



## Queensland Treasury Response to Commonwealth Grants Commission Draft Report Attachment 14

### **Services to Communities**

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## **SUMMARY OF QUEENSLAND'S POSITION**

Queensland generally supports the Commission's approach to the Services to Communities assessment. However, further work is still required before the methodology can be finalised.

Queensland supports the assessment of water general subsidies using the population in small communities, as in these communities the cost of water per capita is more expensive, and full cost recovery is more difficult to achieve. Although there may be a conceptual case for adjusting the population factor for the availability or quality of water, Queensland does not support making an adjustment to this factor due to difficulties in finding reliable data that is fit for purpose. Any water assessment that appropriately recognises both availability and quality factors is likely to be highly complicated.

The Commission's assessment of electricity general subsidies is appropriate, as it recognises that electricity provision is more expensive in remote regions with a higher level of subsidy.

The assessment of water and electricity concessions using Commonwealth concession card holder data is also supported. Queensland acknowledges it is average state policy to provide concessions to Commonwealth concession card holders, and that eligibility for these cards is uniform for all states, ensuring policy neutrality.

Queensland also supports the:

- proportional adjustment of populations living in discrete Indigenous communities when calculating community development expenses; and
- equal per capita (EPC) assessment of community amenities.

### ***Queensland's Position on Key Issues***

Queensland suggests the following points should form the basis of the finalised Services to Communities assessment:

- Water general subsidies assessed using community populations of between 200 to 10,000 people, with no adjustment for availability or quality;
- Electricity general subsidies assessed using remote population;
- Water and electricity concessions assessed on the proportion of concession card holders in each state; and
- Community development expenses being proportionally adjusted for populations living in discrete Indigenous communities.

## **PROPOSED METHODOLOGY**

The Commission have proposed that:

- Electricity general subsidies be assessed using state proportions of remote and very remote populations;
- Concessions for electricity and water be assessed using the proportion of Commonwealth pension and health care card holders;
- Weights for Community development expenses be adjusted for the populations in discrete Indigenous communities using the average expense ratio of Indigenous compared to non-Indigenous communities; and
- Community amenities be assessed EPC.

The development of an assessment of water general subsidies is continuing, but the Commission intend to use a multi-factor approach, based on the population in small communities, with an adjustment for availability or quality.

## **ASSESSMENT APPROACH**

### ***Water general subsidies***

Queensland supports the use of the population in communities of size 200 to 10,000 people as the indicator of water general subsidies. To ensure state water expenses are represented in a policy neutral way, the population factor should reflect the section of the population where reticulated water is generally supplied, but full cost recovery is not achievable.

In Queensland, reticulated water is provided to the vast majority of communities with populations of 200 and above. This is likely to be typical across Australia, as ABS water account data<sup>1</sup> shows that 95% of the Australian population is supplied with distributed water, more than accounting for the populations living in urban centre/localities (UCLs) of greater than 200 people. Research by Queensland's Department of Natural Resources and Water also indicates that the cost per capita of providing water expenses increases as the population falls below 10,000 people<sup>2</sup>. Full cost recovery is therefore less likely to be achievable under this threshold.

### ***Measurement of water availability and quality***

Queensland considers that there may be a conceptual case for adjusting the population factor for the availability or quality of water, but is concerned that the proposed data sources for these factors are unreliable and not fit for purpose. Also, the factors influencing the availability and quality of water supplies are complex, and any simple assessment that attempts to capture these factors is unlikely to produce reasonable outcomes. The 2004 Review assessment bases its availability and quality measures on interpretations of Macquarie Atlas maps by Commission Staff. Although the Commission considered this acceptable for the 2004 Review, Queensland does not accept that this data is of sufficient quality to be relied on in this assessment.

### ***Availability***

Water availability measures, such as surface or groundwater availability, including the factors used at the 2004 Review, are frequently based on drainage divisions. Drainage divisions cover vast areas and water availability within these drainage divisions is highly variable. For example, the North-East Coast division includes both Innisfail, which experiences extremely high rainfall (3,568mm per year)<sup>3</sup> and Clermont, which is relatively dry (662 mm rain per year). A factor that assigns the same weight to towns such as these, simply because they are in the same drainage division is likely to produce erroneous results. Water availability can change markedly over relatively small geographical areas, and any adjustment needs to take this into account.

