risks posed by any defects associated with HFE were likely to be small. Since the Commonwealth Grants Commission also takes account of SPPs to individual States in its recommendations for allocating GST revenue, HFE is also likely to deal with most ageing related risks posed by individual State SPPs.<sup>5</sup>

<sup>2</sup> Draft report p. J.14.

<sup>3</sup> Draft report p. J.15.

<sup>4</sup> Draft report p. 11.13.

<sup>5</sup> Draft report p. J.16.

The Tasmanian Government agrees with the Commission's general conclusion that states that are more exposed to future fiscal pressures associated with ageing, other things equal, are likely to receive greater distributions of the national GST revenue. However, the Commonwealth Grants Commission recommended relativities for any given grant year are based on a five year average of earlier years' data, the most recent of which lags the grant year by two years. These data lags result in timing discontinuities which delay the HFE adjustment. That is, current demographic needs may not be reflected in the current grant outcome but only reflected with a lag in subsequent grant outcomes.

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The Commission's second statement (cited above) implies that there will not be any significant relative net future ageing-related fiscal differentials between states because the future HFE assessments will correct for these.

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The current HFE process recognises service cost differentials between states due to differences in demographic age structures. While the principle is broadly accepted by all states, the appropriateness of the specific socio-demographic "use" and "cost" weights assigned at any given point in time is a source of contention between the states. It is likely these debates will escalate in the future as the relative age-related spending impacts become more significant. Emerging ageing population impacts, as yet unrecognised within the HFE assessment framework, will further exacerbate this. For example, it is already evident that coastal communities around Australia are experiencing localised regional pressures due to age-driven intra-state and/or inter-state migration. It remains to be determined whether the scope of, and magnitude, of ageing impacts will be recognised appropriately in the future HFE method.

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The report also underestimates the likely fiscal pressures faced by the states in the short term and the resulting differential impacts on states. Abstracting from issues around the appropriateness of the HFE method, in principle, the HFE mechanism would correct for age-related deficiencies in the interstate distribution of SPPs. However, it cannot correct for deficiencies in the overall quantum of SPP funding. As noted above, even if the Commonwealth were to index SPP appropriately in the longer term, there is likely to be a short-term adjustment period when the level of Commonwealth SPPs will not keep pace with the growth in demand. States, as front-line providers of the underlying services, will be required to fund the shortfall. Notwithstanding the HFE adjustment mechanism, those states at the forefront of the ageing-related demand impacts (such as Tasmania) will be disproportionately exposed to these short term fiscal pressures.

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The Tasmanian Government therefore considers that the Commission's statements that the "age-related risks posed by defects associated with HFE were likely to be small" and that "HFE is also likely to deal with most ageing-related risks posed by individual State SPPs" do not sufficiently take into account the potential fiscal risks faced by some states in respect of the HFE mechanism.

### 3. Excess expenditure growth

The Tasmanian Government notes that the Commission has sought to limit its consideration of long-term cost pressures facing governments to areas of government responsibility, where ageing might reasonably be expected to influence demand for services. In this respect, the Commission's study differs from both the Commonwealth Treasury's *Intergenerational Report* and the Access Economics model used by the states. Both contain projections of growth in expenditure in areas that are unlikely to be affected by ageing, such as defence and environmental protection. There is potential for the report to present a misleading picture of future fiscal pressures facing different levels of government if non-demographic pressures are treated inconsistently across different areas of expenditure.

In projecting future health expenditure, the Commission has estimated historical rates of excess expenditure growth (i.e. per capita expenditure growth that cannot be attributed to ageing, or rising real incomes, or general price inflation). Based on historical trends, the Commission has assumed an annual rate of excess expenditure growth of 0.5 per cent for all areas of health expenditure except pharmaceuticals where the rate of excess expenditure growth is assumed to be four per cent initially, before declining over the projection period. Given the Commonwealth's responsibility for the PBS, this assumption has the effect of building a higher rate of expenditure growth into projections of fiscal pressures on the Commonwealth, relative to the states, than if such excess expenditure growth were not considered.

In its draft report, the Commission has not considered whether similar rates of excess expenditure growth should be used in projecting other areas of expenditure, whether by the Commonwealth or states. The risk then is that the results presented in Chapter 13 may be misleading as they include fiscal pressures other than ageing in some areas of expenditure and not others.

