



# **COMMONWEALTH GRANTS COMMISSION**

**DRAFT ASSESSMENT PAPER CGC 2003/48**

## **PRIMARY INDUSTRY**

Prepared for the Commission's 2003 Conferences on Draft Assessments

**AUGUST 2003**

## **NOTE**

Included in this paper are the results of preliminary calculations based on the methods proposed throughout the paper and using the data currently available. Those results are indicative only and should be seen as work in progress. Ongoing changes are being made to standards and factor calculations as new data come to hand. Moreover, the calculations have been done using a prototype assessment system and are subject to ongoing revision as checking processes proceed.

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## INTRODUCTION

1. This paper presents a draft assessment for the Primary Industry category for the 2004 Review. It builds on staff proposals set out in *Discussion Paper CGC 2002/38 Services to Industry*, and State comments on them provided in the 2003 Rejoinder Submissions.

2. The proposed assessment structure for this category in the 2004 Review is shown in Table 23 on page 34.

## THE 1999 REVIEW ASSESSMENT

### *Scope of the expenses category*

3. In the 1999 Review, the Primary Industry category comprised expenses on administration, regulation, planning, support and management of agriculture and fisheries services, brucellosis eradication and soil conservation. More specifically, the category included expenses on:

- (i) grants, subsidies and other assistance for agricultural land clearing and reclamation;
- (ii) land settlement schemes such as grants, interest subsidies and other assistance for farm acquisition;
- (iii) programs of rural debt reconstruction, farm rehabilitation and retraining displaced farmers;
- (iv) provision of veterinary and pest control services;
- (v) services designed to stabilise or improve farm prices and farmers' incomes, such as price support and marketing schemes for unprocessed agricultural products;
- (vi) schemes to encourage or restrict output of particular primary products;
- (vii) subsidies to induce farmers to purchase and use fertilisers, improved seeds and so forth;
- (viii) eradication or control of pests, vermin, plant diseases and other destructive agents;

- (ix) provision of services, grants, subsidies and advances for agriculture water resources such as land irrigation, rural drainage and flood mitigation systems;
  - (x) freshwater, ocean and coastal fishing and fish farming;
  - (xi) fish hatcheries, stocking or culling activities, licensing of fishing and extension services;
  - (xii) research into fish management related problems;
  - (xiii) compensation for slaughtered beasts;
  - (xiv) restocking and freight rebates, and additional holding costs;
  - (xv) the provision of advisory, technical and research services on soil conservation, erosion control and the reclamation of areas affected by soil degradation;
  - (xvi) erosion control and reclamation works;
  - (xvii) development and application of policies relating to the prevention of soil degradation; and
  - (xviii) the rehabilitation of degraded areas.
4. Commonwealth specific purpose payments included in this category were:
- (i) Bovine Brucellosis and Tuberculosis;
  - (ii) Skilling Farmers for the Future; and
  - (iii) Farm Assistance.

***Importance of current assessment***

5. Table 1 shows the gross standard expenses of Primary Industry for the six years ended 2001-02. In 2001-02, this expenses category represented 1.51 per cent of total gross standard expenses. In 2001-02, user charges recovered about 21 per cent of category gross standard expenses.

**Table 1** GROSS STANDARD EXPENSES AND USER CHARGES — PRIMARY INDUSTRY, 2003 UPDATE

	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02
Gross standard expenses (\$pc)	63.82	66.84	89.02	80.74	78.21	75.54
% of total gross standard expenses	1.73	1.73	1.96	1.74	1.61	1.51
Gross standard user charges (\$pc)	16.50	16.92	23.72	23.38	17.27	16.03
% of category gross standard expenses	25.9	25.3	26.6	29.0	22.1	21.2

6. Table 2 shows that compared to a per capita assessment, the 2003 Update assessment redistributed \$150.6 million in grants from New South Wales, Victoria and the ACT to the other States.

**Table 2** EFFECT OF ASSESSMENT ON GRANT DISTRIBUTION — PRIMARY INDUSTRY, 2003 UPDATE

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total <sup>(a)</sup>
<b>Contribution to 2003 Update relativities</b>	-103.1	-28.8	34.5	42.9	36.5	13.3	-18.7	23.5	150.6

(a) Total redistribution.

7. The factor with the greatest impact on grant shares in the 2003 Update assessment was economic environment. It redistributed \$97.1 million away from New South Wales, Victoria, the ACT and the Northern Territory to the other States.

### *Expenses assessment*

8. The expenses assessment structure used in the 1999 Review is shown in Table 3.

### *User charges assessment*

9. User charges for this category were assessed differentially, by applying the economic environment factor used in the gross expenses assessment. The economic environment factor was based on the per capita number of establishments and value of production in the agriculture and fishing industries, each weighted by 50 per cent.

**Table 3** 1999 REVIEW ASSESSMENT STRUCTURE — PRIMARY INDUSTRY

Expenses component	Component weight	Factors	Basis of calculation
Scale-affected Expenses	3.41	Input costs	General method, with weights of 80% for wages, 2% for accommodation and 1% for electricity.
		Administrative scale	General method.
Regulation Training and Research in the Public Interest	64.19	Dispersion	General method, based on primary industry employment distribution.
		Economic environment	Based on per capita numbers of locations and value of production in agriculture and fishing industries, each weighted by 50%.
		Input costs	General method, with weights of 60% for wages, 2% for accommodation and 1% for electricity.
Research for Profit and Promotion	21.40	None	Equal per capita.
Soil Conservation	9.10	Dispersion	General method, based on primary industry employment distributions.
		Input costs	General method, with weights of 60% for wages, 2% for accommodation and 1% for electricity.
		Physical environment	Average of sub-factors based on per capita actual land care related expenditure for the three years ended 1993-94 and per capita value of production in the agriculture, forestry and fishing industries, discounted to 50 per cent.
Brucellosis Eradication	1.42	Brucellosis	Based on the average over the last five years of per capita actual and estimated expenses on brucellosis eradication.
Native Title Administration	0.05	Native Title Administration	Based on the additional costs to the States arising from the <i>Commonwealth Native Title Act 1993 (as amended)</i> .
Isolation	0.43	Isolation	General method.

## PROPOSED CATEGORY DEFINITION AND ASSESSMENT STRUCTURE 2004 REVIEW

10. The Commission has decided on a number of changes to the scope of the Primary Industry category for the 2004 Review.

### *Specific purpose payments*

11. In *Draft Assessment Paper CGC 2003/78 Specific Purpose Payments*, the Commission proposed to include the following additional SPPs in the Primary Industry category for the 2004 Review:

Recurrent SPPs:

- (i) *Plant Disease and Eradication*: changed from exclusion (previous allocation reflected needs) to inclusion; and
- (ii) *Farm Business Improvement Program (Farmbis)*: changed from exclusion (previous allocation reflected needs) to inclusion.

Capital SPPs:

- (i) *Sugar*: changed from out of scope to inclusion.

12. The Bovine Brucellosis and Tuberculosis SPP will no longer be included in the category. The last payments to States under this SPP were made in 1998-99.

13. The other two SPPs included in the category in the 1999 Review — *Skilling Farmers for the Future*, and *Farm Assistance* — continue to be included in this review.

14. Payments made to the States under the National Action Plan for Salinity and Water Quality (NAPSWQ) have been included in the category as a Commonwealth Own Purpose Outlay (COPO) for 2000-01 and 2001-02. From 2003-04, NAPSWQ payments will be included in the category as an SPP.

### *Regulatory and Other Services expenses*

15. **1999 Review.** In the 1999 Review, a Regulatory and Other Services category existed. The category comprised expenses on administration, regulation, support and operation of government services not elsewhere classified in the Commission's functional classification.

16. **Staff proposals.** In *Discussion Paper CGC 2001/12 Scope and Structure of the Standard Budget*, staff proposed the abolition of the Regulatory and Other Services category and the spread of its expenses to other relevant categories.

17. **State views.** In its rejoinder submission, Queensland argued that if the proposal to abolish the Regulatory and Other Services category proceeded, the fixed costs

expenses component in the Services to Industry categories should account for fixed establishment type costs associated with the services that were previously assessed in the Regulatory and Other Services category. It considered the majority of industry regulation expenses to be fixed head office type costs, and that regulation expenses were not likely to vary significantly according to the nature, size and structure of the industry being regulated — rather, all States would incur the establishment costs of setting up regulatory bodies.

18. **Commission decisions.** The Commission has decided that no Regulatory and Other Services expenses will be included in this category. On examining the GFS definition of primary industry and the available data, we concluded that:

- (i) most of the expenses incurred in regulating this services to industry category were already included in the category; and
- (ii) it would be difficult in practice to separate out any of the other regulatory type functions from Regulatory and Other Services which related to Primary Industry.

#### ***Forestry operation expenses***

19. **1999 Review method.** In the 1999 Review, the net impact of forestry operations on the general government sector was included in the Concessions and Other Payments — Other Public Trading Enterprises category. It was assessed equal per capita.

20. **Staff proposals.** *Discussion Paper CGC 2001/12 Scope and Structure of the Standard Budget* proposed that the net impact on the budget of forestry operations be included in the Primary Industry category to better align Commission categories with the purpose classification definitions in the ABS GFS collection.

21. **State views.** Victoria argued that forestry plantations were a commercial activity and should therefore be assessed in the same way as other commercial activities, such as the supply of electricity, gas and water. It proposed that the Commission either assess forestry operations on a net basis (offsetting costs against revenue), or exclude forestry operations from differential assessments.

22. **Staff proposals.** In *Discussion Paper CGC 2002/38 Services to Industry*, staff suggested that net expenses on supporting forestry operations were economic development expenses, and proposed that they should be assessed similarly.

23. **Further State views.** No State objected to the proposals made in the discussion paper, provided the expenses were assessed in a manner consistent with other economic development expenses. Tasmania argued that forestry operations expenses were analogous to economic development activities, and should be treated in a similar fashion.

24. **Commission decision.** The Commission has decided to include in the Primary Industry category the net impact on the budget of forestry operations, consistent with its treatment in GFS. We considered the net impact of forestry operations to be of an economic development-type expense. We therefore have included such expenses in the economic development component of this category (refer later). As a result the expenses

will be assessed by the equal per capita method. This was discussed further in *Draft Assessment Paper CGC 2003/05 Treatment of Economic Development Assistance*.

### ***Brucellosis expenses***

25. ***1999 Review method.*** In the 1999 Review, the assessment of expenses on eradicating bovine brucellosis was made in Primary Industry and using the actual per capita assessment method. Because brucellosis eradication expenses were not available to the Commission for all years after 1997-98, the Commission estimated State-sourced expenses on brucellosis eradication for each State up to 2001-02, based on the State proportions of expenses in 1996-97 and an assumed total expenses on this function of \$4.5 million.

26. The estimates of State-sourced expenses were combined with the Commonwealth payments to States under the Bovine Brucellosis and Tuberculosis SPP program for 1997-98 to 2001-02.

27. ***State views.*** No States commented on this component in either their main or rejoinder submissions.

