



**NORTHERN TERRITORY VIEWS ON  
CGC STAFF DISCUSSION PAPERS 2007/37-S**

***ASSESSING SERVICES TO INDUSTRY EXPENSES IN THE  
2010 REVIEW***

**MARCH 2008**

### **Key Points**

- The Territory supports the use of factor income as a broad indicator of need related to industry size.
- The Territory considers factor income should be used where business establishment data is considered unreliable.
- However, further data collection to determine appropriate weightings for cost drivers associated with size of industry, number of establishments and other factors is required.
- The Territory supports the assessment of separate disabilities for agriculture if they are material.
- Both interstate and intrastate location factors are key drivers of cost in the Territory and should be reflected through application of a location factor in the assessment.

### **Introduction**

This submission provides the Northern Territory's views on issues raised in the Commonwealth Grants Commission's (the Commission's) Staff Discussion Paper 2007/37-S *Assessing Services to Industry Expenses in the 2010 Review* (the paper).

The paper sought state comment on:

- differences between survey and GFS data
- the appropriateness of factor income and population as broad indicators;
- assuming factor income continues to be used, the sectors to include factor income for;
- the appropriateness of basing the weights on data collected from the survey of Services to Industry;
- whether population or factor income should be used if the number of business establishments data are not sufficiently reliable for our purposes;
- whether separate disabilities should be assessed for Agriculture expenses;

- the appropriateness of Agriculture business establishments as a broad indicator; and
- the staff conclusion that the survey data do not appear to support an assessment of intrastate location disabilities.

### **Issues for State Comment**

#### *Comparison of GFS and Survey data*

The Commission staff paper notes that the Territory's survey expenses are about half the corresponding 2004/05 government finance statistics (GFS) expenses. The Territory's survey expense data differ from the GFS data because:

- the classifications used in the 2004/05 GFS have been reviewed and revised;
- the Territory's survey expense data relate to the 2006/07 financial year; and
- the Territory's survey response omitted some Services to Industry expenses such as construction expenses (the excluded programs are generally minor).

During 2006/07 the Territory conducted a major review of its GFS data. The review resulted in significant reclassifications of expenses that were applied to GFS data from 2005/06. The reported 2004/05 GFS data predates the review and is not representative of the category. The Territory considers that the reclassifications account for almost all of the difference between the survey and GFS data.

Due to the size and extent of the revisions the Territory considers that the Commission should use the most recently available GFS data as these represent a more accurate picture of the Territory's expenditure.

#### *The appropriateness of factor income and population as broad indicators*

The paper focuses on the application of a differential assessment for Services to Industry expenses of a regulatory and administrative nature, noting that economic development type expenses will be analysed separately. Subsequent analysis in the paper divides the expenses into three types, those driven by:

- the size of the sector;
- the number of businesses in the sector; and

- other factors.

The use of the 2007 Services to Industry survey data to determine the division of expenses into the three types is not supported. A further data request to states based on the proposed method of assessment appears warranted (see below).

The paper proposes that expenses driven by the size of the sector be assessed using factor income and those driven by the number of business in a sector or other factors be assessed equal per capita.

Notwithstanding concerns as to the split of the three types of expenses, the Territory supports the proposal to use factor income as a proxy to assess regulation expenses related to the size of a sector. The Territory considers factor income per capita to be a simple and robust measure of the relative size of an industry.

The Territory does not support the proposal to assess regulation expenses related to the number of businesses in a sector equal per capita. The Territory acknowledges the data quality issues associated with ABS business count data but considers an equal per capita assessment not reflective of cost drivers. For example, it implies that the majority of mining regulation expenses are driven by population. On this basis, the Australian Capital Territory would be assessed as having per capita mining regulation needs equivalent to Queensland, Western Australia and the Northern Territory (excluding needs related to the size of the sector) even though there is virtually no mining sector in the Australian Capital Territory.

An equal per capita assessment of many of the other factors suggests these are essentially population related. Depending on materiality there may be a number of simple indicators that are more appropriate for 'other' factors than an equal per capita assessment. For example, fisheries regulation in the Territory is driven by the length of the coastline and inland waterways and is largely unrelated to population. Agricultural regulation expenses are heavily influenced by the land area utilised for that purpose. Further, tourism regulation need could be measured by a consistent measure of visitor numbers or visitor nights (see Tourist Accommodation ABS Cat. No. 8635.0).

