



**NORTHERN TERRITORY VIEWS ON
2010 REVIEW DRAFT REPORT
ATTACHMENT 14

SERVICES TO COMMUNITIES**

September 2009

Key Points

- The Territory strongly contends that the assessment of water and electricity subsidy expenses should recognise Indigenous, dispersion and service delivery scale disabilities particularly as remote essential services expenses are now assessed in the respective water and electricity subsidy components of this category.
- The Territory will provide further comment on the assessment of water subsidy expenses in response to the Commission's next paper.
- The use of the remote and very remote population to derive electricity subsidy expense factor is supported as this best reflects governments' policy in the provision of subsidies for utility services.
- The methodology used to assess community development expenses is supported as it appropriately reflects the additional costs of Indigenous community development.

Introduction

This submission details the Territory's views on issues raised in the Commonwealth Grants Commission's (the Commission's) 2010 Review Draft Report, Attachment 14, *Services to Communities*.

The Commission proposes to assess Services to Communities expenses in five components:

- water subsidies, assessed using community size, location, water quality and availability (placeholder methodology only);
- electricity subsidies, assessed using the proportion of remote and very remote population;
- water and electricity concessions, assessed using the number of Commonwealth pensioner and healthcare card holders;
- community development, encompassing Indigenous and non-Indigenous communities, and assessed by the number of people living in discrete Indigenous communities; and

- community amenities, assessed equal per capita.

Interstate location, administrative scale, native title and land rights disabilities are also recognised.

The proposed assessment methodology represents a significant change to the assessment of expenses associated with the delivery of water and electricity services to remote Indigenous communities. The Territory's submission focuses on the implications of this change and the assessment of water and electricity subsidy expenses. The Territory will also make an additional submission following the release of the Commission's next paper on the assessment of water subsidy expenses.

Assessment of Indigenous Essential Services expenses

Remote essential services expenses were previously included in the Services to Indigenous Communities (StIC) assessment and comprised around 31 per cent of the expenses associated with the category. Expenses arising from the Territory's Indigenous Essential Services (IES) were included in the remote essential services component of the StIC assessment. These services are predominantly provided to small, remote Indigenous communities. The StIC assessment was material for the Northern Territory (Table 1).

Table 1. 2009 Update Services to Indigenous Communities redistribution from EPC

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT
\$ M	-101.323	-86.957	-31.869	2.528	-19.289	-7.132	-5.717	248.760
\$ per capita	-14.63	-16.57	-7.54	1.18	-12.11	-14.39	-16.75	1,148.61

Source: CGC 2009 Update

The Territory has previously proposed that IES expenses be assessed together with Indigenous community development expenses, to enable adequate recognition of the disabilities associated with the provision of these services. The Commission has subsequently indicated its preference for disabilities arising from services provided to Indigenous people to be assessed in the same functional category as those for non-Indigenous people

on the basis of consistency of underlying cost drivers. As a result, IES expenses are now proposed to be included in the respective water and electricity subsidies components of this assessment.

The Territory does not agree with the position that the underlying cost drivers associated with the provision of water or electricity services are the similar in remote and urban areas. Unlike urban areas, in remote areas of the Territory utility services are provided on a stand alone basis, discrete to that particular community. Water is generally provided through bores with limited storage capacity and electricity is provided by stand alone diesel fuelled generators. With such different service delivery methods, it is difficult to see how the cost drivers in remote provision would be considered similar to that in urban areas.

The Territory is concerned that the proposed water and electricity subsidy assessment methodology does not adequately recognise the disabilities associated with the delivery of water and electricity services in small, remote Indigenous communities i.e. where Indigeneity, intra-state location (dispersion) and service delivery scale are dominant influences on costs. These disabilities were recognised in the remote essential services component of the STIC assessment. There has been no change that would lessen these cost drivers in the intervening years. In fact, with the planned significant increase in investment remote housing in the next decade these costs will increase significantly. This seems to be a case where the 2010 methodology has seriously weakened the achievement of equalisation for the only jurisdiction where the assessment is material.

The Commission agrees that there is a conceptual case to acknowledge the lower cost recovery rate from Indigenous clients for both water and electricity services. However, the Territory disputes the Commission's assertion that its lower cost recovery rate from Indigenous clients for water and electricity is policy choice. Rather, the Territory believes it reflects the application of uniform tariff policies in remote locations and the capacity of its clients to pay, given the level of socio-economic disadvantage faced by Indigenous Australians living in remote communities.