28. ***Commission decision.*** The Commission noted that bovine brucellosis had been largely eliminated in the States, as evidenced by declining State expenses on its eradication. The Commission has decided to discontinue the assessment for brucellosis eradication because:

- (i) State expenses on brucellosis eradication are now not material; and
- (ii) specific purpose payments for Brucellosis Eradication were last paid to the States in 1998-99.

29. In line with the decision to discontinue the assessment for brucellosis eradication for the 2004 Review, any specific purpose payments relating to 1998-99 and earlier years will be treated by exclusion.

### ***Salinity expenses***

30. ***1999 Review.*** In the 1999 Review, expenses on the treatment of salinity problems were included in a number of categories, including Primary Industry. Such expenses were assessed within the soil conservation component of Primary Industry in the 1999 Review, but it is not possible to identify the proportion of that component which relates specifically to salinity eradication and control.

31. ***Preliminary State views.*** In its main submission, Victoria suggested that the prevalence and severity of salinity should be assessed in the soil conservation component of this category, arguing that the 1999 Review approach ignored some major costs of salinity management.

32. Western Australia argued that, generally, the extra efforts/contributions it made towards combating salinity were not adequately recognised or compensated in the

Commission's assessments. It suggested that Commonwealth payments under the National Action Plan for Salinity and Water Quality (NAPSWQ) should be treated by exclusion or, if included, its distribution should be used as the basis for calculating a physical environment factor in the soil conservation component.

33. **Staff proposals.** *Discussion Paper CGC 2002/38 Services to Industry* noted that salinity was a growing and serious issue for a number of States. A key issue was how the Commonwealth NAPSWQ payments should be treated.

34. The paper noted that salinity expenses were included in several assessment categories — the majority in Primary Industry, then Water Sanitation and Protection of the Environment, and National Parks and Wildlife Services. Staff proposed that all such expenses could be brought together or left where they were.

35. **Further State views.** At the November 2002 Staff Conference, staff asked the States to provide information on the GFS categories to which they classify salinity expenses. Two States responded.

36. Victoria submitted that most salinity expenses were classified to Primary Industry. Some expenses were classified to Water Sanitation and Protection of the Environment. Western Australia advised that salinity expenses were incurred by several departments and classified to Primary Industry, Water Sanitation and Protection of the Environment, National Parks and Wildlife Services, and Forestry.

37. New South Wales, and South Australia supported Western Australia's view that the NAPSWQ payments should be excluded — or if included, their distribution should be used to assess needs for soil conservation.

38. Queensland and the Northern Territory favoured the NAPSWQ payments to the States being treated by inclusion.

39. **Commission decision.** The Commission has decided to leave the salinity expenses in the categories where they are presently classified in GFS. This is because the task of reallocating them using either GFS or State provided data does not appear to be practical. Only one State was able to provide the required data. This approach will ensure consistency with the GFS classifications.

40. We have accepted that two States have been able to confirm that most salinity related expenses are classified to the Primary Industry category.

41. While it appears that the NAPSWQ funding has been allocated to the States partly on a scientific and partly on a pragmatic basis<sup>1</sup>, and not necessarily on the basis of need as the Commission would strictly define it, the Commission has recognised that overcoming soil salinity represents a distinct aspect of soil conservation activities. Soil conservation includes expenses for weed and animal pest control, soil erosion, tree replacement and establishment, as well as salinity eradication and control. Further, we have

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<sup>1</sup> Information on the machinery for the allocation of NAPSWQ funding has been obtained from the Department of Agriculture, Fisheries and Forestry (AFFA). A fuller summary of the distribution method is in the Attachment.

concluded that what constitutes needs relating to soil salinity is different from what constitutes needs relating to other aspects of soil conservation. Because of this, we think it conceptually appropriate to separate out salinity expenses from other soil conservation expenses, and assess them separately.

42. However, as indicated above, we cannot identify the proportion of salinity expenses assessed within the current soil conservation component. Therefore, to bring together all aspects of this assessment issue, the Commission has decided:

- (i) to treat the NAPSWQ payments to States for 2000-01 and 2001-02 as a COPO, and to include this COPO in the Primary Industry category for those two years;
- (ii) to include the NAPSWQ payments to States in the category from 2003-04, when the NAPSWQ payments become an SPP;
- (iii) to establish a separate component for all State expenses associated with the NAPSWQ payments to States for soil salinity; and
- (iv) to continue to assess the non-NAPSWQ related expenses on soil salinity, which we cannot quantify, within the existing soil conservation component.

### ***National capital assessment***

43. ***1999 Review.*** In the 1999 Review, a national capital allowance was not assessed in the Primary Industry category.

44. ***State views.*** The ACT argued that the Commission should assess a national capital allowance in this category to recognise the extra costs of adhering to the National Capital Plan for forestry operations.

45. ***Staff proposals.*** Staff were inclined to agree that the special requirements imposed by the Commonwealth on the ACT's forestry management — such as proximity of plantations to urban populations — under the National Capital Plan and the high level of recreational use of forest areas, added to the costs of operating the forestry industry in the ACT. Subject to the outcome of the November 2002 Conference, staff proposed that a national capital allowance be assessed in Primary Industry for the 2004 Review.

46. ***Further State views.*** In its rejoinder submission, the ACT submitted a detailed argument for a national capital allowance of \$572 000 per annum for forestry operations. Both Queensland and the Northern Territory submitted that they had no objections to a national capital allowance being assessed for the ACT.

47. ***Commission decision.*** In line with its earlier decision on forestry operation expenses generally (set out previously), the Commission considered the net impact of forestry operations to be of an economic development-type expense. We have therefore included them in the economic development component of this category. As a result the

expenses will be assessed by the equal per capita method. No national capital allowance will be assessed.

### ***Category structure and component weights***

48. The Commission has decided to adopt a new classification of expenses in this category following decisions reported above and others made in relation to the assessment of administrative scale (*Draft Assessment Paper CGC 2003/60 Administrative Scale*) and the treatment of economic development expenses (*Draft Assessment Paper CGC 2003/05 Treatment of Economic Development Assistance*).

49. A fixed costs component will be introduced. As noted above, no additional fixed costs have been attributed to this category as a result of the abolition of the Regulatory and Other Services category. The size of the fixed costs component in this category has been estimated at 1.46 per cent in 2001-02. This proportion will be updated annually.

50. The former regulation training and research in the public interest component, and the former research for profit and promotion component have become:

(i) ***Regulation***, comprising administration and regulation costs (not including fixed costs), including expenses on:

- ensuring the welfare of industry employees and consumers of its products; and
- ensuring the industry and its producers adhere to standards and protect State environments and natural resources for (broadly defined) future users; and

(ii) ***Economic Development***, comprising State expenses whose purpose is to improve the market position and/or the financial circumstances of industries, specific firms or regions, including expenses on:

- delivering training designed to provide information to industry producers — including the provision of extension programs, and the production and distribution of industry publications — to increase their use of improved production techniques and the quality of their products;
- undertaking pure and applied research, including market research, which supports primary industry as a whole;
- grants and subsidies paid to encourage firms to establish expand or move from other States or nations;
- infrastructure for the specific benefit of firms or a region;
- price support and marketing schemes directly aimed at firms or a region;

- schemes to encourage or restrict output of particular products so that the market position of firms or a region are improved; and
- advertising and other promotional programs which directly support a firm, a region or the whole industry.

51. The sizes of these components have been estimated using expense information provided by the States in the previous review, known changes to the contents of each component, and judgement. Western Australia also provided information to suggest that the economic development component was assumed to be too large in this category in the 1999 Review. This was because the amount of research undertaken in the public interest had been underestimated.

52. In the 1999 Review, the proportion of expenses in the former regulation, training and research in the public interest component was estimated as 75 per cent of the balance of the category, after taking out the scale-affected expenses, soil conservation, isolation and native title components. The proportion of expenses in the former research for profit and promotion component was estimated as 25 per cent of the category balance, after removing the scale-affected expenses, conservation, isolation and native title components.

53. For the 2004 Review, the regulation component will comprise regulation expenses and non-fixed head office expenses. The Commission has estimated that the regulation component is 40 per cent of the category balance and the economic development component, which includes forestry expenses, will be 60 per cent.

54. In the 1999 Review, the soil conservation component was assessed at 9.1 per cent. We have no quantitative information from the States or from the GFS, on which to base a change in the size of this component. However, the case for assessing soil conservation expenses remains strong. In the light of these circumstances, we have decided to retain the size of the soil conservation component at 9.1 per cent for the 2004 Review.

55. As set out previously, we have decided to assess a separate component for all State expenses on soil salinity which are associated with the Commonwealth NAPSWQ plan. We have qualitative information from some States — notably Victoria and Western Australia — that State expenses on arresting and eradicating salinity in agricultural land is rising, as the problem increases. In addition, the Department of Agriculture Fisheries and Forestry (AFFA) has provided data on actual expenses incurred in addressing salinity under the NAPSWQ plan, for 2000-01 and 2001-02. Based on these data and our decision to include all State expenses associated with the NAPSWQ payments in the component (which will vary from year to year), the Commission has decided to assess a soil salinity component which will differ in size for each year of the assessment period. The size of the soil salinity component in 2000-01 is small, but represents 2.1 per cent of total category expenses in 2001-02.

56. The proportions of expenses affected by isolation, administrative scale and native title were calculated using the general approaches adopted for the assessment of those disabilities in this review. The Commission proposes to update the component weights for fixed costs and native title expenses annually. Changes in these components (as

well as the soil salinity component) will flow through to the size of the two components which relate to the balance of the category — that is regulation, and economic development.

57. **Summary.** The Commission’s decisions relating to the definition of the category, assessment structure and component weights are summarised in Table 4.