The Tasmanian Government recommends that the Commission considers the following approaches:

- present in Chapter 13 only the fiscal pressures directly attributable to ageing instead of all fiscal pressure in areas of "age-related" expenditure (i.e. treat non-ageing fiscal pressures as relevant insofar as they compound the effects of ageing);
- as far as practicable, include estimated historical rates of excess expenditure growth in the projections for other areas of expenditure for the Commonwealth and states;
- clarify in Chapter 13 that the fiscal pressures considered refer only to age-related areas of expenditure and that a range of non-ageing fiscal pressures in these and other areas of expenditure have the potential to lead to significantly different outcomes from those presented.

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4. Tasmanian demographic assumptions

The most recent Australian Bureau of Statistics (ABS) estimates show that Tasmania’s level of net inward interstate migration in the two yeas to June 2004 averaged 2 185 persons per year compared to net outward migration of 1 500 persons per year assumed in the ABS Series B population projections. Tasmania has recorded two years of positive net growth after 11 years of net outflows. While the recent turnaround in the State’s net interstate migration outcome is likely to have a cyclical component, the experience of the two years to June 2004 suggests that Tasmania may experience improved rates of growth than the more pessimistic assumptions of the ABS Series B. It was for this reason that the Tasmanian Government used an assumption of zero net interstate migration for Tasmania in most of the scenarios modelled in its submission to the Commission.

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The Commission undertook to develop some revised population projections in conjunction with the ABS to take into account recent trends in Australian fertility and net overseas migration. The Tasmanian Government understands that the Commission and the ABS have also considered whether any changes should be made to the Tasmanian net interstate migration assumptions. While, other things being equal, the assumed level of net interstate migration for Tasmania does not affect the projected economic and fiscal impact of ageing at a national level, it is still a determinant of the rate of population ageing in Tasmania and the Tasmanian Government recommends that the report present the Commission’s consideration of alternative assumptions.

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5. Health expenditure assumptions

5.1 Interaction of aged care and acute care

Chapter 7 of the draft report considers the likely impact on aged care and carer payments expenditure of population ageing. The Tasmanian Government considers that there is a significant omission in this chapter as it does not examine the interaction between the aged care and hospital systems.

The draft report is correct in identifying that, based on current expenditure shares and projected future aged care needs, most of the fiscal pressure from ageing on aged care will be on areas of Commonwealth responsibility. However, it is the Tasmanian Government’s view that the report should acknowledge that, on current policy settings, Commonwealth expenditure on aged care is unlikely to keep up with growth in demand for aged care and, as a result, some costs will be shifted to the states’ hospital systems. On current policy settings, aged care expenditure, particularly for residential aged care, is largely controlled by supply not demand. For example, while expenditure on an individual in residential aged care is determined by that person’s care needs as assessed by the Resident Classification Scale, an individual’s access to a residential aged care bed is limited by the supply of places made available by the Commonwealth Government.

The Commonwealth funds residential aged care places at a predetermined benchmark rate, based on the population aged 70 years and over. As the Commission notes in the draft report, the proportion of persons using aged care services increases rapidly above age 80.<sup>6</sup> In Tasmania, persons aged 85 years and over have been generally recognised as the main users of aged care services.

<sup>6</sup> Draft report p. 7.2.

The number of people aged 85 years and over is projected to increase at a faster rate than the population 70 years and over. In Tasmania, in 2004, it was estimated that persons aged 85 years and over represented 15.9% of the population 70 years and over. However, by 2045, it is projected that, under ABS Series B, persons aged 85 years and over will represent 28.2% of the population aged 70 years and over. Therefore, it is anticipated that demand for residential aged care services will increase at a significantly faster rate than the supply of residential aged care places based on the current benchmark.

When the demand for residential aged care exceeds supply, the burden of care shifts to the hospital system and therefore increases health expenditure by the states. This may take the form of patients admitted to hospital as ‘nursing home type patients’ until a residential aged care bed becomes available. As a consequence, on current Commonwealth policy settings, the projected increase in aged care expenditure is unlikely to occur to the extent assumed by the Commission will be reflected in an even greater increase in hospital expenditure. In addition to the impact of an inappropriate benchmark for the supply of aged care services, there are a number of other factors that will contribute to additional pressure on health expenditure.

