



**Australian Government**

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**Commonwealth Grants Commission**

**ASSESSING SOCIO-DEMOGRAPHIC COMPOSITION  
IN THE 2010 REVIEW**

**STAFF DISCUSSION PAPER  
CGC 2007/15-S**

**JULY 2007**

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## INTRODUCTION

- 1 In 2005, the Heads of Treasury undertook a review of horizontal fiscal equalisation. A conclusion of that review was that Commission processes could be simplified. The 2010 Review terms of reference ask the Commission to simplify its assessments, provided to do so is consistent with the principle of equalisation.
- 2 In its 2006 report to the Ministerial Council, the Commission said its aim was to implement equalisation using simpler methods. It believes simplification and equalisation can both be achieved and that simplification will improve the reliability and robustness of the processes and the acceptability of the outcomes.
- 3 The Commission considers that simplification can best be achieved through a rigorous application of its assessment guidelines. These guidelines require the 2010 Review assessment methods to:
  - establish a conceptual case for the assessment;
  - support the conceptual case with evidence, which is both comparable and reliable;
  - develop a reliable assessment method; and
  - demonstrate such an assessment would be material.<sup>1</sup>
- 4 The Commission's intention is to develop these methods jointly with States. For that reason it has chosen an iterative process. This approach provides States with opportunities to contribute to the development of the final assessments.
- 5 In discussion paper 2006/1 *Socio-demographic Composition*, staff said a socio-demographic composition (SDC) disability may exist where:
  - a population group uses services more than average and/or costs more than average per occasion of service; and
  - differences in the proportion of the population group exist between States.
- 6 Staff also said that the assessment guidelines would be applied when deciding whether to assess an SDC disability for a particular population group. That is, States would be required to establish the case for an assessment. This involves:
  - establishing a conceptual case why the group either used services more than the average or cost more than the average per occasion of service;
  - providing empirical evidence to support the conceptual case; and

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<sup>1</sup> The assessment guidelines specify a materiality threshold of \$10 per capita for disabilities. The threshold is applied to the impact of a disability across all expense categories. In this paper we use the \$10 per capita threshold to determine whether a proposed disability is material in this category. If it moves more than \$10 per capita for any State it is considered to be material. There may be cases where a proposed disability fails the threshold in this category, but we believe that it would satisfy the threshold when its impact on other categories is taken into account. If this happens, the disability is retained in this category.

- demonstrating an assessment would be material (this will depend on the extent to which the group comprises a different proportion of each State's population).

## **A SINGLE BROAD MEASURE OF SOCIO-DEMOGRAPHIC COMPOSITION**

- 7 Discussion paper 2006/01 also sought State views on how broader measures of SDC disabilities could be developed for use in the 2010 Review. The aim was to identify simpler indicators that captured material differences in SDC disabilities, including whether one single indicator could be used for all categories.
- 8 In Discussion Paper 2006/01, staff said that to use a broad measure, we would need to be confident of the conceptual basis of the measure and that it appropriately captured SDC disabilities. A single, broad indicator would be feasible if States, on average, target affected services to the same broad group of people. The Commission sought State views on how such a broad measure might be developed.

### **State views on use of a single broad indicator for SDC**

- 9 States generally supported a Commission attempt to find a broad indicator of SDC influences. However, a number of them were doubtful about our chances of finding one. All opposed the use of outcome-type measures.
- 10 State responses on a single broad indicator are summarised in Table 1.

### **Analysis**

- 11 While use of a single broad indicator of SDC has not yet been ruled out, staff consider it unlikely that any such indicator will be found. A single broad SDC indicator implies States target each of their services to the same broad group or that a proxy for those targeted was available. However, States provide some services to particular groups using eligibility criteria (welfare and transport services) and provide other services to the general population (health and law and order services). It is difficult to see how a single indicator would deal with both circumstances.
- 12 The ongoing assessment work on individual category assessments has established that the drivers of SDC disabilities are different for different categories. For example, in the Justice Services category, staff propose to assess SDC disabilities for age, sex and Indigeneity. For Welfare and Housing Services, staff propose to assess SDC disabilities for age (but different age bands from those for Justice Services), Indigeneity and income. It is difficult to see how a single indicator could deal with the widespread differences across all expense categories.

**Table 1 State submissions on SDC in response to Discussion Paper 2006/01**

STATE	COMMENTS REGARDING SDC INDICATORS
NSW	Supports the use of broader indicators for the assessment of the impact of SDC. It does not support the 2004 Review outcomes as the benchmark for accounting for SDC in the 2010 Review.
Victoria	Supports the use of broader indicators for the assessment of the impact of SDC factors. Does not support outcomes-based indicators.
Queensland	Supports simpler but not necessarily broader indicators to be applied on a category by category basis. Does not support outcomes-based indicators.
WA	Supports use of broad indicator as long as they capture the full range of influences on States' expenses. Supports testing broader indicators with more detailed SDC assessments to understand differences and implications of alternative approaches, without assuming broader indicator less accurate.
SA	Supports use of broad indicators for SDC influences subject to indicator being able to accurately and reliably capture the full range of costs of service delivery.
Tasmania	Tasmania doubts a single indicator could be found to adequately account for SDC influences across all categories and if it could was of the view that it would not improve transparency or reliability of expenses assessments.
ACT	Supports the use of broader indicators as a means of reducing data concerns and the complexity of the assessments.
NT	Supports the use of broader indicators or proxy measures. It provided criteria to test the validity of potential options. Proposed using the 2004 Review methodology as the benchmark for testing potential options.

- 13 The impact of a given SDC disability may be different in different services. In the case of people with low income, for example:
- some services are provided to the general population but may be accessed more by people with low income. States providing these services face higher costs if a higher proportion of their population have low income; and
  - some services are targeted to people with low income but there may be eligibility criteria. For example, public transport concessions may be provided to people who have concession cards. States providing these services face higher costs if a higher proportion of their population meets the eligibility criteria — people with low income who have a concession card.
- 14 In the first example, a general measure of income (such as people with low income) could reflect the need to provide the service. In the second example, a direct measure of the number of concession card holders would more accurately reflect service use. It could be argued that either the low income population or concession card holder population could be used to approximate the disability in both examples. However, this would be at the expense of improved transparency and the better equalisation outcomes that would flow from using measures more reflective of what States do. Overall, staff favour simple and more direct measures of an SDC disability where they are appropriate (for example, where States restrict access to a service using eligibility criteria).

