



Australian Government

Commonwealth Grants Commission

**ASSESSMENT OF SERVICES TO COMMUNITIES
FOR THE 2010 REVIEW**

**STAFF DISCUSSION PAPER
CGC 2007/20-S**

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INTRODUCTION

- 1 In 2005, the Heads of Treasury undertook a review of horizontal fiscal equalisation. A conclusion of that review was that Commission processes could be simplified. The 2010 Review terms of reference ask the Commission to simplify its assessments, provided to do so is consistent with the principle of equalisation.
- 2 In its 2006 report to the Ministerial Council, the Commission said its aim was to implement equalisation using simpler methods. It believes simplification and equalisation can both be achieved and that simplification will improve the reliability and robustness of the processes and the acceptability of the outcomes.
- 3 The Commission considers that simplification can best be achieved through a rigorous application of its assessment guidelines. These guidelines require the 2010 Review assessment methods to:
 - establish a conceptual case for the assessment;
 - support the conceptual case with evidence, which is both comparable and reliable;
 - develop a reliable assessment method; and
 - demonstrate such an assessment would be material.¹
- 4 The Commission's intention is to develop these methods jointly with States. For that reason it has chosen an iterative process. This approach provides States with opportunities to contribute to the development of the final assessments.
- 5 In its Discussion Paper 2006/11 *Initial Views on Assessment Structure and Approaches* (DP 2006/11), the Commission outlined its views on assessment categories and approaches for the 2010 Review. Those views provide the basis on which the Commission seeks to take the 2010 Review Welfare assessments forward in consultation with States.
- 6 The Discussion Paper concluded welfare, housing and community amenity (water, sanitation and protection of the environment) expenses should be dissected into:
 - welfare and housing; and
 - water, sanitation and protection of the environment.

Water, sanitation and protection of the environment was then combined with electricity and other energy, and community development expenses to form the Services to Communities category.

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

- 7 Most States supported the two category structure. Victoria suggested that a separate community amenity category was unnecessary, stating that the expenses mostly related to regulation and were more appropriately included in the Services to Industry category.
- 8 The discussion paper set out the Commission's general approach of measuring States' assessed expenses for a service based on the number of users and the average cost of service delivery. Commission cost drivers, or disabilities, fall into two broad groups, those which determine:
- the quantity of services provided — they relate to differences in the use of services because of population and economic characteristics; and
 - the average cost of services. These comprise two types of cost drivers:
 - service specific costs — they relate to differences in the unit cost of services because of population and economic characteristics. Examples are the cost of providing services to people with low English fluency, Indigenous people or people from a low income background; and
 - general costs — they relate to differences in the unit cost of services because of other influences. Examples are the cost of minimum head office services, the cost of inputs and the effect of population location on the cost of delivering services.
- 9 Experience indicates that capturing the main influences that cause differences between States in the cost of providing the average level of service often requires more than one indicator of use and cost. This is because there are material differences:
- in the use of services by groups of people within the population or in the cost of providing a unit of service to them; and
 - between the States in the size of those groups as a proportion of the total population.
- 10 Different influences can affect different parts of the cost structure in different ways. For example, location influences affect total costs in a different way from scale influences.
- 11 State views are sought on how best to take the Services to Communities assessment forward. State suggestions for progressing the assessment, which are consistent with the assessment guidelines, will be considered in the next iteration.

DESCRIPTION OF THE CATEGORY

- 12 The expenses in the Services to Communities category mainly comprise subsidies for electricity, water, sanitation, environmental and related services for community (usually domestic) use. The category also includes expenses on planning, development and administration, and support of Indigenous communities. Superannuation for State government employees engaged in the provision of these services and depreciation on assets used in services provision are also included.

