



COMMONWEALTH GRANTS COMMISSION

DRAFT ASSESSMENT PAPER CGC 2003/34

SERVICES TO INDIGENOUS COMMUNITIES

Prepared for the Commission's 2003 Conferences on Draft Assessments

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INTRODUCTION

1. This paper presents a draft assessment for the Services to Indigenous Communities category in the 2004 Review. It builds on staff proposals in *Discussion Paper CGC 2002/37 Services to Indigenous Communities* and State comments in the 2003 Rejoinder Submissions. This category was previously named Aboriginal Community Services.

2. Table 23 summarises the Services to Indigenous Communities Draft Assessment for the 2004 Review.

THE 1999 REVIEW ASSESSMENT

Description of the category

3. In the 1999 Review, the definition of the category was:

The Aboriginal Community Services Category comprises expenditure on:

- (i) the provision of community management, including services usually provided by local government;
- (ii) the development of, and planning for, community government;
- (iii) the operation, repairs and maintenance costs of essential services, including water, power, sewerage, ablution/toilet facilities, internal and access roads (not considered in the distribution of grants under Commonwealth Road Programs), airstrips, barge landings, telecommunications and cyclone shelters; and
- (iv) minor new works or the upgrading or purchase of assets relating to the above services where the total estimated project cost was less than \$250 000 or the expected life of the asset was less than three years.

4. The category included some expenses funded by Commonwealth Own Purpose Outlays (COPOs). These were paid to State Governments or to non-government organisations providing the equivalent of State services. In the case of ATSIC¹ and TSRA² grants, the Commission included only two-thirds of the payments to non-government service providers in the category, to account for the lack of flexibility States had in using these funds.

¹ Aboriginal and Torres Strait Islander Commission

² Torres Strait Regional Authority

Importance of current assessment

5. Table 1 shows the standard expenses and user charges for the six years ended 2001-02. In 2001-02, this category, at \$13.07 per capita, represented 0.26 per cent of total gross standard expenses. No user charges have been recorded since GFS accrual accounts commenced.

Table 1 ABORIGINAL COMMUNITY SERVICES — GROSS STANDARD EXPENSES AND USER CHARGES

	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02
Standard expenses (\$pc)	7.66	8.10	10.21	9.85	10.07	13.07
% of total gross standard expenses	0.21	0.21	0.22	0.21	0.21	0.26
Standard user charges (\$pc)	0.66	0.63	0.00	0.00	0.00	0.00
% of category standard expenses	8.6	7.8	0.00	0.00	0.00	0.00

Sources: 2003 Update Working Papers.

6. Compared with an equal per capita assessment, the 2003 Update Aboriginal Community Services assessment redistributed \$125.2 million away from New South Wales, Victoria, South Australia, Tasmania and the ACT to the other States. Table 2 shows the grants redistribution between States in the 2003 Update.

Table 2 EFFECT OF ASSESSMENT ON GRANT DISTRIBUTION — ABORIGINAL COMMUNITY SERVICES

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total ^(a)
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Contribution to 2003 Update relativities^(b)	-55.8	-53.3	6.1	10.6	-8.6	-3.8	-3.6	108.5	125.2

(a) Total amount redistributed.

(b) Assuming same pool and a constant population.

Source: 2003 Update Working Papers.

Expenses assessment

7. In the 1999 Review, the Aboriginal Community Services assessment was made up of six components — scale-affected expenses, non-remote community government, remote community government, remote essential services, land rights and isolation.

8. The sizes of the components for scale-affected expenses (4.84 per cent), isolation (2.15 per cent) and land rights (0.08 per cent) were estimated by reference to relevant expenses included in total category expenses. The estimated component weights for the three largest components — remote community government (42.93 per cent), remote essential services (30 per cent), and non-remote community government (20 per cent) —

were derived from analysis of data in the standard budget and information from State data returns.

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

Table 3 ABORIGINAL COMMUNITY SERVICES, EXPENSES ASSESSMENT STRUCTURE, 1999 REVIEW

Expenditure component	Component weight	Factors	Basis of calculation
Scale-affected expenditure	4.84	Input costs	General method with weights of 80% for wages, 2% for accommodation and 1% for electricity.
		Administrative scale	General method.
Non-remote community government	20.00	Dispersion	General method but using the Indigenous population rather than the general population.
		Input costs	General method with weights of 70% for wages, 2% for accommodation and 1% for electricity.
		Socio-demographic composition	Based on the Indigenous population of non-remote communities.
Remote community government	42.93	Dispersion	General method but using the Indigenous population rather than the general population.
		Input costs	General method with weights of 70% for wages, 2% for accommodation and 1% for electricity.
		Socio-demographic composition	Based on Indigenous population of remote communities.
Remote essential services	30.00	Service delivery scale	Based on the number of locations in remote areas. Includes disability assessments for dispersion and input costs.
Land rights	0.08	Land rights	The additional costs in the Northern Territory arising from the Commonwealth <i>Aboriginal Land Rights (Northern Territory) Act</i> 1976.
Isolation	2.15	Isolation	General method.

10. The factors which had the largest redistributive effect in the 2003 Update assessment are shown in Table 4. Together, these four factors redistributed \$155.4 million in the 2003 Update.