## **SCOPE OF THIS PAPER**

- 15 This paper does not canvas further the question of whether a single, broad indicator of SDC disabilities could be developed or whether an SDC assessment is justified for a particular service. It considers three SDC disabilities. They are:
- socio-economic status (SES);
  - Indigeneity; and
  - cultural and linguistic diversity (CALD).
- 16 Their inclusion in this paper does not mean that these three SDC disabilities will automatically be assessed in every expense assessment. Similarly, omission from this list does not mean other SDC disabilities (for example, age and sex) will not be assessed.
- 17 Given the 2010 Review terms of reference and the Commission's own assessment guidelines, the Commission intends to require a high standard of proof from States to support the assessment of disabilities. The decision to assess an SDC disability in a category will depend on whether a State can establish a case for its assessment. For the Commission to make an assessment of either SES or Indigeneity in a particular category, States will need to provide reliable empirical evidence supporting an assessment and demonstrate its materiality.

## **SOCIO-ECONOMIC STATUS (SES)**

### **Introduction**

- 18 In the 2004 Review the Commission used a variety of indicators to measure low SES status, including:
- low income — based on the relative proportion of individuals or households in each State with gross household disposable income below a specified threshold;
  - eligibility for concessions — based on the holding of appropriate cards (eg. health care cards, pensioner cards etc). This method was used where States targeted access to a service using eligibility criteria. Disabilities were based on the relative proportion of card holders in each State; and
  - in some cases, unemployment status or lone people over 60 years of age were used to measure low SES. Disabilities were based on the relative proportion of people with these characteristics in each State.
- 19 To account for the differential impact of low SES states on States' expenses use and cost weights were assessed and applied to the selected groups.

### **State views on SES**

- 20 States' comments about SES measurement are summarised in Table 2.

## Indicators of low SES

- 21 Several States have criticised the use of low income as the basis for measuring low SES on the grounds that it does not capture various facets or the degree of disadvantage experienced by some individuals and households. They consider the low income measure does not account for differences in household size or costs (such as the need for heating or housing costs which vary with household type, size and location). The demands on State services are likely to be different for a low income household comprising two working adults who own their house than for a low income household comprising two unemployed adults and three dependent children earning a similar income and renting accommodation.
- 22 New South Wales says there is a greater degree of disadvantage faced by individuals of low SES living in Sydney compared with individuals of low SES individuals living in lower cost locations, impacting on the level of services it is required to provide.
- 23 Different indicators of low SES (for example, income, equivalised income, income adjusted for household expenses) produce different outcomes because each indicator identifies a different segment of States' populations.
- 24 Staff seek States' views on the indicator that would best capture the characteristics that give rise to low SES disabilities in States.
- 25 This paper discusses some possible indicators:
  - the ABS' Socio-Economic Index for Areas (SEIFA);
  - gross household disposable income;
  - equivalised household income, which accounts for differences in household size and composition;
  - the number of income support recipients, based on numbers of pension, concession or health care card holders; and
  - indirect measures of low SES such as unemployment status.

**Table 2 State submissions on SES**

STATE	COMMENTS REGARDING SES INDICATORS
NSW	If SES is to be assessed, the Commission should investigate the use of different low income thresholds across States to account for the variation in living costs across States.
Victoria	Victoria would prefer a broad indicator to be used to account for the effects of low SES such as employment status or income support recipient numbers. It emphasises that broad indicators should reflect what States do rather than what they achieve. An approach based on numbers of concession card holders (for example) would avoid reliability issues related to large cross tabulations of data and would also help to avoid including State policy influences in assessments.
Queensland	Queensland considers that adjustments for family size and living costs would add unwanted complexity. It considers there is merit in investigating broad measures that identify the ‘root causes of demand for public services’. It argues that using equivalised household income is problematic as an equivalence scale must be chosen and there is no agreement amongst academics about which is the most appropriate to use. Specification of alternative poverty lines is also subject to the same problems. It considers that the use of a spatial consumer price index is unlikely to provide an accurate measure of differences between States in costs of and demand for services and may result in double-counting differences already accounted for in wages and input costs. Queensland supports further investigation of the ABS’ Socio-Economic Index for Areas (SEIFA) as a potential broad indicator of SES.
WA	Western Australia considers that the basis of assessing low SES should be eligibility criteria (based on the national average) for public services; for example, concession card holders. The indicator used should account for degrees of poverty related to the size of the household and the higher rates of assistance they receive from State governments.
SA	South Australia considers that the indicator used for SES should reflect what States do and suggests the number of concession card holders as an example of a broad indicator for SES.
Tasmania	Tasmania does not oppose the application of broad indicators but expresses doubt that there are indicators available that meet the Commission’s requirements and accurately reflect States’ expenses associated with SDC disabilities. It does not object to the use of proxy measures as long as these are able to reliably account for differences in States expenses over time. In terms of SES indicators, Tasmania considers that an indicator which accounts for cost of living and family composition differences is likely to be complex, given the Commission’s needs. For example, it does not support spatial consumer price indexes because these are not able to account for cost differences across all Australian locations and raise the issue of how these would be applied to dispersed populations across Australia. It does not support equivalised household income because it does not account for non-tax benefits.
ACT	The ACT considers that low income thresholds for families and individuals need to be determined before adjusting for costs of living and family size. It proposes the use of half median income as the appropriate income threshold to define low income. It said the income thresholds should be current, reliable, accurate and consistent with welfare assistance eligibility criteria applied by the Australian Government.
NT	The Northern Territory supports the adoption of equivalised household income as the preferred measure of income to be used by the Commission to account for the effect of SES on State expenses. It supports this measure on the basis that it adjusts income data for family size, pointing to the higher proportion of larger households in the Northern Territory compared with other States. It notes a limitation of the equivalence scale used by the ABS in constructing this data set, namely that it is not able to capture the impact of intermittent residences of extended family members and other visitors in a household.