- 13 The category does **not** include expenses on irrigation or other industry water use which are included in the Services to industry category.
- 14 The category includes expenses allocated to the following Government Purpose Classification (GPC) codes:
- 072 – water supply;
 - 073 – sanitation and protection of the environment;
 - 079 – other community amenities;
 - 092 – electricity and other energy;
 - 0712 – aboriginal community development; and
 - 0719 – other community development.
- 15 The ABS has advised that data at the three digit GPC level is generally considered reliable. However, the four digit community development expense data (combined 0712 and 0719) are also reliable as they can be distinguished easily from the four digit housing expenses (GPC 0711) included in the three digit housing and community development GPC (GPC 071).
- 16 Table 1 shows the per capita expenses for the category by its GPC codes for 2004-05.

Table 1 Services to Communities actual category expenses per capita (2004-05)

GPC code	GPC name	NSW \$pc	VIC \$pc	Qld \$pc	WA \$pc	SA \$pc	Tas \$pc	ACT \$pc	NT \$pc	Aus \$pc
072	Water Supply	19.5	36.2	1.3	162.7	87.8	0.0	2.8	8.4	38.6
073	Sanitation and Protection of the Environment	60.9	40.4	19.4	31.0	121.0	2.1	11.7	7.5	46.7
092	Electricity and Other Energy	3.4	0.0	64.3	31.2	-1.2	2.1	0.0	203.1	18.7
079	Other Community Amenities	0.0	100.6	10.0	28.7	18.2	0.0	11.1	0.0	31.2
0712	Aboriginal Community Development	5.6	2.8	32.7	9.5	0.0	2.1	0.0	266.4	12.6
0719	Other Community Development	13.6	37.1	3.2	96.1	33.0	0.1	215.4	20.7	30.0
	Total	103.0	217.2	130.9	359.2	258.8	6.3	241.0	505.9	177.7

Source: ABS GFS data.

Note: Expenses are net of user charges and include depreciation and superannuation expenses.

- 17 These numbers may change as some States are currently reviewing the allocation of expenses to the GPCs in this category. In particular, the ACT is reviewing the amount classified to Other community development. It has advised that it includes amounts relating to local government services, including planning. Victoria has advised that the \$100 per capita classified to Other community amenities was spent on establishing facilities for the Commonwealth games, such as a pedestrian bridge. The ABS is to advise on whether these expenses should be classified to Other community amenities or to Culture and recreation. Staff will also seek clarification from the Northern Territory regarding the amount classified to Electricity and other energy compared to the small amount classified to water.

2010 REVIEW PROPOSED ASSESSMENT

- 18 In DP 2006/11, the Commission proposed that Community amenity (water, sanitation and protection of the environment) expenses would be removed from the welfare, housing and community amenities category and combined with electricity and other energy, and community development expenses to form the Services to communities category. Thus, expenses for this category consist largely of assistance provided to communities, often in remote areas, as subsidies for essential services or other, usually local government-type, support for Indigenous and other communities. The Commission concluded that expenses were driven by features of the physical environment, Indigeneity and location.
- 19 The Commission was unable to identify a broad indicator that would effectively capture disabilities across all services provided in this category. The proposed use and cost drivers were expected to be:
- water quality and availability;
 - distance from the electricity grid; and
 - Indigeneity.
- 20 Differences between States in the proportion of their population eligible for concessions and in the drivers of regulation expenses were not expected to be material.

STATE VIEWS AND STAFF RESPONSES

- 21 All States, excluding New South Wales and Victoria, broadly accepted the structure of the proposed Services to communities category. Victoria argued that the entire category should be included in the Services to industry category. New South Wales did not provide a comment.
- 22 Western Australia, South Australia and Tasmania argued that the materiality of regulation and concession expenses should be examined further before they were discounted as a driver of expense. Table 2 summarises State responses to DP 2006/11.
- 23 For the current assessments, the Commission collects data directly from the States on regulation, concessions, general subsidies and economic development expenses. These data are used in the Water, sanitation and protection of the environment and Electricity and gas categories to calculate the appropriate component weight for each type of expense.
- 24 Table 3 shows the redistribution of GST revenue which occurred in the 2006 and 2007 Updates as a result of the concessions and regulation assessments in the Water, sanitation and protection of the environment and Electricity and gas categories. It shows that in previous updates, the per capita redistribution resulting from the assessment of concession expenses was material (\$10 per capita) for Tasmania and the ACT.