**Table 4** COMMISSION DECISIONS — PRIMARY INDUSTRY CATEGORY SCOPE, ASSESSMENT STRUCTURE AND COMPONENT WEIGHTS

Decisions	Reason
<p><b>Scope.</b> Changed from 1999 Review to include expenses associated with three additionally included SPPs (refer below) and the exclusion of the Brucellosis SPP. The category was also broadened to include forestry. In addition, it includes all expenses associated with the National Action Plan for Salinity and Water Quality (NAPSWQ).</p>	<p>Reflects CGC decisions in Draft Assessment Papers on SPPs and the scope of the equalisation budget.</p>
<p><b>Treatment of SPPs:</b></p>	
<p><i>Recurrent SPPs</i></p>	
<ul style="list-style-type: none"> <li>• Farm Business Improvement Program (FarmBis)</li> </ul>	<p>Changed from exclusion (previous allocation reflected needs) to inclusion.</p>
<ul style="list-style-type: none"> <li>• Plant and Disease Eradication</li> </ul>	<p>Changed from exclusion (previous allocation reflected needs) to inclusion.</p>
<ul style="list-style-type: none"> <li>• Farm Assistance</li> </ul>	<p>No change — previously treated by inclusion.</p>
<ul style="list-style-type: none"> <li>• Skilling Farmers for the Future</li> </ul>	<p>No change — previously treated by inclusion.</p>
<ul style="list-style-type: none"> <li>• NAPSWQ</li> </ul>	<p>Inclusion from 2003-04, when the NAPSWQ payments become an SPP.</p>
<p><i>Capital SPPs</i></p>	
<ul style="list-style-type: none"> <li>• Sugar</li> </ul>	<p>Changed from exclusion (previously out of scope) to inclusion.</p>
<p><i>COPO:</i></p>	
<ul style="list-style-type: none"> <li>• NAPSWQ</li> </ul>	<p>Payments under the NAPSWQ plan included as a COPO for 2000-01 and 2001-02.</p>

**Table 4** COMMISSION DECISIONS — PRIMARY INDUSTRY CATEGORY SCOPE, ASSESSMENT STRUCTURE AND COMPONENT WEIGHTS (continued)

<b>Assessment structure and component weights:<sup>(a)</sup></b>	
Fixed costs: 1.42%	This component weight has decreased because the assessment of administrative scale is based on fixed costs only (in the 1999 Review, the fixed costs element accounted for about 1.4 per cent of the category standard). The discontinuation of the Regulatory and Other Services category has not resulted in an allocation of scale affected expenses formerly included in that category among the services to industry categories, because all of those regulatory type expenses have been allocated to General Public Services. Refer below for further detail.
Regulation: 34.87%	Expenses component derived by splitting the balance of category expenses 40/60 per cent between regulation and economic development, after the proportions of expenses on fixed costs, soil conservation, soil salinity, native title, and isolation disabilities have been determined.
Economic development: 52.30%	Refer Regulation component.
Soil conservation: 9.10%	In the absence of quantitative data from the States or the GFS, 1999 Review component size retained.
Soil salinity: 2.10%	Component derived by calculating the proportion of total category expenses accounted for by State expenses on soil salinity associated with the NAPSWQ plan.
Native title: 0.02%	Component derived by the general method.
Isolation: 0.19%	Component derived by the general method.

(a) Component weights apply to 2001-02.

### **FIXED COSTS COMPONENT**

58. As in the 1999 Review, the Commission has decided to assess an administrative scale and input cost factor for this component.

#### ***Administrative scale — fixed costs component***

59. **1999 Review.** The administrative scale factor was assessed to account for differences in per capita costs of providing central office functions and whole of State services. Scale-affected expenses for this category were assessed as \$4.75 million, of which \$2 million was considered as fixed cost and \$2.75 million as variable cost. The scale-affected expenses component represented 3.41 per cent of expenses in this category.

60. **2004 Review.** *Draft Assessment Paper CGC 2003/60 Administrative Scale* discusses the issues raised by the States regarding the assessment of this factor. The paper sets out the Commission's decisions on the general method of assessment adopted for the 2004 Review and on the size of the fixed costs component in each category. The States did not raise issues specific to this category, other than those covered previously concerning the abolition of Regulatory and Other Services.

61. The Commission has decided that administrative scale will be assessed for this category to recognise the unavoidable costs each State would incur to have the policy and administrative infrastructure necessary to provide the service regardless of the size of the task.

62. The administrative scale factors for this category, shown in Table 5, have been calculated using the 2004 Review general method. Fixed costs for this category have been estimated to be \$3 million per State, and represent 1.42 per cent of the category standard in 2001-02.

**Table 5** ADMINISTRATIVE SCALE FACTORS — FIXED COSTS COMPONENT, 2004 REVIEW

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
1997-98	0.40368	0.55180	0.74506	1.40922	1.71746	5.39471	2.50770	13.49683
1998-99	0.40363	0.55250	0.74221	1.40297	1.72823	5.47048	2.51914	13.42046
1999-2000	0.40364	0.55285	0.73905	1.40011	1.73956	5.53952	2.52410	13.36014
2000-01	0.40355	0.55298	0.73557	1.39936	1.75396	5.60983	2.52574	13.34142
2001-02	0.40404	0.55267	0.73102	1.39881	1.76684	5.67060	2.53083	13.42007

63. The factor based on estimated resident populations and the component weight will be updated annually.

***Input costs — fixed costs component***

64. **1999 Review.** The input costs factor was assessed to recognise differences between States in per capita costs of labour, office accommodation and electricity. A separate factor was calculated for each of those inputs. For the fixed costs component, those factors were applied to the following proportions of standard expenses:

- (i) wages and salaries                      80 per cent;
- (ii) accommodation                              2 per cent; and
- (iii) electricity                                      1 per cent.

65. **2004 Review.** *Discussion Paper CGC 2003/04 Input Costs* discusses the issues raised by the States regarding the assessment of wages and salaries costs. The paper

outlines the Commission's proposals for the general method of assessment to be adopted for the 2004 Review and on the size of the standard expense proportions in each category for wages and salaries. *Draft Assessment Paper CGC 2003/79 Input Costs — Electricity and Accommodation* discusses the issues raised by the States regarding the assessment of input costs relating to accommodation and electricity. The paper presents the Commission's decisions on the general method of assessment to be adopted for the 2004 Review and on the size of the standard expense proportions in each category for accommodation costs and electricity costs. The States did not raise issues specific to this category.

66. The Commission considered that the prices of labour, accommodation and electricity relating to fixed costs in providing services differ across States for reasons beyond the control of individual States. It has therefore decided that input costs will be assessed for this component.

67. The input costs factors for the fixed costs component of this category, shown in Table 6, have been calculated according to the 2004 Review general methods. The standard expense proportions applied were 80 per cent for wages and salaries, 2 per cent for accommodation and 1 per cent for electricity.

**Table 6** INPUT COSTS FACTORS — FIXED COSTS COMPONENT, 2004 REVIEW

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
1997-98	1.03086	0.98776	0.98243	0.98229	0.97405	0.93225	1.00817	1.11439
1998-99	1.03267	0.98876	0.98050	0.97883	0.97213	0.92981	1.01243	1.10979
1999-2000	1.03546	0.98791	0.97763	0.98082	0.96857	0.92317	1.01680	1.10513
2000-01	1.03603	0.98930	0.97573	0.98076	0.96738	0.92031	1.01603	1.10244
2001-02	1.03498	0.99044	0.97446	0.98186	0.97135	0.92001	1.01306	1.09897

68. The factors will be updated annually. The proportions represented by wages and salaries, accommodation and electricity will not be re-examined until the next review.

## REGULATION COMPONENT

69. This is a new component which includes the expenses that States incur in regulating primary industry and its producers. It also includes some expenses relating to head office costs. Dispersion, input costs and economic environment factors were proposed for this component in the discussion paper. The Commission considers they remain appropriate for the component.

***Dispersion — regulation component***

70. **1999 Review.** The dispersion factor was assessed to account for differences in per capita costs of providing services arising from differences between States in the spread of their population. The factor reflects the effects of population dispersion on State expenses associated with telecommunication, freight, travel and staffing on-costs.

71. There were seven indexes within the dispersion factor, each reflecting the effect of interstate differences in population dispersion on a separate type of dispersion-affected cost. The indexes were weighted by the proportions of standard expenses affected by each type of dispersion-affected cost and combined to form the overall dispersion factor. The proportions of standard expenses estimated for this component are shown in Table 7.

**Table 7** DISPERSION COST WEIGHTS — REGULATION TRAINING AND RESEARCH IN THE PUBLIC INTEREST COMPONENT, 1999 REVIEW

Telephone	Freight	Air Travel	Road Travel		Remote Removals	Locality Allowances
			Inter Regional	Local		
0.01771	0.00403	0.00612	0.01884	0.00781	0.00000	0.00466

Source: 2003 Update Working Papers, Volume 5, p52.

72. **2004 Review.** *Draft Assessment Paper CGC 2003/63 Dispersion* discusses issues raised by the States regarding the assessment of dispersion. The paper sets out the Commission’s decisions on the general method of assessment adopted for the 2004 Review and on the size of the standard expense proportions estimated for each of the nine elements of dispersion-affected expenses. The States did not raise issues specific to this category.

73. The Commission noted that the expenses incurred in providing regulation include costs that are affected by population dispersal. It has therefore decided that a dispersion disability will be assessed.

74. The dispersion factors for the regulation component have been calculated according to the 2004 Review general method. There were nine indexes within the dispersion factor for the 2004 Review. Table 8 shows the proportions of standard expenses estimated for each of the nine elements of dispersion affected expenses for this component.

**Table 8** DISPERSION COST WEIGHTS — REGULATION COMPONENT, 2004 REVIEW

Telecommunication		Freight, General	Air Travel	Road Travel		Repairs and Maintenance	Remote Staff Turnover	Locality Allowances
Voice	Non-voice			Inter Regional	Local			
0.0060	0.0007	0.0049	0.0027	0.0134	0.0036	0.0040	0.0000	0.0021

75. Table 9 shows the dispersion factors assessed for the regulation component for the 2004 Review. The factors for this category were based on the distribution of primary industry employment within States, rather than total State population.

**Table 9** DISPERSION FACTORS <sup>(a)</sup> — REGULATION COMPONENT, 2004 REVIEW

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
1997-98	0.99015	0.98749	1.01673	1.02319	1.01270	1.01228	0.96331	1.03984
1998-99	0.99013	0.98748	1.01671	1.02317	1.01268	1.01226	0.96329	1.03982
1999-2000	0.99011	0.98746	1.01670	1.02315	1.01266	1.01224	0.96328	1.03980
2000-01	0.99011	0.98746	1.01669	1.02315	1.01266	1.01224	0.96327	1.03980
2001-02	0.99010	0.98745	1.01668	1.02314	1.01265	1.01223	0.96326	1.03979

(a) The factors vary for each year because they are population rebased.

76. Neither the factor nor the dispersion cost weights will be updated before the next review.

77. The factors shown in Table 9 were also applied in the soil conservation and soil salinity components within this category because dispersion disabilities for those components were considered similar to those applying to the regulation component.

***Input costs — regulation component***

78. **1999 Review.** The following standard expense proportions were applied to each of the factors assessed for this component (the former regulation, training and research in the public interest component):

- (i) wages and salaries 60 per cent;
- (ii) accommodation 2 per cent; and
- (iii) electricity 1 per cent.

79. **2004 Review.** The input costs factors for the regulation component of this category, shown in Table 10, have been calculated according to the general method outlined in *Discussion Paper CGC 2003/04 Input Costs* and in *Draft Assessment Paper CGC 2003/79 Input Costs — Electricity and Accommodation*. The standard expense proportions applied were 60 per cent for wages and salaries, 2 per cent for accommodation and 1 per cent for electricity.

**Table 10** INPUT COSTS FACTORS — REGULATION COMPONENT, 2004 REVIEW

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
1997-98	1.02347	0.99051	0.98643	0.98734	0.98043	0.94629	1.00588	1.09164
1998-99	1.02483	0.99126	0.98499	0.98475	0.97899	0.94446	1.00907	1.08820
1999-2000	1.02692	0.99063	0.98283	0.98624	0.97632	0.93948	1.01235	1.08470
2000-01	1.02735	0.99167	0.98141	0.98620	0.97543	0.93734	1.01177	1.08268
2001-02	1.02656	0.99252	0.98046	0.98702	0.97840	0.93711	1.00954	1.08008

80. The factors shown in Table 10 were also applied in the soil conservation and soil salinity components in this category.