**Socio-Economic Indexes for Areas (SEIFA)**

26 SEIFA indexes provide a relative measure of disadvantage based on data derived from the Census of Population and Housing that reflect the socio-economic characteristics of

individuals in Census Collection Districts (CDs). A large range of variables are summarised within a SEIFA score, which is associated with the key socio-economic attributes in an area. For the 2001 Census of Population and Housing the ABS produced four indexes:

- Index of Relative Socio-Economic Disadvantage (IRSD) which measures disadvantage only;
- Index of Relative Socio-Economic Advantage/Disadvantage (IRSAD) which simultaneously measures advantage and disadvantage;
- Index of Economic Resources (IER) which profiles the wealth, income and expenditure of households; and,
- Index of Education and Occupation (IEO) which reflects the educational and occupational structure of communities.

27 Low SES could be defined as the number of people living in CDs that have a score below a specified threshold.<sup>2</sup> At present, SEIFA scores are CD based rather than individual based.

28 If a measure were needed to account for relative disadvantage or low SES, the IRSD may be the most suitable SEIFA index. If a measure were needed to account for relative advantage and disadvantage, the IRSAD may be more suitable. A more detailed discussion of SEIFA indexes is provided in Attachment A.

#### *Advantages*

- SEIFA summarises a large number of variables, which reflect socio-economic status and could be applied as a broad indicator of SES across or within individual expenses assessments.
- The IRSD covers a large number of aspects of disadvantage providing an option for measuring low SES. The index is based on indicators and measures of low SES characteristics only which make it potentially the most useful indicator of the SEIFA component indicators.

#### *Limitations*

- It is not how States determine disadvantage (what States do).
- Census measures are updated only every five years.
- The lack of **individual level data**. The ABS has indicated that SEIFA in its current form would not be suitable for use as required by the Commission as it is an area-based indicator of socio-economic status rather than an indicator of an individual's SES. This directly limits its applicability in category assessments. It is unlikely a SEIFA measure for individuals will be available in the near future and its suitability would still need to be tested if it were available.

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<sup>2</sup> The ABS standardises the CD scores across all Australian CDs to have a mean of 1 000 and a standard deviation of 100 to enable easy identification of low and high scores. In practice this means that almost all index scores are between 800 and 1200.

- **Transparency, reliability and accuracy.** The indicator represents a large number of variables that have been aggregated across CDs. How these relate to low SES characteristics of individuals is not directly observable. Aggregated across CDs, the indexes may yield incorrect estimates of the proportion of individuals per State who are genuinely of low SES backgrounds.
- **Complexity.** The derivation of SEIFA indexes is complex, based on the specification and interaction of a large number of variables of varying significance. How this is reflected in SEIFA scores is not easily understood. It is also difficult to show how these scores relate to varying levels of service use and costs by distinct population subgroups.
- **Fitness for purpose.** The appropriateness of any SEIFA index needs to be related to what needs to be measured and whether it is based on all the necessary variables defining the relevant population subgroup. If key variables that define characteristics of the population are missing from the index, the measure of the relevant SES subgroup obtained may not be fit for our purposes. For example, if a measure of high SES were required, the use of IRSD would be inappropriate as it is not derived from variables related to relative advantage. High IRSD scores do not indicate high SES, they indicate less disadvantage in an area.

### **Gross household disposable income**

- 29 In the 2004 Review, some categories defined low SES using the number of individuals or households in each State with gross household disposable income below a specified threshold. Different thresholds were used for individuals and households. Individuals and households with gross household income above the specified threshold were defined to be high SES.
- 30 This measure is a useful measure of SES for those categories where the service is available to the general population but where differences exist in the frequency (or unit cost) with which the low SES population accessed the service.

#### *Advantages*

- This measure is based on ABS data and is a relatively simple and transparent indicator of SES.
- Reliable data are available.

#### *Limitations*

- Census data on which it is based are updated only every five years.
- It may not provide an accurate measure of the low SES population as it does not account for the effects on SES of differences in household size and composition.
- The measure does not account for differences in living costs across locations, household wealth, household savings, or how home ownership affects SES.

## Equivalised household income

- 31 The ABS' equivalised household income measure provides a measure of an individual's income using Census gross household disposable income data adjusted for the size and composition of the household in which they live. This adjustment is made using an 'equivalence scale' which specifies the size and composition of the household to be used as a basis for comparison (for example, two adults and two dependant children). It recognises that there are economic advantages of living with others (economies of size) that arise because some household costs are shared, reducing per person household expenditures. The scale also recognises that these benefits may be offset, with larger numbers of individuals in the household or dependents, reducing the amount of income for consumption and saving per individual, compared with smaller households.
- 32 When household income is adjusted according to an equivalence scale, the equivalised income provides an indication of the economic resources available to the standardised household.<sup>3</sup>
- 33 The ABS uses the 'modified OECD' equivalence scale to adjust gross household disposable income as it is the most widely accepted scale used by Australian income analysts. The ABS notes that in theory, many factors could be taken into account when devising equivalence scales for use in adjusting raw income data. Examples include the living costs faced by people residing in different geographic areas, or diverse individual tastes and preferences which result in markedly different expenditure patterns between similar households (in terms of income level and composition). The number and degree of differences make it difficult to derive a precise and universally accepted scale.
- 34 Equivalised income would be useful as a measure of SES for categories where anyone in a State population is eligible to access a State service but where differences exist in the frequency (or unit cost) with which the low SES population access the service. Use in assessments would be undertaken in a similar way to the current method of setting low and high income thresholds to indicate low and high SES respectively and measuring the proportions of States' populations in these groups. The number of people with equivalised income above or below the threshold level would be sourced from the ABS.
- 35 Table 3 and Table 4 provide an indication of the difference between using an equivalised income indicator and an income indicator. Table 3 shows the difference between States' median incomes using equivalised disposable household income compared with gross household income. In the case of the Northern Territory, adjusting for size and composition brings it closer to the Australian median income (it is 34 per cent above average on the basis of HDI, 20 per cent above average on the basis of equivalised income). Table 4 shows that using equivalised income would reduce the relative proportion of State population defined to be low SES in New South Wales, South Australia and the ACT.

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<sup>3</sup> For example, for a lone person, household equivalised income is equal to household income. For a household comprising more than one person, equivalised income is an indicator of the household income that would need to be received by a lone person household to enjoy the same level of economic wellbeing as the household in question.