*Assuming factor income continues to be used, the sectors to include factor income for*

Assuming factor income continues to be used the Territory considers the following sectors should be included as they best align with the underlying expenses:

- Agriculture, forestry and fishing;
- Mining;
- Manufacturing; and
- Construction.

In addition, the Tourism satellite accounts may provide a basis for calculation of factor income.

The Territory has excluded the electricity, gas and water supply sector on the assumption that these expenses will be dealt with in the Services to Communities assessment.

*The appropriateness of basing the weights on data collected from the survey of Services to Industry*

The paper suggests the survey data should be treated as preliminary. The Territory agrees with this conclusion and considers basing weights on the survey data premature.

The survey provides a starting point for the Services to Industry assessment particularly in reference to the split between regulatory and economic development type expenses. However, the Territory considers that the survey was not detailed enough to provide a robust analysis of the degree of influence certain drivers may have on each program and that a supplementary survey based on the assessment methodology outlined in this paper is warranted.

The survey included a scale to determine the weights for regulatory and economic development expenses for each program – these weights were based on the purpose of the program and are unlikely to accurately reflect cost drivers. It is unclear how the proportions of expenses outlined in the paper have been determined.

The data contained in the paper suggests that around 83 per cent of regulation expenses are related to population. This does not accord with the data provided by the Territory. For instance, key elements of the Territory's Biosecurity and Product Integrity of Livestock and Plant Industries program require on-site activities such as inspection, treatment, certification and surveillance. National programs include the Transmissible Spongiform Encephalopathy (TSE) Freedom Assurance Program, the National Arbovirus Monitoring Program and Freshcare. The requirements of programs such as FreshCare are determined by the destination market. For example, chemical residue tests may be required on mangoes before they can be shipped interstate. Each consignment requires certification with the number of consignments dependant on the size of the farm. These expenses are therefore related to the size of the industry and the land area under management. Similarly the Mining Titles – Provision of Tenure program for mines and energy is unrelated to population but to land area and mineral prospectivity. Factor income appears to be the best proxy for Mineral prospectivity.

Use of factor income as a proxy for business establishments or alternate data sets, for example land area, visitor numbers, should be considered by the Commission.

*Whether population or factor income should be used if the number of business establishments data are not sufficiently reliable for our purposes*

As noted above, the Territory considers that factor income may be used where business count data are not sufficiently reliable and there are no suitable alternatives.

The Territory acknowledges factor income is an imperfect measure of regulation needs related to the number of businesses but considers it more conceptually valid than an equal per capita assessment.

*Whether separate disabilities should be assessed for Agriculture expenses*

*The appropriateness of Agriculture business establishments as a broad indicator*

The Territory supports the assessment of separate disabilities for agriculture if they are material. However, as above the Territory does not support the other factors component of agricultural expenses being treated equal per capita. Land area under agriculture or alternatively factor income appear more appropriate measures of regulatory and administrative expenses.

The Territory supports the use of business establishments data subject to further review of the proportion of expenses that are driven by the number of businesses.

*The staff conclusion that the survey data do not appear to support an assessment of intrastate location disabilities*

The Territory strongly disagrees with the Commission's conclusion that intrastate location disabilities do not affect services to industries expenses. Appendix A provides a detailed explanation of the impact of location (both interstate and intrastate) on the Territory's Department of Primary Industry, Fisheries, and Mines which clearly shows that the majority of programs service rural and remote areas and that servicing these areas involves higher costs, particularly in relation to travel costs and allowances. Examples include:

- *aquatic resource management and research* – Resources and management are along coastline and inland waterways. Ranger groups are generally remote
- *mining titles and licensing* – most mining operations are located in remote areas or off-shore and on-site monitoring, surveillance, review of mine management plans is required.
- *biosecurity and product integrity of livestock and plant industries* – 90 per cent of pastoral properties are located in remote areas and all on-site regulatory activities are impacted by a location disability.

The Territory also supports the application of other common factors such as administrative scale to the services to industry assessment. The Territory considers an administrative scale assessment particularly pertinent to tourism expenses as all states have a largely homogenous tourism promotion policy and that it represents “what states do”. An equal per capita assessment of these costs disadvantages the less populous states as they have to compete at the same level as the larger states to attract tourists in what is a highly competitive market.