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Policies to encourage people to stay at home as long as possible, rather than enter residential aged care, result in increased demands for hospital services, particularly for people who are unable to be maintained in the community while they wait for residential aged care placement. The provision of aged care services has a ‘user-pays’ component. The individual aged care recipient’s contribution to the cost of their care has increased since 1997 and the level of this contribution is likely to increase further, particularly in respect to the accommodation component of care.<sup>7</sup> As a consequence, a greater number of people are expected to choose to not purchase aged care services, resulting in increased demands on the hospital system. Persons in residential aged care with initially low care needs but whose care needs increase, have those needs met by the aged care service. Clients receiving a Community Aged Care Package (CACP) have equivalent care needs as a low care resident. When these clients’ care needs increase, their care needs are met, in part, by the hospital system until high care residential placement can be made or an Extended Aged Care at Home (EACH) package is available.

The provision of EACH packages is increasing relative to the number of residential aged care beds. These packages provide aged care services to people with high care needs but unlike residential high care, these services do not provide for 24-hour supervision. When a client’s care needs exceed the capacity of the package, that person is likely to require hospital services until residential aged care placement can be arranged. While CACP and EACH packages for many people are a preferable alternative to residential aged care, they have limitations and it is the acute care system that must address these limitations.

In considering likely future trends in disability rates for older persons, the draft report does not comment on the potential impact of rising obesity levels, although the Commission comments on the potential impact of obesity on health costs elsewhere in the draft report.<sup>8</sup> The Australian Institute of Health and Welfare (AIHW) estimates that the proportion of older Australians who are obese was around 23 per cent in 2000. The AIHW notes that:

<sup>7</sup> Percival, Richard and Kelly, Simon *Older Australians: Incomes, assets, regional variations and residential aged care*, National Centre for Social and Economic Modelling, December 2003, p. 13.

<sup>8</sup> For example on p. 13.8 of the draft report.

Obese older Australians are at a greater risk of ill health from chronic disease, disability and social impairment. The increasing number has implications for health care costs, for carers and their wellbeing and for aged care services.<sup>9</sup>

The Tasmanian Government considers that the Commission should give consideration to how trends in obesity levels might affect future disability rates, thereby compounding the pressures on aged care services from population ageing.

## 5.2 Disability services

While the draft report considers the likely impact of ageing on Commonwealth expenditure on the Disability Support Pension, it does not consider the potential impact on other services to disabled persons. In 2002-03, the Tasmanian Government spent \$38 million on welfare services for persons with a disability, rising to \$40 million in 2003-04. The most common form of disability services provided in Tasmania is community-based accommodation support. Ageing within the disability services client group leads to greater demands on the existing services as conditions deteriorate or clients develop secondary impairments. Persons receiving disability accommodation tend to age in place rather than access residential, or home and community based, aged care services. The ageing of persons providing informal care for disabled persons is also likely to place greater pressure on services such as respite day support and accommodation support.

## 5.3 Health labour force issues

Another possible source of fiscal pressures in health services that is not considered in the draft report are constraints on labour supply in the health professions, particularly with high projected rates of population ageing such as in Tasmania. Ageing in the health workforce may lead to labour shortages at the same time as ageing in the wider population increases the demand for health services. In small jurisdictions such as Tasmania such shortages are likely to be more acute as a number of factors, such as a lack of undergraduate or post-graduate training in certain disciplines, the perceived isolation of the state and the rural nature of many positions, make it more difficult to recruit and retain health professionals.

## 6. Education expenditure assumptions

In projecting the long-term growth of state government own-sourced expenditure on school education, the Commission has made a number of assumptions concerning participation rates and the share of enrolments in government and non-government schools.

The Commission has assumed that school participation rates do not vary between jurisdictions and that, based on national trends, that participation rates for school education remain constant at their 2003 levels over the projection period. This is consistent with national data which show a levelling-off in school participation rates from around 1993.