***Economic environment — regulation component***

81. **1999 Review method.** In the 1999 Review, the economic environment factor took account of the differences in the size, complexity and importance of the sector in each State and the effects they had on the costs incurred in providing regulation, training and research in the public interest.

82. For the Primary Industry category, the economic environment factors were based on:

- (i) the per capita numbers of agriculture and fisheries locations in each State; and
- (ii) the per capita value of agricultural, forestry and fisheries production in each State.

The factor was assessed by weighting the locations based sub-factor and the value of production based sub-factor by 50 per cent, and combining the results.

83. Data for the economic environment factor calculations were derived from two ABS sources:

- (i) *ABS Business Register Counts* — total counts of industry locations by all ANZSIC Divisions and Subdivisions. Data on agriculture and fisheries locations as at September 1997 were used for the assessment

years up to 1997-98. Data on locations as at September 1998 were used for the assessment years 1998-99 to 2001-02.

- (ii) *Australian National Accounts, State Accounts, Main Tables, 2001-02*, Cat No 5220.0.

84. ***Preliminary State views.*** States made no specific comment in their submissions on this assessment, with the exception of Victoria. Victoria suggested that a more segmented approach (which provided for different needs to be assessed for each industry segment) be used for the assessment of the economic environment factor.

85. ***Staff proposals.*** Staff considered that cost differences between the States in providing support services to different primary industries were unlikely to be substantial, and in *Discussion Paper CGC 2002/38 Services to Industry* proposed that segmentation of the assessment (the Victorian proposal) not be pursued. Thus, in the discussion paper, staff proposed to continue to assess an economic environment factor for this component. The problem with this was that the ABS data series, which had been used in the 1999 Review, had been changed.

86. ***Data for economic environment factor.*** In 2001, the ABS changed the basis of its data to reflect information obtained from business activity statements. The new data represent single business entities for tax purposes — multi-location entities within a State or across States are counted as a single business. As a result, the number of locations or establishments in an industry, in each State, is no longer available from the ABS. States were requested to provide alternative data which identified the numbers of agricultural establishments in each State, but were unable to do so.

87. ***Further State views.*** In its rejoinder submission, Tasmania indicated that, in general terms, it was unable to provide industry location information similar to that formerly contained in the ABS Business Register. In a similar vein, the Northern Territory responded that their data were not comprehensive, and would be costly to collect. It doubted whether any locations data supplied by the States would be comparable.

88. Queensland, Tasmania and the Northern Territory opposed the Victorian proposal of splitting of the former regulation training and research in the public interest component into industry segments.

89. ***Commission decision.*** The Commission accepts that a conceptual case exists for assessing economic environment influences on regulation. The costs of regulating industry are influenced by the number of primary industry establishments — especially the costs related to inspections of individual establishments. The costs of regulation are also affected by the output of primary industry — States are likely to incur higher costs for industries that are important to the State economy. We consider that differences in the number of establishments and the importance of primary industries to State economies will have a material impact on State regulation costs.

90. The conceptual case is supported by data which the Commission is satisfied are comparable and representative, and provide a reasonable basis for measuring these influences on costs. These data indicate that regulation has an impact on State budgets

which the Commission considers to be material. Staff endeavoured to obtain data similar to that formerly contained in the ABS Business Register, but were not successful. It was noted in the discussion paper that, should the States be unable to provide alternative data, it might be necessary to estimate the numbers of business locations based on the new business entity counts.

91. The Commission has decided not to proceed with splitting the assessment into industry segments, because a conceptual case that the costs of regulation for different industry segments would have a material impact on expenses had not been made, and that data were not available to measure them. In addition, the proposal would add a layer of complexity to the calculation which was not warranted.

92. We have decided to assess a factor to recognise economic environment influences on the costs of providing regulation services to primary industry. The assessment is based on the numbers of establishments in primary industry, and the value of production. By judgement, the weight of 50 per cent applied to each sub-factor has been retained. We have no evidence to suggest that either the number of establishments or the importance of the industry is the more important driver of State expenses on regulation provided to primary industries. Also, no State objected to this approach. The Commission has decided to retain the 50 per cent weight.

93. The Commission’s decision is set out in Table 11.

**Table 11** COMMISSION DECISION — REGULATION COMPONENT: ECONOMIC ENVIRONMENT FACTORS

Decision	Reason
An economic environment factor has been assessed for the Regulation component in the 2004 Review.	Gives States the capacity to provide the average level of regulation to primary industry by assessing differences between States in per capita establishment numbers and value of production.

94. **Method and results.** Staff have been able to obtain from the ABS information on the number of single-State entities (business entities with locations within the State only — employing and non-employing combined) by industry sub-division, by State, for June 2001. These are the latest data available for single-State location business entities; multi-State location business (business entities with locations in more than one State) are not included in these data. The ABS’s new data are the best available, and have been used for the draft assessment.

95. Table 12 sets out calculations for the economic environment factor (locations sub-factor) based on the ABS single-State entity data at June 2001. The locations sub-factor calculated for the 2003 Update (using superseded ABS establishments data) has been included for comparative purposes. The value of production sub-factor has again been based on ABS value of production data.

**Table 12** REGULATION COMPONENT — ECONOMIC ENVIRONMENT FACTORS, 2001-02

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
Number of locations (Agriculture, Forestry, Fisheries)	68 564	52 724	52 763	23 629	24 631	7 333	1 412	572	231 628
Per capita number of locations	0.01032	0.01086	0.01437	0.01284	0.01556	0.01550	0.00177	0.00706	0.01182
Locations sub-factor based on single-State entities 2004 Review (a)	0.87360	0.91889	1.21633	1.08650	1.31654	1.31130	0.15000	0.59756	1.00000
Locations sub-factor assessed in 2003 Update	0.88168	0.98522	1.16776	0.98421	1.35784	1.37448	0.04837	0.29211	1.00000
Value of production (Agriculture Forestry and Fishing) (\$m)	5 808	5 988	5 204	2 861	3 098	673	14	294	23 940
Per capita value of production (\$)	874.58	1233.37	1417.80	1491.50	2039.98	1422.30	43.39	1470.45	1221.49
Value of production sub- factor (b)	0.71599	1.00973	1.16071	1.22105	1.67007	1.16440	0.03552	1.20381	1.00000
Economic environment factor for 2004 Review(c)	0.79480	0.96431	1.18852	1.15378	1.49331	1.23785	0.09276	0.90069	1.00000

(c) = 0.5 \*((a)+(b)).

96. **Reality check.** The factors assessed for all States are in line with expectations. The factors for Queensland, Western Australia, South Australia and Tasmania are higher than the other States because primary industry is concentrated in those States.

97. **Updateability.** Data are available to update the two sub-factors each year.

## ECONOMIC DEVELOPMENT COMPONENT

98. In accordance with *Draft Assessment Paper CGC 2003/05 Treatment of Economic Development Assistance*, the Commission has decided to assess this component by the equal per capita method. This is because States have not demonstrated a conceptual case for the differential assessment of expenses incurred on economic development. The Commission has concluded that State expenses on economic development appear to be driven by their individual policies. The Commission's role does not extend to making judgments on the merits of those actions.

99. As discussed earlier, the net impact of forestry operations will be included in this component.

## SOIL CONSERVATION COMPONENT

100. The Commission has concluded that expenses in this component are influenced by population dispersion, input costs and the physical environment. It has decided to assess factors to recognise this.

### *Dispersion — soil conservation component*

101. **1999 Review.** In the 1999 Review, the dispersion factors assessed for this component were the same as those for the regulation, training and research in the public interest component.

102. **2004 Review.** The Commission considers that approach remains appropriate for the 2004 Review because the proportion of dispersion-affected costs in the soil conservation and regulation components remains similar. The dispersion factors shown in Table 9 above have also been applied in the soil conservation component.

### *Input costs — soil conservation component*

103. **1999 Review.** In the 1999 Review, the input costs factors assessed for this component were the same as those for the regulation, training and research in the public interest component.

104. **2004 Review.** The Commission considers that approach remains appropriate for the 2004 Review because the proportion of costs affected by wages and salaries, accommodation and electricity in the soil conservation and regulation components remains similar. The input costs factors shown in Table 10 above have also been applied in the soil conservation component.

### *Physical environment — soil conservation component*

105. **1999 Review method.** In the 1999 Review, the Commission assessed a broad-based physical environment factor to account for the disabilities faced by States in providing soil conservation services to agriculture. The factor was calculated using the average of two sub-factors, based on:

- (i) land care related expenses by broad acre and dairy producers in the three years ended 1993-94, derived from farm surveys conducted by the Australian Bureau of Agricultural and Resource Economics (ABARE) and summarised in the 1996 ABARE research paper entitled *Landcare Tax Provision: Deductions versus Alternative Instruments*; and
- (ii) the value of production in agriculture, forestry and fishing industries, derived from the ABS publication *Australian National Accounts, State Accounts, Main Tables, 2001-02*, Cat. No. 5220.0.

106. The combined factor was designed to capture impacts of physical environment disabilities on past and present primary production (the sub-factor based on land care related expenses) as well as potential impacts of current primary production on the existing physical environment and hence on future primary output (the sub-factor based on value of production).

107. Because of data inadequacies, including the fact that the land care data were derived from private producer samples (meaning that they may not be fully representative of soil conservation disabilities faced by State governments), the Commission discounted the combined factor by 50 per cent.

108. ***Preliminary State views.*** In its main submission, Victoria said that actual annual levels of funding on all land care should be used to assess a physical environment factor. No other States specifically commented on the physical environment factor used in the 1999 Review in either their main or rejoinder submissions

109. ***Staff proposals.*** In *Discussion Paper CGC 2002/38 Services to Industry*, staff suggested that the Commission consider continuing with the 1999 Review assessment. That is, it was proposed that the assessment of any ‘soil conservation-other’ component be based on the average of two sub-factors — per capita actual land care expenses for 1998-99 and later years, and the per capita value of production in primary industry — discounted by 50 per cent.

110. ***Commission decisions.*** There is a conceptual case to assess factors to recognise the impact of physical environment on soil conservation costs. States are likely to incur higher costs on assisting primary producers to repair or restrict damage to existing agricultural land and to conserve the productive capacity of agricultural land for the future where the risk to such a resource is greatest.

111. We note that the States face a variety of soil erosion problems and threats to the productive capacity of their natural resources. Costs are incurred on programs including those set up to prevent soil erosion, control animal pests and weeds, replace and establish shrubs and trees, in addition to the arrest and treatment soil salinity problems.

112. But, as argued previously, we think that needs relating to soil conservation programs like those which address soil erosion, combating weeds and animal pests and revegetation are different from needs relating to overcoming soil salinity. Therefore separate assessments of expenses on soil conservation and expenses on soil salinity are warranted. We define the soil conservation component to comprise all expenses on conserving agricultural land, save those associated with the NAPSWQ plan.