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<sup>1</sup>ABS 4610.0 2004-05, Table 3.13

<sup>2</sup>Department of Natural Resources and Mines, Planning Guidelines for Water Supply and Sewerage, Chapter 8 – Remote or small community issues

<sup>3</sup>Bureau of Meteorology

If an adjustment is to be included for water availability, it should be responsive to changing circumstances, and not be based on the long-term means of factors. The 2004 Review factors were based on long term water availability, and did not produce logical results as circumstances changed. For example, Queensland continued to be assessed as having lower than average expense needs due to high water availability during the recent severe drought.

A sufficient measurement of water availability therefore requires that small region sizes be used and that they be updated regularly. By nature, the measurement of water availability is complex and simplification produces inappropriate outcomes. A highly complex assessment will result if a robust availability factor is able to be developed.

### *Quality*

Reliable and up-to-date water quality data is not available for most regions. The National Land and Water Resources Audit<sup>4</sup> found that less than 30% of river basins collect sufficient data to measure water quality reliably, and many of these are not comparable, as they do not measure the same factors. For example, stations in South Australia are more likely to take measurements of salinity, while Queensland stations measure factors such as turbidity, nitrogen and phosphorus. It is difficult to see how the Commission will be able to find reliable data for these factors that can be used in a comparable way across all regions.

### *Weights for availability and quality*

Queensland cannot provide water subsidy data by UC/L, but is working on providing data by local government authority. Although this may provide some indication of the higher costs of providing water in different regions, it does not allow for the precise determination of UC/L weights required by the Commission. Other states may have the ability to provide this data, but Queensland is concerned that if the Commission applies judgement to the data of a small number of states to determine the costs associated with water availability and quality, the outcome will be highly policy influenced.

Queensland does not support availability or quality adjustments unless data and measurement issues can be overcome. Since comparable data for water quality is unlikely to be available, and a measurement of availability will require a high level of complexity, Queensland is in favour of not making an adjustment for availability or quality.

### *Electricity general subsidies*

Queensland supports the use of remote population as the indicator for electricity general subsidies. Conceptually, the level of general subsidies for electricity is driven by remoteness, and it is Queensland's experience that electricity provision in remote areas is more expensive and a higher level of subsidy is likely to be required.

The Commission has expanded the indicator since their last discussion paper to include the "remote" as well as "very remote" populations. This improves the indicator because the cost of providing electricity is more accurately represented by the total remote population. Power generators are usually built in remote regions to service dispersed populations across large areas, including both those categorised as "remote" and "very remote".

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<sup>4</sup> National Land and Water Resources Audit - Australian Water Resources Assessment 2000

### ***Concessions***

Queensland considers that Commonwealth concession card holder data is a robust and policy neutral measure of concessions expense needs, and supports the assessment of water and electricity concessions using the proportion of concession card holders. It is clearly average policy to provide concessions to these groups, since all states provide concessions to pension card holders and nearly all states provide concessions to healthcare card holders. Further, this indicator produces a policy-neutral outcome because the eligibility criteria for Commonwealth issued concession cards is the same across all states.

Queensland supports the inclusion of water and electricity concessions in this category rather than in Welfare and Housing assessment. Moving these expenses to Welfare and Housing would require data adjustments for all states other than Queensland. It is simpler to assess these expenses in Services to Communities.

### ***Community development***

Queensland supports the proposed adjustment to community development expenses, using the proportion of state populations living in discrete Indigenous communities. Data from all states clearly indicate that community development expenses are significantly higher in discrete Indigenous communities.

### ***Community amenities***

Queensland considers it appropriate to assess state expenditure on community amenities EPC. Expenditure on community amenities is generally the responsibility of local government, or based on individual state policies making a differential assessment very difficult.