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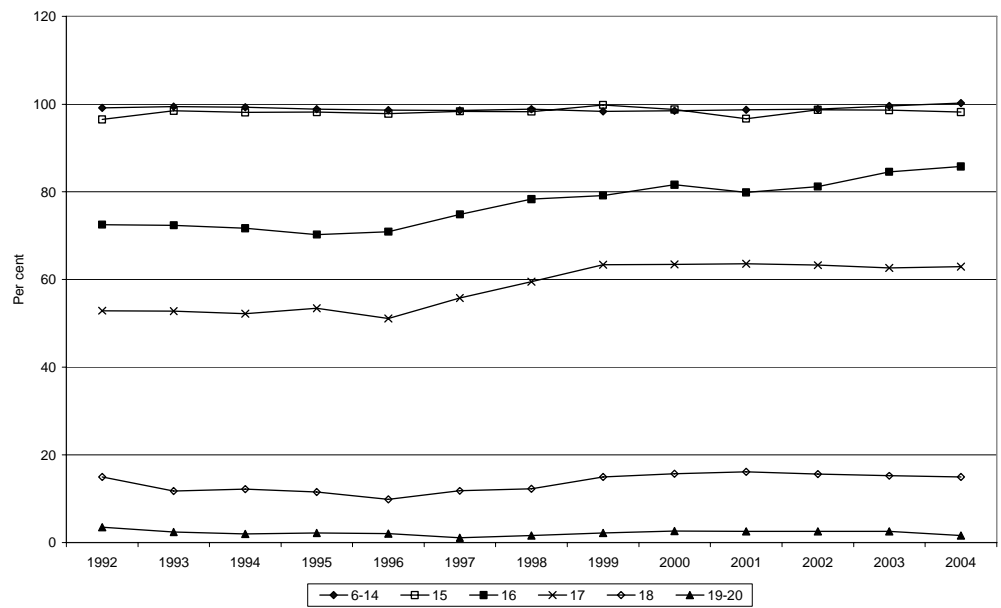
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<sup>9</sup> AIHW Bulletin *Obesity Trends in Older Australians*, Issue 12, 12 February 2004, pp. 1 and 6.

Data provided by the Tasmanian Department of Education show that in 2003 Tasmania recorded higher participation rates at ages 16 and 17 than the national average. If Tasmanian participation rates for 2003 are assumed to apply for the projection period, the decline in projected student numbers is very slightly lower than if the national rates are applied to the ABS Series B population projections for Tasmania.

More significantly, the assumption of constant participation rates by age is unlikely to hold for all age groups in Tasmania. Tasmanian data for the period 1992 to 2004, as shown in Chart 1, indicate that this assumption is reasonable for most age groups, though the participation rates for persons aged 17 and 18 have only levelled off after 1999. However Chart 1 shows that Tasmanian participation rate for persons aged 16 is still rising.

Chart 1: Tasmanian school participation rates by age group, 1992 – 2004



Source: Tasmanian Department of Education and ABS 2004, *Population by Age and Sex, Australian States and Territories* (Cat. No. 3201.0). Until 1996, the 19-20 age group only includes persons aged 19. These data are available on request.

Further increases in Tasmania’s school participation rate for persons aged 16 are likely to be supported by recent policy changes as part of the Tasmanian Government’s *Guaranteeing Futures Strategy* which involves the minimum school leaving age increasing from 16 to 17 from 2008. All persons aged less than 17 will be required to be attending education or training, or be in full-time employment. Modelling undertaken by the Tasmanian Department of Education indicates that this legislation has the potential to affect between 800 to 1 000 persons of approximately 13 700 persons in the target age group of ages 16 and 17. It is unclear at this stage what proportions of this affected group are likely to engage in each of the three options available (education, training and full-time employment).

In relation to the relative shares of enrolments in government and non-government schools, the Commission has assumed a slowly abating rate of decline in the share of students attending government schools. The Commission has assumed that, consistent with recent national trends, the share of students attending government schools declines initially at a rate of 0.4 percentage points per year, with the rate of decline reducing to 0.1 percentage points per year by 2044-45.<sup>10</sup> Given that own-sourced expenditure by state government is higher per student for government schools, this assumption leads to lower projected own-sourced education expenditure by the states than would otherwise be the case.

The assumed rate of change in the shares of students attending government and non-government schools may exaggerate the extent of the shift that can be expected in Tasmania. The ABS data obtained by the Commission shows that, for Australia, the average annual decline in the share of government students over the 20 years to 2003 was 0.4 percentage points per year. This trend has been slower in Tasmania. In the 20 years to 2004, the average decline in the share of Tasmanian students in government schools was 0.3 percentage points per year. This was also the average decline for the five years to 2004. The Tasmanian and Australian trends in student shares are compared in Chart 2 below.