As the Commission, is aware the Territory and the Commonwealth have embarked on a major housing construction and upgrade program in remote areas initially through the Strategic Indigenous Housing and Infrastructure Program and ongoing through the Remote Indigenous Housing National Partnership (NP). Supporting infrastructure and services will be expended through a range of other NPs including the Remote Service Delivery NP and the proposed Remote Infrastructure NP. Remote area housing will become be managed in the same way as urban public housing with tenant responsibilities, including for rent, to be on the same basis as far as is possible. The aim of these reforms is to “normalise” remote communities, while recognising the capacity of these communities to pay for services. This framework does not support utility charges in remote areas being higher than in urban areas.

Indigenous people living in remote communities throughout Australia are more likely to have lower incomes than their counterparts living in non remote areas, who in turn are more likely to have lower incomes than non-Indigenous people living in the same areas^{1,2}. In many instances, the majority of income is spent on food and other basic commodities, leaving little money to meet service provision expenses³. A recent study of domestic water use in four remote Indigenous communities in South Australia⁴ found between 82 and 130 per cent of income was spent on basic food and health items, with the percentage of income spent on water ranging between 0.8 and 3.3 per cent of weekly household income. The authors concluded that there is little capacity to increase household water payments, and that any move to a ‘user pays’ system would place families under considerable (additional) financial stress.

¹Boyd Hunter. Revisiting the poverty war: income status and financial stress among Indigenous Australians.

http://epress.anu.edu.au/caepr_series/no_26/mobile_devices/ch08s02.html#d0e8977. Accessed 25/09/09

² ABS National Aboriginal and Torres Strait Islander Social Survey 2002, cat. no. 4714.0, ABS, Canberra.

³ Smith, D.E. 1991a. ‘Aboriginal expenditure patterns: An analysis of empirical data and its policy implications’, CAEPR Discussion Paper No. 9, CAEPR, ANU, Canberra.

⁴ Meryl Pearce, Eileen Willis, Carmel McCarthy, Ben Wadham, Fiona Ryan. Issues of domestic water use in four remote Indigenous communities in South Australia. CRCAH projects: SD136 and SD169. http://www.crcah.org.au/research/water-related_projectsfu.html . Accessed 25/09/09

The Territory believes that these results and conclusions are applicable to both water and electricity user charges in remote Indigenous communities in other parts of Australia, and indicate a greater requirement for governments to subsidise essential services in these communities. As such, the Territory believes that the Commission should apply an Indigenous cost weight to both the water and electricity subsidies components of this assessment. This should be based on the proportion of the remote and very remote population living in discrete Indigenous communities.

Water subsidies

The Territory notes that the methodology proposed to assess water subsidies is a place holder. The Territory's comments reflect the information provided by the Commission in the Draft Report and as such its comments are provided on a without prejudice basis, with its final position dependent on the next iteration of the water subsidies assessment.

The Territory prefers the multifactor approach outlined in the Draft Report (which is based on a modified version of the 2004 Review assessment) to one that simply uses rainfall as a proxy for water cost or an EPC assessment as it believes that neither of these would adequately capture relevant disabilities. The Territory supports the Commission's sentiments that water subsidies are generally only provided for smaller regional communities or where water availability and/or quality is poor. These are not the only influences but other important factors that are considered are the remoteness of the community and whether it is predominantly Indigenous.

The Territory agrees that community size is an important determinant of water services expenses, particularly in remote areas. The Territory supports the reduction of the upper threshold at which cost recovery is considered possible to 10 000. However, it is concerned that the proposal to exclude communities with populations less than 200 is not consistent with the inclusion of IES expenses in this component of the assessment, and submits that these small communities must be included. Over a quarter of the communities for whom IES are provided have populations of less than 200, and these have reticulated water services. The Territory notes that other states, such as

Queensland, also provide reticulated water services to communities with a population less than 200.

Furthermore, the Territory’s recently provided IES data supports that provided by Western Australian and Queensland in indicating that there is a significant increase in the cost per capita of delivering water services as community size decreases, which is independent of remoteness and is exacerbated in smaller communities (Table 2). The Territory believes this gradient should be used to generate a service delivery scale factor for water subsidies.

Table 2. Impact of community size on per capita 2008-09 water costs in Northern Territory IES Communities located in very remote areas

	0-99	100-199	200-499	500-999	1000+
Water (\$/capita)^a	1 558	1 174	773	621	380

^a Includes both operating and capital expenses. Source: Northern Territory Treasury/ Power and Water Corporation

The impact of dispersion is not explicitly mentioned in the proposed placeholder multifactor approach to the assessment. The Territory considers that there is a strong conceptual case that remoteness increases water supply costs, and hence the subsidies that governments are required to provide. Table 3 provides supporting evidence for this case.