113. Because soil conservation expenses are spread over a number of areas, and are not solely concerned with combating salinity, we think that a broad-based evaluation of need is the appropriate approach to the assessment. We consider that the method used in the 1999 Review provided such a broad measure. It recognised the extent to which private industry incurred land care expenses and the value of production (capacity) the States needed to protect.

114. New data from the 1998-99 ABARE land care survey are available to update the factor. These data were again based on a survey of private land-holders' costs. These may not be fully indicative of State government expense needs and could be influenced by State policies. However, the Commission accepts that they give a reasonable indication of the relative size of the soil conservation problem in each State. If private land-holders are willing to incur land care expenses, then soil conservation is of some importance in the State.

115. Up-to-date data on the importance of primary industry to each State as measured by ABS value of production are also available.

116. The Commission considers that the weight of 50 per cent applied by judgement in the 1999 Review to each sub-factor in this assessment of physical environment should be retained. This is because we have no evidence to suggest whether land care costs or the importance of primary industry in State economies is the more important influence on State soil conservation expenses. In addition, no State objected to this approach.

117. Without information to the contrary or objection from the States, the Commission has also decided, by judgment, to continue to discount the overall factor by 50 per cent, because of possible policy influence on the land care related expenses and primary industry output. The Commission's decision is set out in Table 13.

**Table 13** COMMISSION DECISION — SOIL CONSERVATION COMPONENT: PHYSICAL ENVIRONMENT FACTORS

Decision	Reason
A physical environment factor will be assessed for the soil conservation component in the 2004 Review. The soil conservation component comprises all expenses on conserving agricultural land, other than those associated with the NAPSWQ plan.	Gives States the capacity to provide the average level of soil conservation services to primary industry by assessing differences between States in per capita land care expenses and the value of primary production.

118. *Method and results.* Table 14 sets out the derivation of a physical environment factor using the approach developed in the 1999 Review. The factor is calculated as the average of two sub factors, and is further discounted by 50 per cent because of possible policy influence. One sub factor is based on land care costs (sourced from the 1998-99 ABARE survey of land care related expenses) and the other on the value of primary production data (sourced from the ABS).

**Table 14** PHYSICAL ENVIRONMENT FACTORS, SOIL CONSERVATION COMPONENT, 2004 REVIEW, 2001-02

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
Land care related expenses 1998-99 (\$m) (a)	105.96	59.61	101.36	36.67	25.49	5.27	0.05	3.57	337.99
Mean resident population 1998-99 (millions)	6.402	4.677	3.482	1.842	1.495	0.472	0.312	0.193	18.874
Per capita land care related expenses (\$)	16.55	12.75	29.11	19.91	17.05	11.16	0.16	18.56	17.91
Land care expenses sub- factor (b)	0.92432	0.71180	1.62582	1.11183	0.95190	0.62310	0.00887	1.03644	1.00000
Value of production (Agriculture, Forestry & Fishing) 2001-02 (\$m)	5808	5988	5204	2861	3098	673	14	294	23940
Per capita value of production (\$)	874.58	1233.37	1417.80	1491.50	2039.98	1422.30	43.39	1470.45	1221.49
Value of production sub-factor (c)	0.71599	1.00973	1.16071	1.22105	1.67007	1.16440	0.03552	1.20381	1.00000
Average of two sub-factors (d)	0.82016	0.86076	1.39326	1.16644	1.31099	0.89375	0.02220	1.12013	1.00000
Physical environment factors (average factor discounted by 50 per cent) (e)	0.91008	0.93038	1.19663	1.08322	1.15549	0.94687	0.51110	1.06006	1.00000

(a) Based on 1998-99 ABARE farm survey data — estimated expenses for the ACT and actual survey expenses for all other States.

(d) = 0.5 [(b) + (c)]

(e) = (d-1)\*0.5 +1

119. **Reality check.** Table 15 compares the factors assessed in the 1999 Review with those proposed for the 2004 Review. The factors assessed for all States are in line with expectations. The factors for Queensland, Western Australia, and South Australia are higher than the other States because primary industry tends to be more concentrated in those States.

120. The factors for Queensland, South Australia and Tasmania have increased and those for other States have fallen. This is because land care expenses have increased in those States, is relatively more than in the others.

**Table 15** COMPARISONS OF PHYSICAL ENVIRONMENT FACTORS,  
1999 AND 2004 REVIEW METHODS

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
<b>Land care sub-factor</b>								
1999 Review	1.06018	0.74976	1.14429	1.83843	0.59297	0.44080	0.03872	1.29459
2004 Review	0.92432	0.71180	1.62582	1.11183	0.95190	0.62310	0.00887	1.03644
<b>Value of production sub-factor<sup>(a)</sup></b>								
	0.71599	1.00973	1.16071	1.22105	1.67007	1.16440	0.03552	1.20381
<b>Physical environment factor</b>								
1999 Review	0.94404	0.93987	1.07625	1.26487	1.06576	0.90130	0.51856	1.12460
2004 Review	0.91008	0.93038	1.19663	1.08322	1.15549	0.94687	0.51110	1.06006

(a) No change in method or data.

Source: CGC Working Papers, Vol 5, p57.

121. **Updateability.** ABS data are available to update the value of production sub-factor each year. Updating the land care expenses sub-factor will depend upon further surveys being undertaken and the publication of the associated results.

## SOIL SALINITY COMPONENT

122. This is a new component in the Primary Industry category for the 2004 Review. The component comprises all expenses incurred by States in combating the spread of dryland salinity, associated with Commonwealth funding allocations made to the States under the NAPSWQ plan. The Commission has concluded that expenses in this component are influenced by disabilities relating to dispersion, input costs and physical environment.

123. As indicated previously, any non-NAPSWQ related expenses on addressing salinity are not included within this component, because they cannot be separately identified. Such expenses have been left within the soil conservation component, and are assessed there.

### *Dispersion — soil salinity component*

124. **1999 Review.** This component did not exist — factors were not assessed.

125. **2004 Review.** The Commission considers it appropriate to assess a dispersion factor for this component, because it recognises that there are differences across the States in the per capita costs of providing services to agriculture related to soil salinity. This disability arises from differences between States in the spread of their primary industry employees. These costs would be similar to those assessed for the soil conservation and

regulation components. The dispersion factors shown in Table 9 above have also been applied in the soil salinity component.

***Input costs — soil salinity component***

126. ***1999 Review.*** This component did not exist — factors were not assessed.

127. ***2004 Review.*** The Commission considers it appropriate to assess an inputs costs factor for this component because expenses will be affected by the different costs of inputs. The proportion of costs affected by wages and salaries, accommodation and electricity would be similar to that assessed for the soil conservation and regulation components. The input costs factors shown in Table 10 above have therefore been applied in the soil salinity component.

***Physical environment — soil salinity component***

128. ***1999 Review.*** This component did not exist — factors were not assessed.

129. ***Preliminary State views.*** In its main submission, Western Australia argued that, generally, the extra efforts/contributions it made towards combating salinity were not adequately recognised in the Commission's assessments. It suggested that the State funding shares under the NAPSWQ plan should be used as the basis for calculating a physical environment factor in the soil conservation component.

130. ***Staff proposals.*** In *Discussion Paper CGC 2002/38 Services to Industry*, staff suggested that the Commission might consider dissecting the soil conservation component into 'soil salinity' and 'soil conservation-other' if data indicated that expenses on the latter were material. If non-salinity related expenses were not material, staff proposed that the Commission might consider assessing the entire component as if it were salinity related expenses; and whether the basis of the Commonwealth's allocation of the notional NAPSWQ SPPs could be used as an indicator of needs for the soil salinity component (or for the whole of conservation expenses if it is not dissected).

131. ***Further State views.*** New South Wales, Western Australia and South Australia supported the use of the distribution of the NAPSWQ payments as a measure of State physical environment disabilities. Victoria continued to support a broader assessment.

132. Queensland and Tasmania opposed the use of Commonwealth criteria for the distribution of funds within this component. The Northern Territory opposed the assessment of a disability for salinity, arguing that the expenses involved were too heavily policy influenced. The Territory distinguished between 'primary' and 'secondary' salinity — the latter type most affected by policy.

133. ***Analysis.*** As indicated previously, States classify most of their expenses on salinity to the Primary Industry category. We understand that most of these expenses are directed at improving water quality for agricultural purposes (productive capacity), although some expenses relate to overcoming salinity problems confronting domestic water supplies,

threats to built assets, such as roads and to biological diversity. Table 16 shows that most water use in Australia is for the purpose of primary production.

**Table 16** NET WATER USE IN AUSTRALIA BY PURPOSE <sup>(a)</sup>, 1996-97

Sector	NSW/ ACT	Vic	Qld	WA	SA	Tas	NT	Aust
	'000 ml	'000 ml	'000 ml	'000 ml	'000 ml	'000 ml	'000 ml	'000 ml
Agriculture	7 187.1	4 047.0	2 542.0	618.5	992.0	113.3	8.8	15 508.8
Services to agriculture, hunting and trapping; forestry and fishing	2.6	6.7	1.9	4.3	0.5	2.5	0.3	18.8
Mining	48.8	35.5	149.9	275.7	7.3	33.2	20.0	570.2
Manufacturing	170.2	153.3	120.4	108.8	64.4	98.3	6.6	727.4
Electricity and gas	23.0	1 193.0	69.4	21.3	1.0	0.1	0.0	1 307.8
Water supply: sewerage and drainage services	552.8	769.6	278.8	28.8	48.0	14.2	14.5	1 706.6
Household	580.4	419.2	418.7	214.3	131.0	31.8	33.6	1 829.0
Other	150.7	62.4	99.1	152.4	17.2	21.2	19.6	522.5
<b>Total</b>	<b>8 715.7</b>	<b>6 686.6</b>	<b>3 680.1</b>	<b>1 424.1</b>	<b>1 261.4</b>	<b>314.5</b>	<b>103.4</b>	<b>22 185.7</b>

(a) Net water use = Self-extracted use + Mains use – Mains supply – in-stream discharge.

Source: ABS, *Water Account for Australia, 4610.0, 1996-97*, Table 1.23.

134. The NAPSWQ payments by the Commonwealth to States will be for all of these purposes.

135. The attachment to this paper sets out qualitative and quantitative information — provided by the Department of Agriculture Fisheries and Forestry (AFFA) — on the basis of distribution of the NAPSWQ payments. This information has led us to conclude that the national action plan payments are distributed partly on a scientific basis and partly on a practical basis. However, the payments are not distributed on the basis of need as defined by the Commission.

136. The AFFA information is indicative of the severity of the salinity problem. When the NAPSWQ payments commence in earnest (they will be paid as an SPP from 2003-04), the expenses associated with them (including the matching State expenses under the plan) will be large and will form a material part of the Primary Industry category over the seven year period of the national action plan. In the meantime, however, some preliminary NAPSWQ payments have been made. In particular, AFFA has provided data for 2000-01 and 2001-02 which the Commission has used to calculate component weights for those years.

137. The Commission considered three approaches to assessing the impact of the physical environment on State expenses associated with the NAPSWQ plan.