**Table 3 Percentage difference of State median income from Australian median income, Gross Household Income and Equivalised Disposable Household Income, 2003-04<sup>4</sup>**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Median
	%	%	%	%	%	%	%	%	\$
Gross Household Income	6.01	0.87	-3.83	-2.84	-10.93	-21.31	24.02	34.10	915
Equivalised disposable household income	4.68	-0.61	-3.87	-1.63	-6.11	-14.46	27.90	20.37	491

Source: ABS, Cat No 6523.0 Household Income and Income Distribution, Australia, 2003-04

36 In cases where States restrict access to services using income eligibility criteria, it is likely that access will be based on the user's income rather than their equivalised income. In such cases, income would be a better indicator of what States do. However, a State may be able to establish a case for using equivalised income as the indicator for a particular service if it can provide evidence to show the average policy is to take household size or composition into account when determining who can access the service.

**Table 4 Proportion of people with low SES, measured using household disposable income or equivalised income**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Average
Equivalised household income (%)	38.4	38.7	43.3	40.0	44.5	50.7	23.2	41.9	40.1
Factor	0.95761	0.96509	1.07980	0.99751	1.10973	1.26434	0.57855	1.04489	1.00000
Household disposable income (%)	30.4	29.7	33.6	31.0	34.8	39.5	19.7	30.2	31.3
Factor	0.97151	0.95096	1.07430	0.99141	1.11120	1.26217	0.63007	0.96436	1.00000

Source: Unpublished ABS data. For equivalised income the low income threshold was set at the top of the second quintile (\$418 per week). For household disposable income, separate low income thresholds were used for families (\$31 200 per year or \$600 per week) and individuals (\$21 800 per year or \$400 per week). A different threshold was used for families in recognition that relative poverty levels differ according to family size and composition.

#### *Advantages*

- Equivalised household income data are available from the ABS and are relatively simple to understand and apply.
- They allow the effects of different family composition on individual's financial wellbeing to be taken into account.
- They reduce the number of income variables from two (families and individuals) to one (individuals).

#### *Limitations*

- Census data are only updated every five years.

<sup>4</sup> Households in collection districts in the Northern Territory defined as very remote or Indigenous communities were excluded, accounting for about 23% of the population in the NT.

- An equivalence scale needs to be chosen from a number of alternatives to adjust raw income data to account for family composition. The most commonly used equivalence scale is the OECD equivalence scale although other bases could be chosen<sup>5</sup>.
- The measure is not as transparent as the existing measure since income has been adjusted by the application of an equivalence scale.
- This measure does not account for differences in living costs across locations, household wealth, household savings, or how home ownership affects SES.

### Number of income support recipients

37 The number of people accessing Australian Government income support as their primary source of income provides another possible measure of low SES. This measure was used in the 2004 Review for expenses categories where concession status formed the basis for eligibility for access to States' services. Table 5 shows the proportion of households with Government pensions and allowances as the main source of income.

**Table 5 Proportion of households with Government pensions and allowances as principal source of income, 2003-04<sup>6</sup>**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aus
	%	%	%	%	%	%	%	%	%
Government pensions and allowances	26.6	27.2	29.7	26.8	31.2	36.6	16.7	16.3	27.7
Difference from average	-1.1	-0.5	2.0	-0.9	3.5	8.9	-11.0	-11.4	0.0

Source: ABS, Cat No 6523.0 Household Income and Income Distribution, Australia, 2003-04

#### *Advantages*

- It is transparent and nationally consistent.
- It relates directly to service provision and in some cases it has provided an actual count for those eligible for services.
- It is simple, reliable, accurate and current data are available on the numbers of recipients.
- Eligibility criteria for concession cards define low income. That is, no threshold needs to be set to define low income.

#### *Limitations*

- It would not provide a measure of the entire low SES population subgroup in each State unless concession card holder status is the way States determine eligibility for services for the low SES population.

<sup>5</sup> By varying the assumptions as to the needs of individuals within households and the economies that flow from sharing resources.

<sup>6</sup> Households in collection districts in the Northern Territory defined as very remote or Indigenous communities were excluded, accounting for about 23% of the population in the NT.

- The accuracy of results may depend on which income support measures are counted as indicating low SES. There are different forms of income support that are delivered to different groups of users based on various income and assets criteria. This is an area where staff would value State input.
- The transparency of the measure depends on how broadly income support recipients are defined or rather how many types of income support are included in the measure.
- It does not measure high SES, because income support is only available to those with low income and few assets.
- There is a risk of double counting where concession card holders have additional attributes that have also been assigned weights in expenses categories to account for other (interrelated) disabilities (for example, Indigenous status).

### **Indirect measures of low SES**

- 38 An indirect indicator of low SES may be appropriate to use for some expenses assessments. Unemployment status is an example of an indirect measure. Indirect indicators may be relevant where eligibility criteria are used and the indicator is one of the eligible groups or where the indicator is a distinguishing characteristic affecting use of services. It is being considered as a possible indicator in the Post-secondary education expense category for the 2010 Review.
- 39 A detailed listing of advantages and limitations is not made for employment status or other indirect indicators as these will be specific to the particular categories.

### **Other issues when low SES is defined using income**

- 40 Where a case is established for assessing low SES using income or equivalised income, the Commission will have to consider some additional issues.
- 41 First, what is the threshold that indicates the bounds of low and high SES?<sup>7</sup> It would be preferable if the threshold captured the population that use the service more than average or cost more than average. In the 2004 Review, the low income population was defined to be those with incomes in the Census income range in which the Henderson Poverty Line (HPL) fell.
- 42 This is not the only way of setting a threshold. Thresholds could be set using ABS information (such as people with incomes in the lower quintiles or deciles), adjusted HPLs and the levels of Australian Government income support available to eligible individuals and households.
- 43 Second, should income data be adjusted? Some States have suggested adjusting income data to account for the impact on SES of differences in living costs within and between States. They believe this type of adjustment would improve the measure of the low SES population.
- 44 In their responses to the Discussion Paper 2006/01, some States suggested:

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<sup>7</sup> This question is not relevant for an indicator like concession card holders as the thresholds are automatic — the eligibility criteria are based on income and assets tests.

- applying differently specified poverty lines, including state-specific poverty lines, to account for differences in living costs in different locations. States' rationale for preferring this method is that there is a high degree of variability in housing costs across jurisdictions that impacts on the proportion of state population classified as low SES; and
- income adjustments could be made on the basis of ABS spatial price indexes to account for the impact of living costs on SES.