Table 2 **Summary of State submissions in response to CGC 2006/11 *Initial Views on Assessment Structure and Approaches***

STATE	COMMENTS
NSW	No specific comment made regarding the Services to communities proposed assessment.
VIC	Considers a separate Services to communities category unnecessary because water, sanitation and electricity expenses are regulatory in nature and should be moved to the Services to industry category. Further to this, electricity expenses should not be split from the 2-digit fuel and energy GPC that staff propose to assess in the Services to industry category. All remaining expenses would not be material and should be assessed in the relevant health or welfare category.
QLD	Believes there is no broad indicator. Supports the exploration of proposed drivers of use and cost (water quality, water availability, distance from the electricity grid and Indigeneity) with an emphasis on remoteness and location-based disabilities.
WA	Supports the category structure. Agrees that if a broad indicator cannot be found the proposed drivers are good indicators of use and cost. Believes the materiality of concession and regulation expenses should be determined.
SA	Supports suggested use and cost drivers. Believes the materiality of the proportion of the population that would be eligible for concessions should be tested.
TAS	Supports the category structure. Evidence suggests that in Tasmania, subsidies targeted to individuals are more significant than location-based subsidies. Further tests are required to determine the materiality of concessions and regulation expenses as well as the suitability of distance from the electricity grid as an indicator of relative need for electricity subsidies.
ACT	Supports the disaggregation of community amenities from the Welfare and housing category. Believes the main driver of cost is location. Agrees that assessing concession and regulation expenses is not necessary. Believes the use of the mentioned drivers is reasonable. However, they note that Indigenous people in urban areas should not be given a higher weighting as services are the same.
NT	Supports the use of a combined weighted factor that includes factors for: <ul style="list-style-type: none"> • water and sanitation (that captures location, size of the community, water availability and water quality); • electricity (that captures distance from the grid adjusted for higher costs in small communities). Suggests additional costs associated with fuel availability should be assessed; and • services to Indigenous communities (that captures the proportion of remote indigenous communities in each State to provide a proxy for the difference in need between States). <p>The Northern Territory also has concerns that the importance of services to Indigenous communities expenses will not be captured if assessed in this category.</p>

25 Concession expense data are not available in the current GFS structure. To assess concession expenses separately, data would be required from the States. The comparability of these data would then need to be tested to ensure that they were sufficiently reliable to use in an assessment.

- 26 Regulation does not result in a material redistribution for any State, so a separate assessment either in this category or in the Services to Industry category would not be justified. In addition, neither concession nor regulation expenses have a \$50 per capita average expense.

Table 3 Redistribution due to concessions and regulation assessments in 2006 Update and 2007 Update (per capita)

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aus
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Concessions									
2006 Update	-1.6	0.3	1.4	-2.6	5.8	11.8	-13.3	-6.5	1.1
2007 Update	-1.4	0.4	0.9	-2.8	5.9	11.7	-13.3	-5.3	1.0
Regulation									
2006 Update	0.7	0.3	-1.1	-0.5	-0.8	0.4	0.6	0.3	0.4
2007 Update	0.6	0.1	-0.8	-0.5	-0.6	0.1	0.5	0.4	0.3

Source: CGC Working Papers 2006 and 2007.

Note: Expenses for concessions are assessed using the proportion of people who have an Australian Government Health Care or Pensioner Card. Expenses for regulation were assessed using general methods for input cost and dispersion. Expenses represent the sum of the redistributions from the Water, Sewerage and Protection of the Environment and the Electricity and Gas categories.

WHAT DO STATES DO

- 27 Commission staff recognise that this category comprises a diverse range of expenses and that complex disabilities could be required to recognise State disabilities across the board. For that reason, staff have reconsidered whether common policies can be discerned on service delivery at a broad level that could assist in the development of a simple assessment which will achieve horizontal fiscal equalisation.