138. The first approach involved assessing the same physical environment factors for both the soil conservation and soil salinity components — based on the 1999 Review assessment method. Three States supported this approach and three States did not. The Commission concluded that an assessment of NAPSWQ related expenses for physical environment could not be based on the 1999 Review assessment method because these expenses were not recognised by those factors.

139. The second approach involved basing the physical environment assessment on the area of agricultural land in the States recognised as having high potential to develop dry land salinity. Table 17 sets out the factor based on these land areas at high risk.

**Table 17** SOIL SALINITY COMPONENT: EXPERIMENTAL SALINITY FACTORS BASED ON AREAS WITH HIGH POTENTIAL TO DEVELOP DRY LAND SALINITY, 2000-01

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
Area at risk (ha)	181 000	670 000	670 000 <sup>(a)</sup>	4 363 000	390 000	54 000	0	0 6 328 000	
Per capita	0.02738	0.13843	0.18275	2.27892	0.25726	0.11437	0.00000	0.00000	0.32387
Factor	0.08453	0.42742	0.56426	7.03645	0.79432	0.35314	0.00000	0.00000	1.00000

(a) Notional estimate.

Source: National Land and Resource Water Audit, 2002, Table 1, p.6.

140. The third approach involved basing the assessment on the distribution of NAPSWQ payments to States. This assessment method was proposed by some States, if the Commission were to include the NAPSWQ payments in the Primary Industry category. Under this approach, the factors could be based on:

- (i) the planned distribution of total NAPSWQ payments to States over the term of the national action plan; or
- (ii) the actual distribution of NAPSWQ payments to States, as such payments occur each year.

Table 18 sets out the factors based on these two alternative methods.

**Table 18** SOIL SALINITY COMPONENT: EXPERIMENTAL SALINITY FACTORS BASED ON PLANNED NAPSWQ FUNDING AND ACTUAL NAPSWQ FUNDING (2000-01 AND 2001-02) DISTRIBUTIONS

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
NAPSWQ planned total funding allocation (\$m)	198	152	82	158	93	12	5	0	700
Per capita (\$)	29.95	31.40	22.37	82.53	61.35	25.42	15.60	0.00	35.83
Factor	0.83593	0.87657	0.62429	2.30353	1.71230	0.70943	0.43537	0.00000	1.00000
NAPSWQ actual funding 2000-01 (\$m)	0.000	0.000	1.562	0.000	0.100	0.000	0.000	0.000	1.662
Per capita (\$)	0.00	0.00	0.43	0.00	0.07	0.00	0.00	0.00	0.09
Factor	0.00000	0.00000	5.04963	0.00000	0.77077	0.00000	0.00000	0.00000	1.00000
NAPSWQ actual funding 2001-02 (\$m)	0.000	7.897	3.578	0.000	6.453	0.000	0.000	0.000	17.927
Per capita (\$)	0.00	1.63	0.97	0.00	4.25	0.00	0.00	0.00	0.91
Factor	0.00000	1.77822	1.06556	0.00000	4.64536	0.00000	0.00000	0.00000	1.00000

Source: Department of Agriculture, Fisheries and Forestry, 2002-03.

141. The experimental factors set out in the above two tables are quite different. Where there is high potential for salinity problems to develop, there is an expectation that the depth of funding to combat that threat should broadly correspond. As can be seen by comparing the factors for Western Australia based on the land area at risk and the planned distribution of NAPSWQ payments, the high salinity problems in Western Australia do not all occur in areas where there is a high risk to water quality, assets and primary industry productive capacity.

142. Further, the 2000-01 and 2001-02 factors for Western Australia based on the actual distribution of NAPSWQ payments are zero — because that State has yet to receive any NAPSWQ funding, despite its salinity problems being recognised by the Commonwealth as being the most serious of all States. On the other hand, South Australia's factors based on the actual distribution of NAPSWQ payments are non-zero, because it has received some funding in both years shown. The table shows that so far only three States have received some NAPSWQ funding.

143. **Commission decision.** The Commission accepts that a conceptual basis exists to assess the impact of physical environment on the costs primary producers face in addressing soil salinity problems. The conceptual case is supported by AFFA data on the NAPSWQ funding distribution to the States, and which the Commission is satisfied provide an adequate basis for the assessment. The evidence indicates that physical environment has an impact on State budgets which the Commission considers to be material.

144. The Commission has decided to base the factor on the actual distribution of NAPSWQ payments made to the States in each year. This is because, there may be variations in the actual distribution and the total planned distribution, year to year, according to the Commonwealth's assessment of what NAPSWQ payments are required and when. By basing the factor on the actual distribution each year, the factor will more accurately reflect each year's expenses on salinity. The Commission's decision is set out in Table 19.

**Table 19** COMMISSION DECISION — SOIL SALINITY COMPONENT: PHYSICAL ENVIRONMENT FACTORS

Decision	Reason
A physical environment factor will be assessed for the soil salinity component in the 2004 Review. The soil salinity component comprises all expenses associated with the NAPSWQ plan.	Gives States the capacity to provide the average level of services to primary industry associated with soil salinity, by assessing differences between States in per capita amounts of actual NAPSWQ payments made to them each year, to overcome salinity.

145. *Method and results.* Table 18 sets out the derivation of the physical environment factors for this component, based on the actual allocations of NAPSWQ payments for 2000-01 and 2001-02. Table 20 sets out the factors assessed for all years of the 2004 Review draft assessment period.

**Table 20** PHYSICAL ENVIRONMENT FACTORS — SOIL SALINITY COMPONENT, 2004 REVIEW

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
1997-98	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
1998-99	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
1999-2000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
2000-01	0.00000	0.00000	5.04963	0.00000	0.77077	0.00000	0.00000	0.00000
2001-02	0.00000	1.77822	1.06556	0.00000	4.64536	0.00000	0.00000	0.00000

146. *Reality check.* The factors assessed for all States reflect the actual allocations of NAPSWQ payments made to date.

147. *Updateability.* NAPSWQ data are available from AFFA to update the factors each year.

## NATIVE TITLE COMPONENT

### *Native title — native title component*

148. **1999 Review.** Native title factors were assessed to allow for the additional costs incurred by the States arising from the operation of the Commonwealth Native Title Act 1993.

149. **2004 Review.** *Draft Assessment Paper CGC 2003/70 Native Title Assessment* discusses the issues raised by the States regarding the assessment of this factor. The paper sets out the Commission's decisions on the general method of assessment adopted for the 2004 Review and the categories in which the factor has been assessed.

150. Native title-affected expenses for this category in 2001-02 have been estimated to be \$0.346 million, which represents 0.02 per cent of the category standard. Table 21 shows the 2004 Review calculation of the factor for 2001-02 implied by those expenses.

151. The factors and the component weight determined by the expense proportion will be updated annually.

**Table 21** NATIVE TITLE FACTORS — NATIVE TITLE COMPONENT, 2001-02

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
	'000	'000	'000	'000	'000	'000	'000	'000	'000
Administration expenses - actual	500	2 480	20 206	14 859	6 718	204	204	4 853	50 024
Compensation expenses - actual	765	0	0	34	0	0	0	4 650	5 449
Total expenses	1 265	2480	20 206	14 893	6 718	204	203	9 503	55 473
Factors	0.06730	0.18047	1.94495	2.74309	1.56301	0.15232	0.22312	16.79242	1.00000

## ISOLATION COMPONENT

### *Isolation — isolation component*

152. **1999 Review.** The isolation factor was assessed to account for differences in per capita costs of service provision for some States because of their economic and geographical isolation from the main interstate sources of supply in South Eastern Australia. It reflected the combined effect of isolation on labour-related costs, interstate freight costs, professional infrastructure costs, commercial goods costs, airfares, travel allowances and other travel-related subsidies. The isolation-affected expenses component represented 0.43 per cent of expenses in this category.

153. **2004 Review.** *Draft Assessment Paper CGC 2003/65 Isolation* discusses the issues raised by the States regarding the assessment of isolation. The paper sets out the Commission's decisions on the general method of assessment adopted for the 2004 Review and on the size of the isolation-affected expenses component for relevant categories. The States did not raise issues specific to this category.

154. The isolation factors for the isolation component, shown in Table 22, have been calculated according to the 2004 Review general method. Isolation-affected expenses for this category have been estimated to be 0.19 per cent of the category standard.

**Table 22** ISOLATION FACTORS — ISOLATION COMPONENT

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
All years	0.05107	0.10737	0.17783	0.74776	0.56469	3.49490	1.51842	68.27218

155. The factor and component weight will not be updated until the next review. This means that isolation-affected expenses will grow at the same rate as category expenses.

## SUMMARY OF RESULTS

156. Table 23 summarises the proposed assessment for the 2004 Review.

**Table 23** PRIMARY INDUSTRY, ASSESSMENT STRUCTURE FOR THE 2004 REVIEW

Expenses component	Component weight	Factors	Basis of calculation
Fixed costs	1.42	Input costs	General method, with weights of 80 % for wages, 2 % for accommodation and 1 % for electricity.
		Administrative scale	General method.
Regulation	34.87	Economic environment	Based on per capita numbers of locations and value of production in agriculture forestry and fishing industries, each weighted by 50%.
		Input costs	General method, with weights of 60% for wages, 2% for accommodation and 1% for electricity.
		Dispersion	General method, based on primary industry employment distribution.
Economic development	52.30	None	Equal per capita.
Soil conservation	9.10	Dispersion	General method, based on primary industry employment distributions.
		Input costs	General method, with weights of 60 % for wages, 2 % for accommodation and 1 % for electricity
		Physical environment	Based on sub-factors for actual land care related expenses and value of production for agriculture forestry and fishing, equally weighted, and further discounted by 50%.
Soil salinity	2.10	Dispersion	General method, based on primary industry employment distributions.
		Input costs	General method, with weights of 60 % for wages, 2 % for accommodation and 1 % for electricity
		Physical environment	Based on actual NAPSWQ funding allocations to States each year.
Native title	0.02	Native title	Based on the additional costs incurred by States in the administration of, and compensation claims arising from the Commonwealth <i>Native Title Act 1993 (as amended)</i> .
Isolation	0.19	Isolation	General method.

### Calculating the category factor

157. Table 24 summarises the components, component weights and disability factors assessed for this category for 2001-02. It shows the calculation of the category factor.