Table 3. Impact of remoteness on 2008-09 average water unit costs in Northern Territory IES communities with populations of 200-499

	Moderately accessible	Remote	Very remote
Water (\$/kL)^a	0.99	2.39	3.71

^a Includes both operating and capital expenses. Source: Northern Territory Treasury/ Power and Water Corporation

The Territory considers that the Commission should recognise the complex interplay between water availability and quality expenses in the next iteration of the water assessment. For example, the Territory argues strongly that the Commission’s statement that “water is plentiful and relatively cheap to

produce across the north” is incorrect⁵, and its conclusion that this dampens the water needs identified using a remote regions methodology reflects a simplistic understanding of and approach to water availability and quality issues.

Water “availability” may encompass elements of resource assessment, planning, water use efficiency and a portfolio of traditional and non traditional sources and solutions (including desalination for sea water and brackish water sources, reuse of wastewater, rainwater and dual supplies (non potable and potable)). However, many of these different sources have water “quality” cost implications, such as investment in natural systems and/or advanced treatment processes, which are required for water supplies to achieve Australian Drinking Water Guidelines objectives.

The Territory notes that although this proposal is a placeholder, the Commission have currently discounted the water subsidy factor by 50 per cent on the basis of old and uncertain data. Given that the Commission now has additional contemporaneous data from the recent Services to Communities data request, any discount should be removed from the proposed assessment in the Commission’s next paper.

Electricity subsidies

The Territory supports the Commission’s proposal to redistribute electricity general subsidies to reflect by the remoteness of its population in recognition of the additional cost of service delivery in these areas, predominantly arising from the lack of connectivity to an electricity grid. It also notes that there is the potential for remote electricity costs to increase given the roll out of the Commonwealth Government’s climate change policies (Carbon Pollution Reduction Scheme and Renewable Energy Targets) which will require these

⁵ CSIRO’s Northern Australia Sustainable Yields (NASY) project CSIRO’s Northern Australia Sustainable Yields project clearly documents that “despite popular perceptions that northern Australia has a surplus of water, the climate is extremely seasonal and the landscape may be described as annually water-limited.” <http://www.csiro.au/partnerships/NASY.html> Accessed 28/09/09

services to transition to more expensive renewable energy sources, or pay for carbon permits for diesel fuel generation.

The Territory agrees that remoteness is an important driver of electricity costs (and subsequent requirement for government subsidies) and acknowledges that the Commission’s methodology recognises that there is a differential between remote and non-remote electricity costs. The Territory has previously provided data which indicated an increasing gradient of electricity costs as remoteness increases. This is reproduced in Table 4 below.

Table 4. Northern Territory 2007-08 regional average unit costs for the provision of electricity

Town	Darwin	Alice Springs	Tennant Creek
SARIA region	Highly Accessible	Remote	Very Remote
Electricity\$/kWh ^a	0.19	0.22	0.30

^a Includes both operating and capital expenses. Source: Northern Territory Treasury/ Power and Water Corporation

In addition, data recently provided to the Commission in response to the recent Services to Communities data request shows that electricity costs for the Territory’s IES communities are on average, 1.4 times higher for comparable sized communities in remote and very remote areas compared to those in moderately accessible areas (Table 5).

Table 5. Impact of remoteness on 2008-09 average electricity unit costs in Northern Territory IES communities with populations of 200-499

	Moderately accessible	Remote and very remote	Ratio
Electricity (\$/ kWh)^a	0.67	0.94	1.4

^a Includes both operating and capital expenses. Source: Northern Territory Treasury/ Power and Water Corporation

The higher costs for the IES moderately accessible locations as compared to the more remote regional areas “on grid” are predominantly driven by scale disabilities. As noted above, the Territory strongly believes that service delivery scale disabilities should be recognised in the electricity subsidies component of this assessment. The Territory’s recently provided IES data indicates community size has a significant impact on electricity costs, even when remoteness is held constant (Table 6). The Territory believes that this gradient should be used to inform a service delivery scale factor for this component of the Services to Communities assessment.

Table 6. Impact of community size on 2008-09 electricity costs per capita in Northern Territory IES Communities located in very remote areas

	0-99	100-199	200-499	500-999	1000+
Electricity (\$/capita) ^a	7 774	4 488	3 198	2 890	1 757

^a Includes both operating and capital expenses. Source: Northern Territory Treasury/ Power and Water Corporation

Community Development

The Territory supports the Commission’s proposed methodology to assess community development expenses by deriving comparative weights for Indigenous and non-Indigenous communities. The Territory agrees that basing these weights on the relative per capita community development expenses in each type of community reflects the additional costs of Indigenous community development. It notes that the discrete Indigenous communities included in this assessment comprise both those based in remote and urban areas.