*Which poverty line?*

- 45 Using a poverty line approach to define SES, households are ranked according to levels of gross household disposable income, with a poverty line drawn at a specified point on the income distribution. Households whose income is below that line are said to be in relative poverty, or for this purpose, low SES. However, the levels at which the lines are drawn are subjective. Clearly, the threshold setting is critically important.
- 46 In Australia, the most commonly used poverty lines are the Henderson Poverty Line (HPL), 50 or 60 per cent of median income or 50 per cent of mean income. Poverty lines take no account of individuals' or households' consumption patterns or their access to goods and services that are considered to be necessary for a decent standard of living. Households' consumption of public goods and services, such as health services and education, are also not accounted for using these thresholds. No reference to household assets or wealth, which also has a bearing on whether or not a household is genuinely low SES, is made. As discussed, individuals who own a house may be relatively well off compared with others earning a similar income who rent accommodation.
- 47 To overcome some of the limitations of the HPL, the ABS constructed an 'after housing costs HPL' which deducts housing costs from the calculation of the poverty line. Applying this makes a significant difference to the measurement of the poverty rate amongst the elderly, as this group is characterised by high rates of home ownership. Alternative indicators (for example, equivalised household income) need to be used if other significant factors, such as household composition, are to be accounted for.
- 48 In international income distribution studies the most commonly used measure is 50 per cent of median income. It is preferred as it is a more stable measure compared with other measures (such as 50 per cent mean income), as it is less affected by outliers at respective ends of the income distribution. It is also a more stable measure compared with other poverty lines, when poverty rates are increasing or decreasing<sup>8</sup> than 50 per cent mean income.
- 49 State comments are sought on how a threshold should be set.

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<sup>8</sup> Australian Government Department of Family and Community Services and Indigenous Australians, 2004, *Inquiry into Poverty and Financial Hardship*, Occasional Paper Number 9, Canberra.

*Income adjustment using a spatial price index.*

- 50 The number of people with low SES may potentially be measured by counting the number below an income thresholds adjusted using spatial prices indexes (SPIs). The SPI would account for the impact on household income of the costs of living in different locations. The ABS calculates consumer price indexes regularly to measure the movement over time in the retail prices of goods and services more commonly bought by metropolitan households. It also produces a SPI (the ‘all Australia’ index) based on price differences between the eight capital cities. However, it recommends these SPIs not be used in policy debates or for official purposes until the ABS validates the statistics.
- 51 The SPIs derived by the ABS do not account for differences in living costs in regional and remote areas. Hence, adjustments using the ABS’ SPI are likely to yield misleading results as costs in capital cities vary significantly from costs across regions and remote areas of Australia.
- 52 Further, high cost locations do not automatically contain a higher proportion of disadvantaged individuals and individuals living in low cost areas are not necessarily advantaged compared with those living in higher cost areas. Use of SPIs to adjust the proportion of individuals of low SES in a State, for use in expenses assessments, would be a complex and time and resource intensive task that would be reliant on the collection of a considerable amount of additional information.
- 53 Reliable SPIs capturing price differences between a broader range of locations across States are not available at present. Constructing SPIs that reliably reflect the broad range of living costs within and across States is complex and likely to remain problematic. For example, the types and specifications of goods and services the indexes are based on often differ across States. In some cases, items are priced in only one city. Over time these indicators are likely to become even less transparent as the bases of the indexes change.
- 54 Making adjustments to income data to account for variations in living costs would add new layers of complexity that would be likely to reduce the transparency of expenses assessments without necessarily providing better HFE outcomes. The ABS also notes that the SPIs it constructs are not inclusive of costs in all areas of Australia as the costs of collecting extensive price information is prohibitive.
- 55 Commission staff do not propose to make adjustments for the variation in living costs across Australia using spatial price indexes. It is for States to establish a case for making these type of adjustments.

**Conclusion**

- 56 For the Commission to make an assessment of SES in a particular category, States will need to provide reliable empirical evidence supporting an assessment and demonstrate its materiality. The choice of SES measure will depend on the service being provided by States. If the service is targeted, the SES group should be identifiable from States’ eligibility criteria. If the service

is provided to the general population, the SES measure will depend on the underlying driver of service use.

- 57 If poorness is the driver of use, it may be that equivalised household income or the number of concession card holders better capture the people that use the service more than average or cost more than average. The choice of measure will depend on the category, but measures that are simple to apply, reliable, readily available and transparent are preferable.
- 58 For some categories, a specific measure (such as employment status) may be appropriate if it can be established that it more accurately reflects those that use a service. Such measure will be considered on a case by case basis.
- 59 A threshold is required to indicate the bounds of low and high SES. International studies use 50 per cent median income because it provides a relatively stable measure of low income. Staff do not propose adopting cost of living adjustments between States or regions because reliable data are not available and such adjustments would increase the complexity of assessments and reduce their transparency with little evidence of improvement in outcomes.

**State views are sought on:**

- whether there is an indicator the best captures low SES or whether different indicators should be used for different categories;
- whether there are services where equivalised income would be a better measure of SES than income;
- the types of Australian Government income support that should be included if concession card holders are used as the indicator of SES;
- the use of employment status as an indicator of SES or other such proxy indicators in specific instances;
- how the threshold should determine the threshold for low and high SES. Should the Commission use the international benchmark of 50 per cent of median income? and
- the staff proposal not to adjust for different living costs using spatial consumer price indexes.

(The issue of the categories in which SES should be assessed is not the subject of this paper. States should raise views on this in the individual category assessment submissions and discussions.)

## **INDIGENOUS STATUS**

### **Introduction**

- 60 In the 2004 Review, the Commission accepted the conceptual case that Indigenous people have different costs of service compared with non-Indigenous people. These differences were

recognised as part of SDC disabilities in many expenses categories. The Commission also accepted the conceptual case that different groups of Indigenous people had different costs of service provision and in many categories it disaggregated the Indigenous population. For some categories, it concluded the additional costs associated with the traditional versus non-traditional lifestyles of Indigenous persons were best captured using the costs associated with non-remote and remote Indigenous persons.

- 61 For the 2010 Review, the Commission has accepted the conceptual case that Indigenous people have different costs of service compared with non-Indigenous people, but it has not accepted the case for disaggregating the Indigenous population.

### **States views on Indigeneity**

- 62 State comments tended to focus on the issue of disaggregating the Indigenous population. Their comments are summarised in Table 6.