**Table 24** PRIMARY INDUSTRY — DERIVATION OF THE CATEGORY FACTOR, 2001-02

Factors	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
<b>Fixed costs (FC) (component weight = 1.42%)</b>								
Administrative scale (s)	0.40404	0.55267	0.73102	1.39881	1.76684	5.67060	2.53083	13.42007
Input costs (ic_fc)	1.03498	0.99044	0.97446	0.98186	0.97135	0.92001	1.01306	1.09897
Component factor	0.41955	0.54919	0.71470	1.37795	1.72186	5.23416	2.57231	14.79678
Cont. to category factor	0.00596	0.00780	0.01015	0.01957	0.02445	0.07433	0.03653	0.21011
<b>Regulation (REG) (component weight = 34.87%)</b>								
Dispersion	0.99010	0.98745	1.01668	1.02314	1.01265	1.01223	0.96326	1.03979
Input costs (ic_OTH)	1.02656	0.99252	0.98046	0.98702	0.97840	0.93711	1.00954	1.08008
Economic environment	0.79480	0.96431	1.18852	1.15378	1.49331	1.23785	0.09276	0.90069
Component factor	0.80907	0.94620	1.18663	1.16699	1.48183	1.17664	0.09035	1.00994
Cont. to category factor	0.28211	0.32992	0.41376	0.40691	0.51669	0.41027	0.03150	0.35215
<b>Economic development (ED) (component weight = 52.30%)</b>								
EPC factor	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000
Component factor	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000
Cont. to category factor	0.52302	0.52302	0.52302	0.52302	0.52302	0.52302	0.52302	0.52302
<b>Soil conservation (SOIL) (component weight = 9.10%)</b>								
Dispersion	0.99010	0.98745	1.01668	1.02314	1.01265	1.01223	0.96326	1.03979
Input costs (ic_OTH)	1.02656	0.99252	0.98046	0.98702	0.97840	0.93711	1.00954	1.08008
Physical environment	0.91008	0.93038	1.19663	1.08322	1.15549	0.94687	0.51110	1.06006
Component factor	0.92464	0.91115	1.19243	1.09351	1.14441	0.89832	0.49688	1.18636
Cont. to category factor	0.08414	0.08291	0.10851	0.09951	0.10414	0.08175	0.04522	0.10796
<b>Soil salinity (SAL) (component weight = 2.10%)</b>								
Dispersion	0.99010	0.98745	1.01668	1.02314	1.01265	1.01223	0.96326	1.03979
Input costs (ic_OTH)	1.02656	0.99252	0.98046	0.98702	0.97840	0.93711	1.00954	1.08008
Physical environment	0.00000	1.77822	1.06556	0.00000	4.64536	0.00000	0.00000	0.00000
Component factor	0.00000	1.76487	1.07608	0.00000	4.66261	0.00000	0.00000	0.00000
Cont. to category factor	0.00000	0.03706	0.02260	0.00000	0.09791	0.00000	0.00000	0.00000
<b>Native title (NT) (component weight = 0.02%)</b>								
Native title	0.06730	0.18047	1.94495	2.74309	1.56301	0.15232	0.22312	16.79242
Component factor	0.06730	0.18047	1.94495	2.74309	1.56301	0.15232	0.22312	16.79242
Cont. to category factor	0.00001	0.00004	0.00039	0.00055	0.00031	0.00003	0.00004	0.00336
<b>Isolation (ISO) (component weight = 0.19%)</b>								
Isolation	0.05107	0.10737	0.17783	0.74776	0.56469	3.49490	1.51842	68.27218
Component factor	0.05107	0.10737	0.17783	0.74776	0.56469	3.49490	1.51842	68.27218
Cont. to category factor	0.00010	0.00020	0.00034	0.00142	0.00107	0.00664	0.00289	0.12972
<b>CATEGORY FACTOR</b>	<b>0.89534</b>	<b>0.98096</b>	<b>1.07876</b>	<b>1.05097</b>	<b>1.26760</b>	<b>1.09603</b>	<b>0.63920</b>	<b>1.32631</b>

### *Calculation formula*

158. The following formulas were used to calculate the contribution of each expenses component to the overall category factor. In each case, the contributions are calculated as the expenses component weight multiplied by the component factor (the bracketed terms in the formulas). Each contribution to category factor was rescaled to ensure that the sum of standardised equals the sum of actual expenses.

$$\begin{aligned} \text{FC} &= 0.0142 (s * ic\_fc) \\ \text{REG} &= 0.3487 (e * [d + ic\_OTH - 1]) \\ \text{ED} &= 0.5230 \\ \text{SOIL} &= 0.0910 (ph * [d + ic\_OTH - 1]) \\ \text{SAL} &= 0.0210 (ph\_sal * [d + ic\_OTH - 1]) \\ \text{NT} &= 0.0002 (nt) \\ \text{ISO} &= 0.0019 (iso) \end{aligned}$$

$$\text{Category factor} = \text{FC} + \text{REG} + \text{ED} + \text{SOIL} + \text{SAL} + \text{NT} + \text{ISO}$$

### *Standardised expenses*

159. Table 25 compares the category factors derived for the 2004 Review draft assessment with the 2003 Update.

**Table 25** PRIMARY INDUSTRY — CATEGORY FACTORS, 2004 REVIEW AND 2003 UPDATE

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
<b>2004 Review draft assessment</b>	<b>0.89534</b>	<b>0.98096</b>	<b>1.07876</b>	<b>1.05097</b>	<b>1.26760</b>	<b>1.09603</b>	<b>0.63920</b>	<b>1.32631</b>
2003 Update	0.83175	0.93866	1.08954	1.22317	1.33156	1.26527	0.34363	2.20631

160. Table 26 shows the standardised expenses for this category for 2001-02 in the draft assessment compared with those assessed in the 2003 Update.

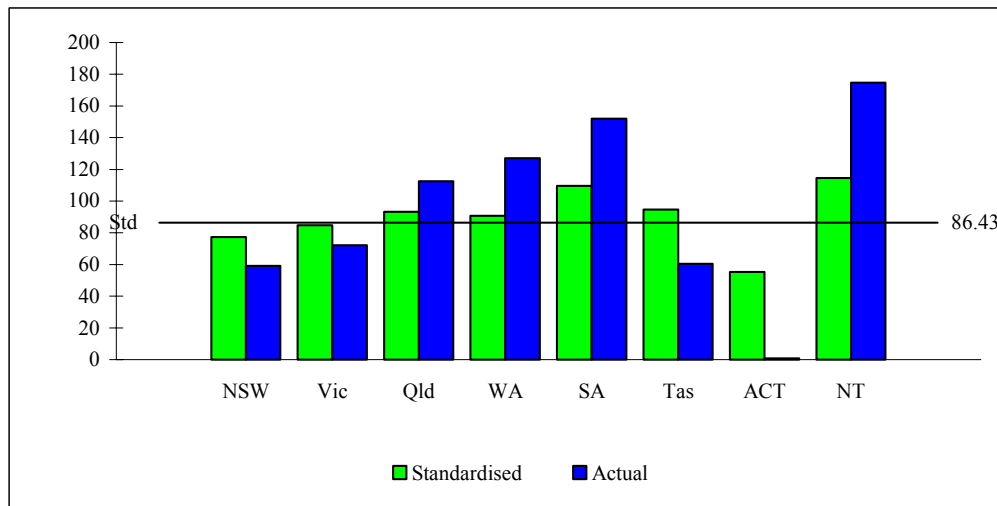
**Table 26** ACTUAL AND STANDARDISED AND EXPENSES, 2001-02

	Standard	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
<b>Actual Expenses</b>									
\$ per capita	86.43	59.16	72.07	112.49	127.05	152.01	60.39	0.74	174.74
<b>2003 Update - Standardised Expenses</b>									
\$'000		417 245	344 245	302 092	177 237	152 753	45 225	8 376	33 232
\$ per capita	75.54	62.83	70.91	82.30	92.40	100.59	95.58	25.96	166.66
<b>2004 Review Draft Assessment - Standardised Expenses</b>									
\$'000		513 909	411 632	342 230	174 243	166 383	44 825	17 826	22 920
\$ per capita	86.43	77.39	84.79	93.24	90.84	109.56	94.73	55.25	114.64

161. Figure 1 shows the gross expenses per capita for 2001-02 in terms of standardised, estimated and gross standard expenses.

**Figure 1** PRIMARY INDUSTRY — GROSS EXPENSES PER CAPITA — STANDARDISED, ESTIMATED AND STANDARD, 2001-02

Gross Expenditure



## ANALYSIS

162. Table 27 shows the redistribution of grants resulting from the assessment in the 2003 Update and the Draft Assessment. It also shows the sources of change.

163. Compared to an equal per capita assessment, the Draft Assessment redistributed \$105.3 million away from New South Wales, Victoria and the ACT to the

other States, \$45.3 million less than in the 2003 Update. This is because the category now has a much larger component (the economic environment component) assessed by the equal per capita method.

164. The main reasons for the change in grants were changes to assessment methods and data, including:

- (i) an increase in the category standards (associated with an increase in the relative importance of this category in the standard budget largely due to the inclusion of three SPPs and the NAPSWQ COPO) which has increased the notional grants for States which have a disadvantage in providing services to primary industry;
- (ii) changes to the component weights — and in particular the expansion of the economic environment type component assessed by the equal per capita method and the reduction of the regulation type component which is assessed differentially. This assessment effect has been the main cause of the increase in notional grants for those States which have an advantage in providing primary industry services — notably New South Wales, Victoria and the ACT.

165. Reducing the impact of the administrative scale assessment (by reducing the size of the component to which it applies) also had some impact on the assessment. The changes in the input costs factors also had substantial effects and led to increases in the redistribution towards New South Wales and mitigated the reduction for the Northern Territory.

**Table 27** PRIMARY INDUSTRY — EFFECT OF ASSESSMENT ON GRANT DISTRIBUTION

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total <sup>(a)</sup>
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Contribution to 2003 Update relativities<sup>(b)</sup></b>	-103.1	-28.8	34.5	42.9	36.5	13.3	-18.7	23.5	150.6
<b>Composition</b>	-34.1	-10.2	11.4	15.5	11.2	4.5	-6.2	7.9	50.5
<b>Assessment</b>	49.2	13.8	-4.7	-27.6	-13.6	-7.8	8.6	-17.8	71.6
<b>Interactions</b>	16.8	4.6	-1.6	-9.4	-4.5	-2.6	2.8	-6.1	24.2
<b>Contribution to 2004 Review Draft Assessments relativities<sup>(b)</sup></b>	-71.3	-20.6	39.6	21.3	29.6	7.5	-13.4	7.4	105.3
<b>Total Change</b>	31.9	8.2	5.1	-21.6	-6.9	-5.8	5.3	-16.0	50.4

(a) Total redistribution.

(b) Assuming same pool and a constant population.

## USER CHARGES

166. Primary Industry user charges comprise the fees and charges collected from primary producers, associated with the administration, regulation, planning, support and management of primary industries.

### *1999 Review*

167. Primary Industry user charges were assessed by the factor assessment method, using the economic environment factor employed in the gross expenses assessment.

### *Staff proposal*

168. Staff proposed no change be made to the method used to differentially assess Primary Industry user charges for the 2004 Review.

### *State views*

169. No States commented specifically on the user charges assessment. However, the Northern Territory supported the existing assessment method in general.

### *Commission decisions*

170. The Primary Industry user charges differential assessment in the 1999 Review was based on the economic environment factor assessed for the Primary Industry expenses category. Definitional changes made to the regulation and economic environment components (referred to previously) have meant that the regulation component has decreased substantially in size, while a corresponding increase has been made to the economic development component. In particular, the partitioning of the category balance between regulation and economic development type expenses has moved from a 75/25 per cent split to a 40/60 per cent split. Nevertheless, the size of user charges associated with primary industry remains material.