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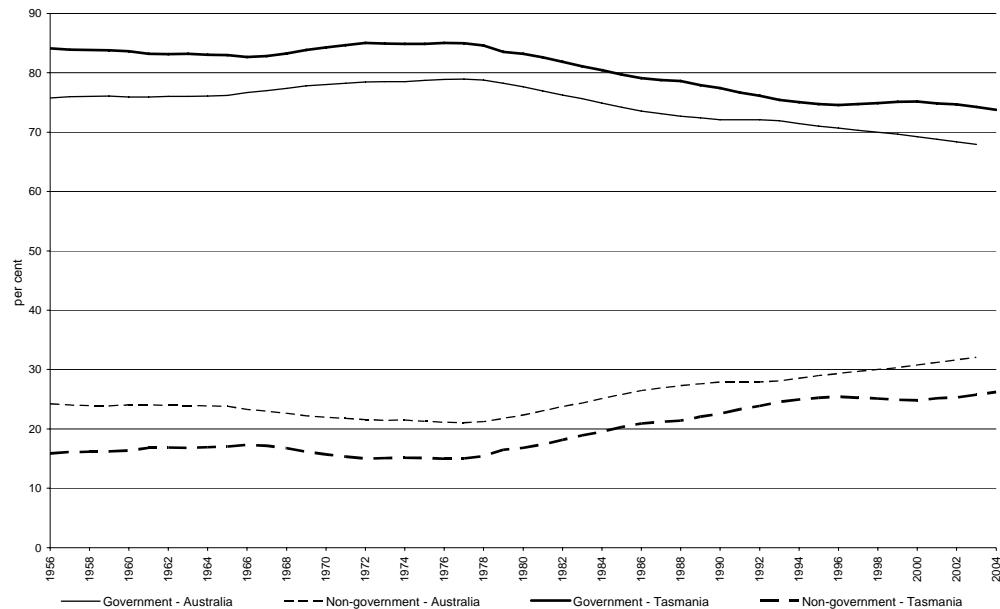
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**Chart 2: Proportions of enrolments in government and non-government schools – Tasmania and Australia**



Source: ABS 2004, *School Student Numbers by Age, 1956 to 2002*, special request by Productivity Commission consistent with ABS Schools publication (Cat. No. 4221.0). Tasmanian data for 2004 provided by the Tasmanian Department of Education.

<sup>10</sup> Draft report p. 9.6.

The Tasmanian Government suggests that the Commission should give consideration as to how variations between states in the recent trends in school enrolments should be incorporated into its projections of school expenditure.

An important caveat on the analysis of school participation and the public private shares in Tasmania and Australia is that the ABS data used by the Commission are for full-time enrolments. Tasmania has a disproportionately large share of part-time enrolments, which are almost exclusively in the public system. In 2003, there were 2 578 part-time secondary students in government schools in Tasmania compared to 16 in the non-government sector. In 2003 part-time students accounted for only 0.7 per cent of enrolments nationally but represented 3.1 per cent of total enrolments in Tasmania. The exclusion of part-time students has the effect of understating both participation rates for the non-compulsory years of schooling and the share of enrolments that are in government schools. Between 1995 and 2003, Tasmanian part-time enrolments grew by an average of 0.5 per cent per year while full-time enrolments declined by 0.3 per cent per year. The data using full-time enrolments therefore understate the trend towards higher participation in senior secondary education and slightly overstate the trend towards non-government schooling.

There is clearly evidence of greater community expectations of schools with schools now expected to provide students with a greater range of employment-related and life skills beyond those traditionally considered core responsibilities. Schools are also required to respond to an increasingly diverse student body, with very diverse needs and attitudes to education, particularly at a senior secondary level. These factors will all tend to increase the costs of providing public school education.

A significant component of education expenditure is teacher salaries. In 1998 and 1999, Tasmania experienced a period where teacher salaries grew faster than the national average. This was a result of policy being amended to link Tasmanian teaching salaries to the national average. Salaries are likely to grow in line with the national average, which represents a relative cost burden on Tasmania compared to other jurisdictions.