### **Measuring the number of Indigenous people**

- 63 The issue of whether the Census data was reliable in comparison with some administrative data sets was the subject of considerable debate in the 2004 Review. The Commission concluded in that Review that the Census data was the most reliable measure of Indigenous population.
- 64 The ABS has undertaken further work to improve the Census data (in part due to some of the criticisms from the 2004 Review). Due to the more limited scope of administrative data sets and the issues of comparability between States flowing from different data collection approaches, it is likely that Census Indigenous population counts will remain the best available general measure for the 2010 Review.
- 65 Staff propose to use 2006 Census data to measure the number of Indigenous people in each State.

### *Propensity to identify as Indigenous*

- 66 At each Census since at least 1981, the Indigenous population is larger than could be accounted for by the demographic events of births, deaths and migration. Part of this additional growth can be attributed to the success of the Indigenous enumeration strategies, but most of it is generally attributed to a changing propensity to identify as Indigenous.
- 67 This changing propensity varies considerably across States. Excluding any additional growth due to births or interstate migration between 1991 and 2001, the Indigenous population increased 60 per cent in the ACT, and 40-50 per cent in Tasmania and New South Wales. In South Australia and Western Australia this form of growth accounted for less than 20 per cent, and in the Northern Territory only 6 per cent.

**Table 6 State submissions on Indigeneity**

STATE	COMMENTS REGARDING INDIGENOUS STATUS INDICATORS
NSW	New South Wales suggests Indigenous issues be dealt with outside the HFE funding arrangements. However, it notes that if it continues to be assessed by the Commission, data should be subject to data quality and reliability guidelines.
Victoria	Victoria is not supportive of the disaggregation of the Indigenous population into population subgroups as this is likely to increase the complexity of assessments and be reliant on judgments and data of questionable quality.
Queensland	Queensland supports further investigation of issues relating to the different use and costs of services to Indigenous people. It notes that it will assist the Commission by seeking data to determine whether the existing cost weights applied by the Commission are adequate.
WA	Western Australia supports further investigation of three distinct groups of Indigenous people: those who are largely assimilated into mainstream society; those who live in or around cities or towns, but who are disconnected from society; and those who live according to traditional culture (i.e. in distinct, generally remote, communities). It acknowledges the difficulty in identifying the second group and suggests the Commission’s split of remote and non-remote is reasonable. It says this approach would be improved by combining the second and third groups. It also supports further research into how to better identify the groups of indigenous persons with differential cost impacts. Indicators of increased disadvantage of Indigenous people in Western Australia were provided that may not be adequately recognised by existing assessments of disability. Examples included employment status, language spoken, impact of the ‘stolen generation’ and a more recent pattern of movement from traditional communities.
SA	South Australia supports further investigation of whether distinct groups of Indigenous people have different use and costs of services based on the types of lifestyle they lead or where they are located.
Tasmania	Tasmania comments that it does not see an alternative basis for making distinctions between the Indigenous population other than on the basis used by the Commission in the 2004 Review, which was based on remoteness. It considers that to do so would increase the complexity of assessments and decrease their reliability.
ACT	Attention needs to be given to improving the reliability of Indigenous weights and the evidence provided by States to support their use. No comment is made on whether Indigenous population subgroups should be identified and assigned weights according to their different use and cost.
NT	The Northern Territory comments generally that the current approach to measuring SDC (including Indigeneity) is robust and sound and that joint factors currently allow cost differences for sub-groups in the Indigenous population to be accounted for. It does not support making a distinction between three Indigenous population subgroups based on integration with the broader population as it would further complicate assessments. Definitions of the three groups suggested in the staff discussion paper would be subjective and information on their respective patterns and intensity of service use would be difficult and costly to obtain. It may not be reliable either given the itinerant lifestyles of more remotely located Indigenous people. The Northern Territory notes that there is no strong conceptual argument that the three distinct groups identified in the discussion paper have material differences in the costs of service provision. It cites Centre for Aboriginal Economic Policy Research (CAEPR) research findings on high and low SES indigenous people as evidence.

68 Some argue that the people who have begun to identify as Indigenous in recent Censuses do not face the same level of disadvantage as those who have identified as Indigenous for a longer period. If this is true, including them with other Indigenous people inflates the disabilities actually faced by States.

- 69 However, unpublished ABS analysis suggests that the growth in the propensity to identify in certain States has not markedly changed the relative socio-economic status of the Indigenous population. The Commission has used data on Indigenous people without adjusting for the increase in the Indigenous population.
- 70 Following the release of 2006 Census data, and the ABS's evaluation of its quality, the Commission will consider whether Indigenous data need adjusting for the increase in the Indigenous population or whether some disaggregation may be required.

### **Disaggregating the Indigenous population**

- 71 While a conceptual case has not been established that different groups of Indigenous people have different costs of service, Discussion Paper 2006/01 noted previous arguments that three groups of Indigenous people have different cost and use impacts:
- Indigenous people who were well assimilated into the non-Indigenous community;
  - Indigenous people who lived in Indigenous communities; and
  - Indigenous people who were not integrated within a community (for example, fringe city dwellers).
- 72 In their responses to the discussion paper, some States said that they did not support disaggregating the Indigenous population as this would be based on unreliable or incomplete data and extensive reliance on judgment. It would also make the expense assessments more complex. However, others supported further investigation of the existence of sub-groups within the Indigenous population who have different use and per unit costs.
- 73 A number of questions arise when addressing this issue:
- What is it that gives rise to the differences between Indigenous people across States and what are the implications of these differences in terms of Indigenous service use and costs?
  - To what degree are these differences due to State policy choices<sup>9</sup> and to what extent are they due to inherent population characteristics?
  - What are the triggers for service provision or use by Indigenous people? Are they related to specific population characteristics or based on some other factor such as State Indigenous population size? For example, would a State with a large Indigenous population naturally focus greater attention on identifying and servicing needs specific to Indigenous people in comparison with a State with a much smaller population (and would the different approaches represent a policy difference or a disability)?

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<sup>6</sup> For example, the Tasmanian Government provides a special assistance program for Indigenous first home buyers while some other States do not.