Water, Sewerage and Electricity

- 28 There is evidence to suggest that States have similar policies on subsidising the provision of water, sewerage and electricity services to communities. For these services, States have accepted responsibility for ensuring that all communities have access to services at a reasonable price and at a nationally determined level of quality. They regulate and subsidise providers to assist in the cost of infrastructure, concessions and rebates and provide essential services in remote Indigenous communities. States also legislate on, regulate and manage natural resources and the environment in the interests of communities, guided by national policies.
- 29 Some States do spend more than others. However, this can usually be explained with reference to a particular need or problem, such as the poor quality and availability of water in Western Australia and South Australia or the use of expensive diesel generators to provide power in areas not connected to the grid.
- 30 **Regulation.** Regulation policies in each State are similar as they are guided by national agreements. Appropriate quality of product and level of service is achieved through the use of

operating licenses or agreements between the States and the service provider that outline performance standards. Not all agreements are bound by law, so compliance will often depend on the circumstance in each State. However, States are encouraged to meet the terms set out in the agreement. Staff understand that State regulation policies are influenced heavily by the following national guidelines/agreements for water, sewerage and electricity services:

- Water, sanitation and protection of the environment:
 - National Water Initiative (NWI)²;
 - Australian Drinking Water Guidelines³; and
 - Environment Protection and Heritage Council (EPHC)⁴.
- Electricity:
 - The Australian Energy Market Agreement (AEMA)⁵;
 - Ministerial Council for Energy (MCE)⁶;
 - The national energy policy framework⁷; and
 - National Electricity Rules (NER)⁸.

31 **Concessions and rebates.** Water, sewerage and electricity concessions are provided in all States, except Queensland and Tasmania who provide concessions for only electricity services. The States provide funding to the relevant water, sewerage or electricity service provider to administer concession programs on behalf of the State Government. Rebates on water saving technology and green power conversion are also provided in every State.

32 **Services for remote communities.** States provided evidence in the last review that the provision of some services, such as electricity subsidies, was more expensive for remote communities than for urban populations. Economies of scale make it difficult to operate services at full cost recovery. Also, the way in which services are delivered and managed differs significantly. States tend to provide additional subsidies to service providers in rural and remote areas. States with significant numbers of discrete Indigenous communities, such as Queensland, Western Australia, South Australia and the Northern Territory also tend to provide essential services to these communities.

² Department of Prime Minister and Cabinet website: National Water Initiative. The NWI relates to “the productivity and efficiency of Australia’s water use, the need to service rural and urban communities and to ensure the health of river and groundwater systems...”.

³ Department of the Environment Water Resources Greenhouse Office website: National Water Quality. Management Strategy; Australian Drinking Water guidelines.

⁴ The National Environment Protection Council (NEPC) is now incorporated with the Environment Protection and Heritage Council (EPHC): EPHC website.

⁵ COAG Australian Energy Market Agreement, 2004.

⁶ COAG Ministerial Council on Energy website.

⁷ Australian Government website: Securing Australia’s Energy Future, A National Energy Policy Framework.

⁸ Australian Energy Market Commission website: National Electricity Rules.

- 33 Staff note that there are differences in how service delivery is arranged in each State and that the services differ according to need. However, States have common policies of subsidising water, sanitation and electricity services where the costs are higher. They subsidise providers and concession holders. Their regulation policies are guided by national standards. We consider that it is possible to conclude that expenses reflect need.

Community amenities

- 34 In all States' (excluding the Australian Capital Territory) community amenity services, such as street lighting, are usually provided by local councils. On occasion, States assist with the provision of such amenities causing expenses in this category to vary greatly from year to year. For example, as noted earlier, Victoria's community amenity expenses of \$100 per capita in 2004-05 covered extra facilities established for the Commonwealth Games.
- 35 Given the nature of the services, staff consider that any decisions by the States to fund these activities are predominantly driven by individual State policy decisions.