171. User charges raised in this category are collected from primary producers in return for the economic development type services provided to them by States. User charges are not collected from primary producers for regulatory services. In the expenses assessment, economic development type expenses are assessed by the equal per capita method. It seems reasonable, therefore, that user charges collected from primary producers for the provision of those economic development type services should also be assessed by the equal per capita method. State policies are likely to be the main drivers of the levels of fees collected. The Commission's role does not extend to making judgements on the merits of those actions.

172. The Commission's decision is summarised in Table 28.

**Table 28** COMMISSION DECISION — PRIMARY INDUSTRY USER CHARGES

Decision	Reason
To assess Primary Industry user charges by the equal per capita method.	The changed definitions of the regulation and economic development type components have meant that user charges collected from primary producers are now associated with the provision of economic development type services. To keep the user charges assessment consistent with the assessment of economic development type services, user charges should also be assessed by the equal per capita method. State policies are likely to be the main drivers of the levels of fees collected. The Commission's role does not extend to making judgements on the merits of those actions.

### *Analysis*

173. Table 29 shows the redistribution of grants resulting from the assessment in the 2003 Update and the Draft Assessment. It also shows the sources of change.

174. The change to an equal per capita assessment has meant that notional grants have decreased for States previously assessed to have lower capacity to raise primary industry user charges. Thus, the notional grants of New South Wales, Victoria, the ACT and the Northern Territory have fallen because of the removal of the differential assessment of primary industry user charges.

**Table 29** PRIMARY INDUSTRY USER CHARGES — EFFECT OF ASSESSMENT ON GRANT DISTRIBUTION

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total <sup>(a)</sup>
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Contribution to 2003 Update relativities<sup>(b)</sup></b>	30.7	0.6	-15.3	-6.7	-13.9	-3.6	6.8	1.3	39.4
<b>Composition</b>	19.5	0.3	-11.3	-3.6	-7.6	-2.3	4.3	0.7	24.8
<b>Assessment</b>	-30.7	-0.6	15.3	6.7	13.9	3.6	-6.8	-1.3	39.4
<b>Interactions</b>	-19.5	-0.3	11.3	3.6	7.6	2.3	-4.3	-0.7	24.8
<b>Contribution to 2004 Review Draft Assessments relativities<sup>(b)</sup></b>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total Change</b>	-30.7	-0.6	15.3	6.7	13.9	3.6	-6.8	-1.3	39.4

(a) Total redistribution.

(b) Assuming same pool and a constant population.

## ATTACHMENT — BASIS FOR ALLOCATION OF NAPSWQ PAYMENTS TO THE STATES

1. *The following text has been supplied to the Commission by the branch of the Department of Agriculture, Fisheries and Forestry (AFFA) which is responsible for the National Action Plan.*

### *NAPSWQ background*

2. In November 2000, a National Action Plan for Salinity and Water Quality Control (NAPSWQ) was endorsed at a meeting of the Council of Australian Governments. It involved a combined package of \$1.4 billion from the Commonwealth and the States, and was to be spent over a seven year period.

3. Under the plan, the Commonwealth is to provide \$700 million over seven years. The States will have to match this in new and additional spending, to address water and salinity control problems currently experienced by the States.

4. At the launching of NAPSWQ, the States were advised of the allocations that they would receive under the plan. The amounts are shown in Table A1. They were also told that the grant allocations were determined on the basis of need — that is, based on the relative salinity and water control problems each of the States faced.

**Table A1** NAPSWQ: COMMONWEALTH FUNDING<sup>(a)</sup> TO STATES

State	\$m
New South Wales	198
Victoria	152
Queensland	82
Western Australia	158
South Australia	93
Tasmania	12
Northern Territory	5
<b>TOTAL</b>	<b>700</b>

(a) Over a seven year period.

### *AFFA advice on rationale for NAPSWQ grant allocations to States*

5. *Initial estimates.* Initial estimates of funding from the national action plan based on the Commonwealth and the States and Territories each contributing \$600 million towards regional level activity in 20 regions over the seven year period of the National

Action Plan. A further \$100 million of Commonwealth funds was proposed to be allocated to a national component, for which matching funding could be sought from jurisdictions on a case-by-case basis.

6. ***Determination of priority regions.*** A number of elements were considered in the identification of NAPSWQ priority regions. These included:

- (i) the extent of current (and anticipated) risk to increasing salinity and declining water quality, within the catchment (and downstream);
- (ii) the relative extent of high salt storage within regions, identified and then prioritised according to presence/absence of high risk land management practices with the capacity to mobilise salt stores;
- (iii) estimates of the value of assets at risk (cultural/built assets, productive capacity, biological significance etc); and
- (iv) prospects for a significant positive return on natural resource management results.

7. ***Identification of regional boundaries.*** This process was essentially based on land and water resources audit data. The Intergovernmental Agreement for the National Action Plan provided that precise boundaries would be determined in the bilateral agreements — boundaries have been amended and agreed as part of discussion between governments.

8. ***Categorization of regions.*** The 20 identified regions were split into three categories, according to those that could be in the position to undertake activities involving three ranges of expenditure:

- less than \$50 million;
- \$50 million to \$70 million; and
- \$70 million to \$100 million.

9. It was noted that, until such time as salinity mapping is undertaken in the catchments/regions and the regional communities have developed their specific strategies and identified actions, it was not possible to be definitive as to the cost of the proposed actions. Some regions may also have a low level of preparedness and information with which to develop and implement plans. This will affect the rate of expenditure.

10. The cost for each region reflects the level of regional capacity and readiness to carry out the necessary work, the extent to which any actions will require engineering or re-vegetation activities, and the extent to which actions will require changes to land use patterns involving incentives to landholders, farm-reconfigurations, land swaps, and investments in other actions.

11. These estimates were based on the preliminary analysis of the extent and severity of the problem in the catchments/regions, and an initial understanding regarding the level of preparedness/capacity of regions to undertake restorative work. The estimates were

made by experienced officers who had worked across States and Territories in the implementation of the National Landcare Program, the Natural Heritage Trust and other natural resource management programs.

### ***Conclusion***

12. According to the NAPSWQ Section (AFFA):..... ‘the allocation of funding was made principally on the basis of need — i.e. the relative salinity and water quality problems faced by the regions, and the capacity of the regions to deliver salinity and water control benefits.....’

13. Table A2 sets out the regional breakdown of the indicative levels of NAPSWQ funding. The allocations have been decided according to the considerations outlined in parts (i) to (iv) in paragraph 5 above.

### ***NAPSWQ funding process***

14. Under the NAP, the Commonwealth and State governments jointly accredit integrated regional natural resource management (NRM) plans as the basis for future government investments in natural resource management outcomes in the respective regions. As the NAP is a joint Commonwealth-State program, both parties must agree on all investments, and the cost of all investments is shared equally between the parties.

15. The Commonwealth has reached agreement with each State and Territory other than WA and the ACT for them to administer NAP funds on behalf of the Commonwealth. This includes management of Commonwealth funds for agreed projects. Once Commonwealth and State Ministers have approved funding for a particular project, the State negotiates a contract with the regional NRM group or other service provider. This contract includes provision for progress payments, linked to the achievement of appropriate milestones; the milestones and other performance measures under the contract must also be satisfactory to the Commonwealth. The Commonwealth is an equal member on a joint Commonwealth-State Steering Committee that recommends proposals to Ministers and approves the release of funds from the State managed single holding account.

16. Once the contract is agreed with the regional body or service provider, the Commonwealth releases its share of the initial payment into a single holding account established by the State. The State then makes the initial payment under the contract to the proponent, made up of both the Commonwealth contribution and the State's own matching funding share.

**Table A2** BREAKDOWN OF INDICATIVE ALLOCATION OF NAPSWQ FUNDING <sup>(a)</sup>

	NSW	Vic	Qld	WA	SA	Tas	NT	TOTAL
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Category 1 (less than \$50 million)</b>								
Burdekin-Fitzroy (Qld)			40					
Lockyer-Burnett-Mary (Qld)			40					
Northern Agricultural Region (WA)				35				
Ord (WA/NT)				5			5	
Midlands (Tas)						20		
<b>Category 2 (\$50 to \$70 million)</b>								
Balonne-Maranoa (Qld/NSW)	30		30					
Border Rivers (Qld/NSW)	30		30					
Macquarie-Castlereagh (NSW)	60							
Murray (NSW)	60							
Glenelg-Corangamite (Vic)		60						
Mt Lofty-Northern Agricultural Districts (SA)					60			
South East (SA)					60			
South West (WA)				60				
<b>Category 3 (\$70 to \$100 million)</b>								
Lachlan-Murrumbidgee (NSW)	85							
Namoi-Gwydir (NSW)	85							
Goulburn-Broken (Vic)		85						
Avoca-Loddon-Campaspe (Vic)		85						
Lower Murray (SA/Vic)		40				40		
Avon (WA)				85				
South Coast (WA)				85				
<b>TOTAL COSTS</b>	<b>350</b>	<b>270</b>	<b>140</b>	<b>270</b>	<b>160</b>	<b>20</b>	<b>5</b>	<b>1 215</b>
State contributions for \$600 million matching	175	135	70	135	80	10	5	<b>607.5</b>
Rounded for brief	170	130	70	135	80	10	5	<b>600</b>
State contributions for additional \$100 million	28	22	12	23	13	2	1	<b>100</b>
<b>TOTAL CONTRIBUTIONS FROM STATES</b>	<b>198</b>	<b>152</b>	<b>82</b>	<b>158</b>	<b>93</b>	<b>12</b>	<b>6</b>	<b>700</b>

(a) Where a region crosses a State boundary, there is an assumption that there will be a 50 per cent split of funding between the States.

17. Subsequent payments under the contract are conditional on both the Commonwealth and State being satisfied with progress against the agreed milestones. Progress payments are made in the same way as the initial payment, that is when the progress payment is due and agreed by both the Commonwealth and the State against the set milestones, the Commonwealth transfers its share of the payment to the single holding

account, and the State then makes the full payment from both the Commonwealth and the State to the service provider.

18. Given the extent of work in developing well integrated NRM plans, funding to date has been made prior to the accreditation of regional NRM plans. This is provided for in bilateral agreements between the Commonwealth and the relevant State and is divided into the following categories.

19. Foundation funding is provided to enable regional bodies to develop their regional NRM plans. It has been applied to establish regional bodies in some regions, to collect and analyse essential data to underpin regional plans with the sound scientific basis needed for accreditation, and to review existing plans where they exist.

20. Capacity building funding has been invested in building the capacity of regions to address the NRM issues they face by activities such as enhancing community engagement skills, undertaking NRM education and training, and building links between regional bodies and local government to ensure consistency of planning at the regional level.

21. Priority action funding has been invested in projects identified as being the highest priorities for regions and for which investment was considered to be time critical, such as pursuing accelerated options for salt interception and implementing actions to reduce sediment and nutrient movement into priority streams.