### *Location*

- 74 The Commission's experience is that while there is evidence that Indigenous people have different use and cost impacts, it is difficult to obtain data which identifies which characteristics of Indigenous people give rise to differences in service use and costs. The Commission has used location (non-remote and remote) as a proxy for the traditional versus non-traditional split in the past, although a conceptual case is yet to be established for such an approach in the 2010 Review.
- 75 The National Aboriginal and Torres Strait Islander Social Survey (NATSISS) 2002 provides evidence that Indigenous people living in remote areas are more likely to live traditional lifestyles and tend to have strong familial or ancestral connections to an area. The Productivity Commission reported that in its consultations with Indigenous people on indicators of Indigenous disadvantage some participants suggested communal ownership of housing to be more important to remote Indigenous people than individual home ownership.

### *Home ownership*

- 76 NATSISS 2002 data suggest that Indigenous people living remotely use community housing at significantly higher rates than non-remote Indigenous people. This may be because of long standing government policy to provide grant funding to Indigenous community organisations for annual housing construction in remote areas. Home ownership, government and private rental in these areas is also significantly lower than by non-remote Indigenous people. The Productivity Commission's report on key indicators of Indigenous disadvantage<sup>10</sup> also shows that home ownership rates among Indigenous people are highest in non-remote areas (highest in Tasmania) and lowest in remote areas (lowest in the Northern Territory). The extent to which this outcome is due to State policy or due to specific characteristics that distinguish some Indigenous people from other Indigenous people is unknown.

### *Mobility*

- 77 Mobility is also of interest to the Commission because it can impact on use and cost. Higher mobility of remote Indigenous people has been cited as a reason for the greater degree of disadvantage they experience when compared with non-remote Indigenous people, as higher mobility reduces an individual's ability to meet job requirements, to retain stable employment and income. However, evidence is conflicting about the degree of mobility of remote Indigenous people. NATSISS 2002 data show that these people are less mobile than their counterparts in non-remote areas but more recent research undertaken by the Centre for Aboriginal Economic Policy Research (CAEPR) found that mobility within and between remote and very remote areas is higher than in non-remote areas<sup>11</sup>.

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<sup>10</sup> Steering Committee for the Review of Government Service Provision (SCRGSP) 2007, *Overcoming Indigenous Disadvantage Key Indicators 2007*, Productivity Commission, Canberra.

<sup>11</sup> Kinfu, Y and Taylor, J, 2006, 'Differentials and determinants of Indigenous population mobility', in B. H. Hunter (Ed), *Assessing the evidence on Indigenous socio-economic outcomes*, CAEPR Research Monograph Number 26, ANU E Press, 2006.

- 78 Generally Indigenous people in remote and larger centres are both relatively mobile, with individuals in both types of area frequently moving between places based on familial and cultural obligations, for example to attend funerals or to stay with extended family. NATSISS 2002 data on participation in cultural activities does not show any significant differences between remote and non-remote Indigenous people. While the ABS notes that in some cases the sample sizes are too small to be definitive, these results may suggest that mobility and cultural factors may not be the distinguishing characteristic for disaggregating Indigenous people.
- 79 Some States claim that the higher mobility of remote Indigenous people requires them to provide more services than if individuals were based in a single town, since they access services at multiple places. Further, claims are that the costs of service are higher because many of these individuals use more costly services (such as hospitals instead of community health centres or general practitioners). Indigenous people living in larger centres also live highly mobile lives but the interaction of a large number of factors makes it difficult to identify whether and how this influences their use and cost. In larger centres, where there is more than one location in which to access a specific service, use of services in multiple places is less likely to result in additional costs for States.
- 80 A case for assessing the impact of mobility has not been established.

*Where to next?*

- 81 To date, only limited evidence has been provided by States that distinct groups of Indigenous people are more costly to service on the basis of their: itinerant lifestyles, remote location, service preferences, cultural and other socio-demographic factors or a combination of these factors. Where evidence exists it is incomplete, statistically insignificant or partially anecdotal. If the Commission is to disaggregate Indigenous people, States will have to establish a conceptual case for doing so and support the case with reliable evidence and demonstrate that an assessment would be material.
- 82 Another issue that will need to be resolved is whether there are differences in the number of Indigenous people reported in Census data and State administrative data. Such differences could arise because self-reporting occurs in both the Census and State administrative data sets. If there are differences, this could affect the use and/or cost weights calculated for assessments. Whether this issue will be material and if it is, the best way to correct for it, are issues that will be specific to the categories where the data are used. It will need to be borne in mind as the category assessments evolve.

**Conclusion**

- 83 Staff propose the use of ABS Census data as the basis of measuring the number of Indigenous people in each State. The Commission has accepted that a conceptual case has been established that Indigenous people have different costs of service provision compared with non-Indigenous people. However, for the Commission to make an assessment of Indigeneity

in a particular category, States will need to provide reliable empirical evidence supporting an assessment and demonstrate its materiality

- 84 Staff do not propose to disaggregate the Indigenous population. A conceptual case will need to be established for splitting the Indigenous population and that case will have to be supported by reliable and robust data. Even where data can be provided, a measurable characteristic on which to base the split will be needed — States will need to propose a reliable and robust basis for doing so.

**State views are sought on:**

- the use of Census data, adjusted for undercount and ‘not stated’ to provide the total Indigenous population measure.
- whether different subgroups of Indigenous persons have materially different use and cost weights to other subgroups of Indigenous persons;
- what the distinguishing characteristics of these distinct groups are that would the how the Commission reliably define and measure these groups; and
- whether State administrative (especially service use) data are available on that basis.

## **CULTURAL AND LINGUISTIC DIVERSITY (CALD)**

### **Introduction**

- 85 In the 2004 Review, the Commission recognised the differential cost of providing services to people with a culturally and linguistically diverse (CALD) background. These differences were recognised as part of SDC disabilities in some expenses categories. Four impacts were recognised:
- differences in the use of State government services by people with a non-English speaking background (NESB), measured using information from State administrative datasets;
  - the additional costs of translation services and extra servicing time, recognised by applying a cost weight to people with low English fluency;
  - the additional per unit costs of providing services to people with a CALD background, recognised by applying a cost weight to them; and
  - the additional per unit cost of providing services to humanitarian migrants.
- 86 In recognising these impacts, people with a CALD background were defined in different ways:
- people born in non-English speaking countries;
  - people with low-English fluency; or
  - humanitarian migrants.