Community development

- 36 The community development GPCs cover expenses on administration, provision and support of new or developing communities⁹. States with more Indigenous communities tend to spend more on community development because States provide governance support for discrete Indigenous communities, particularly in Queensland, Western Australia, South Australia and the Northern Territory. As the ACT Government is responsible for local government in the territory, its expenses are also high. However, they are not recognised as a State need for the purposes of distributing the GST. No other common policies are evident.

States views

We seek States views on the following :

- Are State policies for water, sewerage and electricity services similar in each State? If not, why?
- Are there common State policies in relation to the provision of community amenities? What disabilities would result in States' needing to spend more or less?
- Do Indigenous community development expenses relate mainly to the proportion of Indigenous population living in discrete communities in each State? If not, why?
- Are there common State policies on the delivery of other community development services? What disabilities would result in States needing to spend more or less?

⁹ Australian Bureau of Statistics, General Finance Statistics.

OPTIONS FOR ASSESSING SERVICES TO COMMUNITIES EXPENSES

37 An analysis of what States do has revealed that the expenses in this category fall broadly into those where there is a strong commonality of policies across the States and those where no common policies can be discerned. This suggests that an assessment using actual per capita (APC) and equal per capita (EPC) calculations could be constructed. This is considered below, as well as the other option previously proposed in CGC 2006/11. We have considered:

- using a cost driver approach using separate disabilities for water, electricity and Indigeneity, with the remaining expenses assessed EPC; and
- a simple approach based on a broad interpretation of State policies; with water, sewerage and electricity expenses assessed APC because they reflect need; community amenity and other community development expenses assessed EPC because they are not driven by common policies; and Aboriginal community development expenses assessed using the proportion of State populations that live in discrete Indigenous communities.

Option One: Three cost drivers

38 This assessment uses three cost drivers:

- electricity needs – measured as households whose main source of energy is electricity (including where it is sourced from diesel generators);
- water needs – measured as households connected to mains water that have problems with supply; and
- Indigenous community needs – measured as the number of discrete Indigenous communities (from the current Services to Indigenous Communities assessment); and
- other expenses — EPC.

39 Under this approach, expenses are disaggregated at the four digit GPC level. The Indigenous factor is applied to the sum of the Aboriginal four digit GPCs, whilst the water and electricity factors are applied to the remaining four digit GPCs within those expenses.

40 This assessment assumes that States provide subsidies to ensure that essential services are available to all communities, including Indigenous communities at a reasonable price. For each cost driver, a factor would be derived by comparing each State's share of the measured cost to its share of population.

41 Table 4 shows the data and derived factors used under this approach.

42 The results are consistent with staff understanding of needs in each State. However, the assessment relies on separately identifying Indigenous expenses. The ABS has advised that the required four digit GPCs are not reliable. The assessment also involves calculating four separate factors and component weights. Given the assessment guidelines specify that simplification and data reliability are key considerations when developing assessments, staff do not believe this method to be sufficiently reliable or simple.

Table 4 Three cost drivers category service delivery factor

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aus
Population	33.2%	24.7%	19.6%	9.9%	7.6%	2.4%	1.6%	1.0%	100.0%
Houses connected to Electricity	33.2%	24.0%	19.6%	10.1%	8.3%	2.5%	1.6%	0.7%	100.0%
Factor	0.99866	0.97140	1.00143	1.01783	1.09479	1.05541	0.99907	0.70073	1.00000
Weighted Factor (%)	0.10675	0.10383	0.10704	0.10880	0.11702	0.11281	0.10679	0.07490	0.10689
Houses with mains/town Water with supply problems	33.5%	24.8%	18.4%	10.2%	8.4%	2.3%	1.7%	0.7%	100.0%
Factor	1.00863	1.00232	0.93740	1.02958	1.10999	0.97016	1.06970	0.71860	1.00000
Weighted Factor (%)	0.48075	0.47774	0.44680	0.49073	0.52906	0.46241	0.50985	0.34251	0.47663
Indigenous Communities	5.1%	0.0%	12.0%	42.9%	6.8%	0.2%	0.0%	33.0%	100.0%
Factor	0.15341	0.00000	0.61165	4.32272	0.89839	0.08916	0.00000	32.95173	1.00000
Weighted Factor (%)	0.01109	0.00000	0.04423	0.31255	0.06496	0.00645	0.00000	2.38256	0.07230
Other Expenses (EPC)									
Weighted factor (%)	0.34417	0.34417	0.34417	0.34417	0.34417	0.34417	0.34417	0.34417	0.34417
Category service delivery factor	0.94276	0.92574	0.94223	1.25625	1.05521	0.92584	0.96082	3.14415	1.00000