In projecting expenditure on Vocational Education and Training (VET), the draft report assumes that participation rates for VET increase initially in line with current trend rates based on data for the period 1994 to 2002.<sup>11</sup> Data from the Australian National Training Authority show that between 1998 and 2002 the Tasmanian VET participation rate for persons aged 15 to 64 increased by 0.35 percentage points to 10.1 per cent while the national rate experienced lower growth of 0.28 percentage points to 11.8 per cent. Tasmania experienced faster growth than the national average growth in participation rates for persons aged between 20 and 64.<sup>12</sup> Declines in the Tasmanian VET participation rates for ages 15 to 17 over this period can be attributed to the expansion of VET programs in secondary schools that are not included in the VET sector participation data. While it is difficult to draw long-term conclusions from the period from 1998 to 2002, given Tasmania's lower rates of VET participation at present, it is likely that the State will experience faster growth in participation rates than Australia as a whole, at least in the immediate future.

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<sup>11</sup> Draft Report pp. 9.7 – 9.8.

<sup>12</sup> Australian National Training Authority, Reports on Key Performance Measures for the Australian Vocational Education and Training System, based on National Council for Vocational Education Research data and ABS *Population by Age and Sex, Australian States and Territories* (Cat. No. 3201.0).

In public VET, unit costs have decreased substantially over the past five years. Efficiency measures, less resource underutilisation and growth in lower cost training have contributed to this. It is likely that this trend has reached its limit and that unit cost will increase over the coming years.

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## 7. Housing assistance assumptions

The draft report considers future trends in housing assistance in terms of the impact of ageing on Commonwealth expenditure on rent assistance and on the number of persons demanding public housing. The draft report does not project growth in expenditure on public housing but indicates that if the projected increase in demand for public housing is met, the share of expenditure as a proportion of GDP would increase over the projection period.<sup>13</sup>

The Tasmanian Government considers that a number of additional factors that are likely to influence future housing assistance expenditure should also be considered by the Commission. A significant issue for state housing services is a misalignment of the stock of housing to the profile of clients. Much of the existing public housing stock was designed for families requiring mostly three-bedroom houses. The trend towards smaller household sizes means that public housing clients typically require smaller one or two bedroom homes. In Chapter 11 of the draft report, the Commission projects a continued trend towards smaller households, driven by factors such as ageing and family breakdown.<sup>14</sup> Given that older persons are more likely to use public housing, this trend may be stronger amongst public housing clients than for the wider population. While, due to real reductions in funding under the Commonwealth State Housing Agreement, the pace of realignment in the housing stock has been slow to date, demands for changes to the nature, as well as the size, of the public housing stock are likely to be a source of fiscal pressure for the states into the future.

In the foreseeable future, there are likely to be constraints on the ability of the private rental market to absorb increased demand for low-cost housing by low income older persons. The fragmented nature of the private rental market has been identified as one reason why there is an undersupply of low-cost housing.<sup>15</sup> The shortage of low-cost housing will become more acute if there is a continuation of the trend observed by the Commission in Commonwealth expenditure away from public housing towards rent assistance.<sup>16</sup>

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The Tasmanian Government also notes that there will be a range of issues relating to the majority of older persons who own their own homes which will require greater attention as the population ages. For example, the preference of older persons to remain in their own homes, and policies intended to encourage this, will put increased pressure on a range of services such as Home and Community Care (HACC), other non-residential aged care programs and public hospitals. The HACC program provides assistance for home maintenance, which is likely to come under greater demand pressure as greater numbers of older persons seek to stay in their own homes.

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<sup>13</sup> Draft Report pp. 10.8 – 10.9.

<sup>14</sup> Draft report pp. 11.16 – 11.17.

<sup>15</sup> Berry, Mike; Whitehead, Christine; Williams, Peter; and Yates, Judith *Financing Affordable Housing: A Critical Comparative Review of the United Kingdom and Australia* (Australian Housing and Urban Research Institute, November 2004), pp. 54-55.

<sup>16</sup> Draft report p. 10.6.

Other issues likely to receive more attention in future include the difficulties experienced by some older persons in relocating to more suitably sized homes and the implications of such relocation decisions by older persons for the mix of the housing stock, for urban and regional planning and patterns of service delivery. Governments will face challenges in delivering services to older persons in certain regional centres with limited service provision but where large numbers of older persons choose to relocate for lifestyle or housing affordability reasons.