- 87 While CALD was one of a number of characteristics that produce SDC disabilities, it proved to be the most challenging one in terms of data availability and quality. States found it difficult to provide evidence on how service delivery costs were affected by CALD, although they were able to provide evidence to demonstrate that the size and diversity of CALD populations differed across States. Some evidence was available to suggest that translation services were required by people with low fluency in English in accessing government services and that this increased the length of time and resources used in delivering the service. Limited data were available on costs.
- 88 The Commission assessed many of the CALD allowances by exercising its judgment. Often it had to base its judgment on limited data, data from only one State or from case studies.

### **Are CALD data reliable and material?**

- 89 Available published data appear to suggest that the differential costs of people with a CALD background are not material. The Queensland Government has published reports on the implementation of its Multicultural Queensland Policy (which include its expenses on CALD groups and related affairs). The expenses for 2003-04, the latest year available, were \$10 million, less than \$3 per capita. Budget information from New South Wales and Victoria indicate their expenses on CALD are also low.<sup>12</sup>
- 90 During the March 2007 meeting with State officers, staff proposed not assessing CALD influences in the 2010 Review. Staff said the long standing problems of obtaining reliable data on the additional costs of people with a CALD background would mean the 2004 Review assessments would not satisfy the more stringent 2010 Review assessment guidelines. Most States accepted that proposition. Staff also queried whether an assessment would redistribute more than \$10 per capita for any State.
- 91 Victoria and the Northern Territory said that the impact of CALD was important in their States and should be assessed. The Northern Territory said its CALD costs arose because of the range of languages spoken by Indigenous people, and because a much greater proportion of them also have low fluency in English.

### **Conclusion**

- 92 Staff do not propose to assess disabilities for CALD in the 2010 Review.
- 93 States will have to establish the case for assessing CALD. They will need to support the case with reliable data, especially cost data, and demonstrate an assessment would be material.

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<sup>12</sup> Budget data from both New South Wales and Victoria show low expenses on CALD in both States. The Community Relations Commission for a Multicultural NSW is the agency responsible for CALD, including language services in New South Wales. Its expenses for 2006-07 in the NSW budget are \$15.5 million. Victoria had two agencies responsible for CALD – Victorian Office of Multicultural Affairs and Victorian Multicultural Commission. The target of total output costs for the two agencies for 2006-07 in the Victorian budget is \$10.7 million. The Victorian Office of Multicultural Affairs was merged with the Victorian Multicultural Commission on 1 May 2007.

# ATTACHMENT A: SEIFA COMPONENT INDEXES

- 1 The SEIFA indexes are a broad indicator of SES. SEIFA provides a relative measure of disadvantage based on a group of four indexes derived from the Census of Population and Housing that reflect the socio-economic characteristics of individuals in Census Collection Districts (CDs). It summarises a large range of variables, in a SEIFA 'score', which is associated with the key socio-economic attributes in an area. For the 2001 Census of Population and Housing the ABS produced the four indexes measuring different socio-economic conditions based on a range of variables:
  - Index of Relative Socio-Economic Disadvantage (IRSD) which measures disadvantage only;
  - Index of Relative Socio-Economic Advantage/Disadvantage (IRSAD) which simultaneously measures advantage and disadvantage;
  - Index of Economic Resources (IER) which profiles the wealth, income and expenditure of households; and,
  - Index of Education and Occupation (IEO) which reflects the educational and occupational structure of communities.
- 2 Using a SEIFA index to measure SES, low SES would be defined as the relevant sub-population living in areas with scores below an agreed threshold. At present, scores are reported at the CD (or a more aggregated) level, which means that scores summarise SES characteristics of an area rather than individuals. CD scores are standardised across all Australian CDs to have a mean of 1 000 and a standard deviation of 100 to enable easy identification of low and high scores. In practice this means that almost all index scores are between 800 and 1200.
- 3 The most appropriate index should closely reflect the category where it will be applied. In terms of low SES, the IRSD is likely to be the most appropriate indicator. If a measure were needed to account for relative advantage or high SES, the IRSAD would be more suitable.

## **Index of Relative Socio-Economic Disadvantage (IRSD)**

- 4 The Index of Relative Socio-Economic Disadvantage (IRSD) summarises census variables at a CD level that are considered to be indicators of disadvantage only. The variables used to derive this index include low income, high unemployment, low levels of education and jobs in relatively unskilled occupations. Variables are also included that indicate disadvantage rather than measure it, such as Indigenous or marital status (divorced or separated).
- 5 Low IRSD scores indicate that there are more disadvantaged people in the area compared with higher scoring areas. High scores indicate lack of disadvantage rather than relative advantage or high advantage.

### **Index of Relative Socio-Economic Advantage/Disadvantage**

- 6 The IRSAD indicator measures population characteristics associated with both advantage and disadvantage<sup>13</sup>. A higher IRSAD score indicates a high proportion of population with high SES. The reverse is true for low scores.
- 7 The ABS has noted that the States' distributions of SEIFA IRSAD scores are generally similar, with the key areas of differences in the Northern Territory, the ACT and Tasmania, based on the proportion of CDs in the first decile (most disadvantaged). The ACT has the smallest proportion of CDs in this group and therefore has a relatively high SES population. The NT has a higher proportion of CDs with lower SEIFA IRSAD scores up to a value of 930 and Tasmania has a distribution indicating widespread disadvantage. The proportion of CDs in the first decile in each State is shown in Table 7.

**Table 7 Distribution of CDs in the first decile by State/Territory, 2001 IRSD**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aus
	%	%	%	%	%	%	%	%	%
CDs in the first decile	10.9	8.0	8.9	9.8	12.0	15.9	1.6	28.3	10.0
Difference from average	0.9	-2.0	-1.1	-0.2	2.0	5.9	-8.4	18.3	0.0

Source: ABS, Socio-Economic Indexes for Areas: Introduction, Use and Plans for 2006

### **Index of Economic Resources (IER)**

- 8 The IER may be used to measure relative disadvantage as it summarises variables measuring income, household wealth and expenditure such as rent and mortgage payments. Variables included also give information about dwelling size and family structure as these factors influence household disposable income. However, assets such as equities and savings are not included as this information was not collected in the 2001 Census.

### **Index of Education and Occupation (IEO)**

- 9 The IEO reflects the educational and occupational structure of areas as it summarises variables relating to level of qualification and whether further education has been undertaken. However, as it does not contain any variables related to income and wealth it may be a less accurate indicator for SES by itself.

<sup>13</sup> The IRSAD and IRSD comprised of different variables to indicate low SES characteristics.