Source: ABS, *Environmental Issues: People's views and Practices. 4602.0. March 2005* Table 3.7 Sources of Energy in Dwellings – 2005; ABS, *Environmental Issues: People's views and Practices. 4602.0. March 2004* Table 3.32 households with mains/town water supply – 2004; ABS, *Housing and Infrastructure in Aboriginal and Torres Strait Islander Communities 2001* (CHINS).

Note: The weighted factor is derived by applying the proportion of expenses applicable to the cost driver. The category service delivery factor is equal to the sum of the weighted factors.

Option Two: A simple assessment

- 43 This assessment assumes that:
- State policies on providing subsidies for water, sanitation and electricity are similar¹⁰, therefore expenses reflect need and an APC approach is appropriate;
 - State policies determining community amenity expenses are different, with expenses reflecting State policy decisions, so that an EPC approach is appropriate;
 - States with a high proportion of their populations living in discrete Indigenous communities have a greater need to spend on Indigenous community development, so that assessed expenses will be in line with the proportion of State populations living in such communities; and
 - State policies in regard to providing subsidies for other community development services are different, with expenses reflecting State policy decisions, so that an EPC approach is appropriate.
- 44 This method is simple and staff consider that it is conceptually sound, although it is noted that there are issues of data reliability in splitting Indigenous and non-Indigenous community development expenses at the 4-digit level. However, the differential need for Indigenous community development expenses across States means that this split will be required. Staff will work with the States and the ABS to ascertain whether reliable data can be obtained.

¹⁰ New South Wales Government: A New Direction for New South Wales State Plan; 2006.
Department of Natural resources (New South Wales) website.
Department of Energy Utilities and Sustainability (New South Wales) website.
Department of Sustainability and Environment (Victoria) website.
White Paper (Victoria): Securing Our Water Future Together , 2004.
Natural Resources and Water website (Queensland).
Department of Primary Industry and Water (Tasmania) website.
Draft State Water Plan (Western Australia), 2006.
Draft National Water Initiative Plan (Western Australia), 2007.
Water Resources Act 1997 (South Australia).
Water proofing Adelaide website.
Municipal services (Australian Capital Territory) website.
Water and Power (Northern Territory) Annual Report 2005-06.
National Water Commission website: National Water Initiative.
Department of the Environment and Water Resources Greenhouse Office website.
Department of the Environment and Water Resources website.
Productivity Commission, Financial Reporting of all Government Trading Enterprises 2000-01 to 2004-05, 2006.
Productivity Commission, Potential Benefits of the National Reform Agenda, 2006.
COAG Australian Energy Market Agreement, 2004.
COAG Ministerial Council of Energy website.
Australian Government website: Securing Australia's Energy Future, A National Energy Policy.

States views

State views are sought on the assessment approach they prefer and why:

- Which is more conceptually sound?
- Which is the most reliable?
- Which uses data most fit for purpose?
- Which is the simplest?

Is there an alternative?

MEASURING ASSESSED SERVICES TO COMMUNITIES EXPENSES

45 Table 5 and Table 6 show the assessed expenses for 2004-05 and the resulting category service delivery factor. The simple APC-EPC approach has been adopted to recognise services delivery assessed costs.