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## 8. Public order and safety expenditure assumptions

In considering the potential for population ageing to influence future levels of expenditure on public order and safety, the Commission examines data on offender rate by age and on victimisation rates by age for assault, robbery, murder and attempted murder and sexual assault. The data indicates that younger persons are much more likely to commit crimes and to be victims of crimes against the person. In considering the argument that the fear of crime rises with age, the Commission concludes, based on the ABS survey of *Crime and Safety 2002*, that while older Australians were more likely to feel unsafe in their homes, this was only by a small margin.<sup>17</sup>

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Tasmanian Police has provided data collected by AC Neilson on behalf of all Australian police services. These data are collected more frequently and from a larger sample than the ABS survey. While these data are not directly comparable to the ABS data, they indicate a similar pattern in relation to feelings of safety in the home of older persons feeling less safe but not by a large margin. They indicate that older persons are much less likely than other persons to feel safe in settings outside their homes such as public transport.

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The existing data on crimes against the person may not provide an entirely accurate picture of the incidence of crime by age. Tasmanian Police has advised that elderly persons are more susceptible to certain property crimes such as home invasions and fraud, the latter in part because of a significant increase in the average level of savings available for investment by retirees.

Significantly, the consideration of offence and victimisation rates by age, or levels of concern about crime by age, at a particular point in time is unlikely to provide a useful picture of future trends in crime rates. For example, total reported number of victims of crimes against the person in Tasmania rose by 51 per cent between 1998 and 2002 while the number of victims of crimes against property fell by 27 per cent over the same period. Such significant changes over a relatively short period are likely to have been driven largely by non-demographic factors.

Public order and safety has been an area of considerable change within the community and in policy terms over recent years. Key drivers of future expenditure include a trend of increased reporting of crimes such as sexual assault, child abuse and domestic violence. The last of these is the subject of recent policy changes in Tasmania, encompassing legislative change and an increased focus by police on domestic violence. The emergence of new crimes, such as those relating to the internet, will also continue to place pressure on public order and safety expenditure.

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<sup>17</sup> Draft report pp. 10.15 – 10.18.

9. Transport expenditure assumptions

In considering the potential impact of population ageing on transport expenditure the Commission has examined data that show that rates of usage of public transport are highest at younger ages, and concludes that, on current policy settings, population ageing may reduce relative public spending on transport concessions. The Commission also notes that most jurisdictions provide subsidised school travel, which often includes dedicated school bus services and may be a source of cost savings as the number of school-age children declines.<sup>18</sup>

The Tasmanian Government accepts that population ageing is likely to reduce the number of students requiring transport to and from school. However, it is unclear whether this will result in substantial cost savings, at least in the short to medium term. As fixed costs make up a high proportion of total costs, unless student numbers fall sufficiently to enable bus sizes to be reduced or some services to cease, a decline in student numbers may not significantly reduce student transport expenditure (the Commission makes a similar argument with respect to schools).

A potential source of increased transport costs, albeit a relatively small one, arising from population ageing, is the added costs of licensing for older drivers who require regular assessment of their fitness to drive. This should be acknowledged in the Commission’s discussion on the use of private vehicles by older persons.

10. Policy responses

The draft report correctly emphasises the importance of productivity growth in improving the wellbeing of Australians, and in providing an expanding income tax base to assist in closing the fiscal gap that would otherwise emerge. However, the Tasmanian Government considers that the draft report does not place sufficient importance on the role of economic reform in encouraging productivity, boosting economic growth and stimulating investment and employment.

It is therefore recommended that Chapter 13, which examines the implications of population ageing, contain a section that discusses the importance of the Commonwealth and states and territories ensuring that the legislative and regulatory environment is conducive to economic growth. One very clear example is National Competition Policy, under which the Commonwealth and the states and territories accepted a set of obligations to promote competition where it is in the public interest, facilitate access to infrastructure and to ensure that public sector businesses compete on level terms with private sector businesses.

~~In relation to programs to improve labour market outcomes, including reducing unemployment and increasing participation, the report should recognise that these are policy areas where both Commonwealth and state governments can make a contribution. In light of the challenges posed by an ageing population, it is important that both levels government continue to work to improve information sharing and program coordination.~~

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<sup>18</sup> Draft report pp. 10.10 – 10.12.