Table 5 Total assessed expenses (\$m) for service delivery

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aus
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Total category expenses	695	1085	515	716	398	3	78	102	3592
A Community amenities (EPC)	210	156	123	62	48	15	10	6	630
B Water, sanitation and electricity expenses (APC)	565	383	334	449	319	2	5	44	2101
C Indigneous community development	25	0	65	50	11	0	0	103	254
D Other community development (EPC)	202	150	118	60	46	15	10	6	606
Total assessed (A+B+C+D)	1003	689	639	621	424	32	25	159	3592

Source: ABS GFS expenses.

Table 6 Assessed expenses (\$pc) and category service delivery factor

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aus
Assessed expenses	149	138	163	311	276	66	76	791	178
Category Factor	0.83675	0.77617	0.91494	1.75175	1.55346	0.36921	0.42593	4.44956	1.00000

Source: ABS GFS expenses.

General Cost Influences

46 **Administrative Scale.** As well as recognising differences in assessed service delivery costs as in one of the methods above, there is a conceptual case for adjusting the assessment for differences in the cost of establishing and operating a basic administrative structure for services delivered within the Services to communities category. The structure would cover the core head office functions for oversight of water, sanitation and electricity providers, along

with community development functions. This core would be fixed, regardless of the size of the population that it services.

- 47 The APC assessed GPC codes in the category would not need any scale adjustments. Staff are currently considering how best to apply administrative scale to the part of the category assessed on an EPC basis.

Fixed APC assessment?

- 48 With APC assessments, States may be perceived to have an incentive to reclassify expenses to the GPCs in order to increase their share of the GST pool. To eliminate this problem, a fixed factor approach could be adopted. The Commission would determine the service delivery category factor (excluding scale) using the average assessed service delivery expenses at the time of the 2010 Review. The fixed factor would be combined with scale and applied to average expenses in the category at each subsequent Update. Under this approach there is an assumption that the proportion of expenses for each service delivery function included in the category would not change. Staff acknowledge that this may not hold true. For example pressures around water access and supply may lead to these expenses increasing. If such fluctuations occur prior to the 2010 Review, staff will revisit this approach.
- 49 In the interests of simplification, staff propose to adopt the fixed factor approach unless States can show that it will not achieve equalisation because expenses in the category will grow at different rates.

States views

We seek States views on the following :

- Do States believe that an assessment based upon current expenses in the Services to communities category will remain a good indicator of States' relative needs? That is, can a fixed factor approach be adopted? If not, why?

WHAT HAVE WE DONE TO SIMPLIFY?

- 50 This category incorporates expenses currently assessed in four different categories: all Water, sanitation and protection of the environment expenses; Services to Indigenous communities expenses (excluding Indigenous community road, water, and air transport services); other electricity from the Electricity and gas category; other community development from the General public services category; and other energy from the Mining fuel and energy category.
- 51 The use of the APC and EPC methods to assess the expenses in this category has eliminated the need for specific factors to measure States needs in regard to water, sanitation, electricity, community amenities and other community development services. The use of GFS data should eliminate the need to collect State data each year. The fixed factor approach will simplify the assessment and remove any perception of bias to expenses.

SUMMARY OF ISSUES FOR STATE COMMENT

- Are State policies for water, sewerage and electricity services similar in each State? If not, why?
- Are there common State policies in relation to the provision of community amenities and the delivery of other community development services? What disabilities would result in States' needing to spend more or less?
- Do Indigenous community development expenses relate mainly to the proportion of the Indigenous population living in discrete Indigenous communities in each State? If not, why?
- Which assessment approach do States prefer and why?
 - Which is the most conceptually sound?
 - Which is the most reliable?
 - Which uses data most fit for purpose?
 - Which is the most simple?
 - Is there an alternative?
- Do States believe that an assessment based upon current expenses in the Services to communities category will remain a good indicator of States' relative needs? That is, can a fixed factor approach be adopted? If not, why?