Table 4 ABORIGINAL COMMUNITY SERVICES EXPENSES ASSESSMENT, REDISTRIBUTIVE EFFECT OF KEY FACTORS, 2003 UPDATE

Factor	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total ^(a)
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Remote community government component									
Socio-demographic composition ^(b)	-29.0	-22.1	-5.6	0.1	-5.6	-2.1	-1.5	65.8	65.9
Remote essential services component									
Service delivery scale ^(b)	-19.6	-16.8	0.2	11.8	-1.9	-1.3	-1.1	28.7	40.7
Remote and non-remote community government components									
Dispersion ^(b)	-4.7	0.0	-14.3	-8.2	-1.9	-0.1	0.0	29.1	29.2
Non-remote community government component									
Socio-demographic composition ^(b)	-2.8	-9.9	12.3	-4.2	-1.0	-1.0	-0.7	7.3	19.6
	-56.1	-48.8	-7.4	-0.5	-10.4	-4.5	-3.3	130.9	130.9

(a) Total redistribution due to disability factors. Excludes effect due to size of standard.

(b) Assuming same pool and a constant population.

Source: 2003 Update State grant simulator.

User charges assessment

11. In the 1999 Review, a differential assessment of Aboriginal Community Services user charges was made. It was based on the remote area population used in the socio-demographic composition factor assessed for the remote community government component. The Commission decided in the 1999 Review to discount the factor by 50 per cent to recognise the difficulties with user charges collection in small and remote communities.

12. The redistributive effect of the user charges assessment is shown in Table 5. The assessment of user charges redistributed about \$1.2 million away from Queensland, Western Australia and the Northern Territory to the other States.

Table 5 EFFECT OF USER CHARGES ASSESSMENT ON GRANT DISTRIBUTION — ABORIGINAL COMMUNITY SERVICES, 2003 UPDATE

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total ^(a)
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Contribution to 2003 Update relativities ^(b)	0.3	0.7	-0.2	-0.2	0.0	0.0	0.0	-0.8	1.2

(a) Total redistribution due to disability factors. Excludes effect due to size of standard.

(b) Assuming same pool and a constant population.

Source: 2003 Update Working Papers.

NATURE OF THE CATEGORY

13. In general, the programs that the Commission has included in this assessment focussed on:

- (i) community infrastructure — provision of water and power supply, sewerage and waste water systems, transport facilities, and the ongoing support for operation and maintenance of these;
- (ii) municipal-type services — planning, regulation and building control, sanitation, maintenance of local roads and drainage; and
- (iii) community management — building the capacity for communities to plan and manage infrastructure and municipal services.

14. The governance and provision of services to Indigenous communities varies from State to State. In New South Wales and Western Australia, most Indigenous communities lie within incorporated areas and are therefore the responsibility of the relevant local government authority. However, in the Northern Territory and Queensland, many Indigenous communities have local government status and are incorporated under local government legislation. The Northern Territory operates a ‘community government’ system outside its six main population centres. Queensland has 32 Deed of Grant in Trust (DOGIT) communities and two Aboriginal Shires.

15. South Australia has three statutory landholding authorities (Anangu Pitjantjatara, Maralinga Tjarutja and Aboriginal Land Trust) which cover some of its Indigenous communities.

16. In Victoria and Tasmania, there are very few Indigenous communities and the normal local government system is responsible for their services. In the ACT, there are no Indigenous communities.

17. The ABS’ 2001 Community Housing and Infrastructure Needs Survey (CHINS) identified 1 240 discrete Indigenous communities across Australia. The ABS defines ‘discrete Indigenous community’ as a geographic location, bounded by physical or cadastral (legal) boundaries, and inhabited or intended to be inhabited predominantly (i.e. greater than 50 per cent of usual residents) by Aboriginal or Torres Strait Islander peoples, with housing or infrastructure that is managed on a community basis.

18. For the 1 216 communities which responded to the CHINS survey, Table 6 summarises the numbers of communities by State and remoteness. Figure 1 shows their geographic distribution by remoteness.

Table 6 DISCRETE INDIGENOUS COMMUNITIES, 2001

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
Remote communities	15	-	134	277	89	1	0	623	1 139
Non-remote communities	45	2	8	6	7	0	0	9	77
All communities	60	2	142	283	96	1	0	632	1 216

Source: ABS Cat. No. 4710.0, Housing and Infrastructure in Aboriginal and Torres Strait Islander Communities, 2001

19. According to the CHINS data, about 108 000 people lived in these communities in 2001 (including non-Indigenous usual residents). Small communities (with a reported usual population of less than 50 people) made up 73 per cent of all communities.

20. The ABS also supplies Census data grouped according to 'Indigenous Location' (ILOC). An ILOC is an area designed to allow the production of summary Census statistics, in particular those relating to Indigenous people while maintaining the confidentiality of individuals. Generally, an ILOC includes at least 50 Indigenous people and can comprise one or more Collector's Districts. For the 2001 Census, 975 ILOCs were defined to cover the whole of Australia³ without gaps or overlaps. The ILOCs are the finest level of Indigenous geographic unit. ILOCs aggregate to form Indigenous Areas which in turn aggregate to form ATSIC regions.

21. Table 7 summarises the numbers of remote and non-remote ILOCs selected for our draft assessment (which were those with predominantly Indigenous populations), and shows the total number of ILOCs which cover each State.

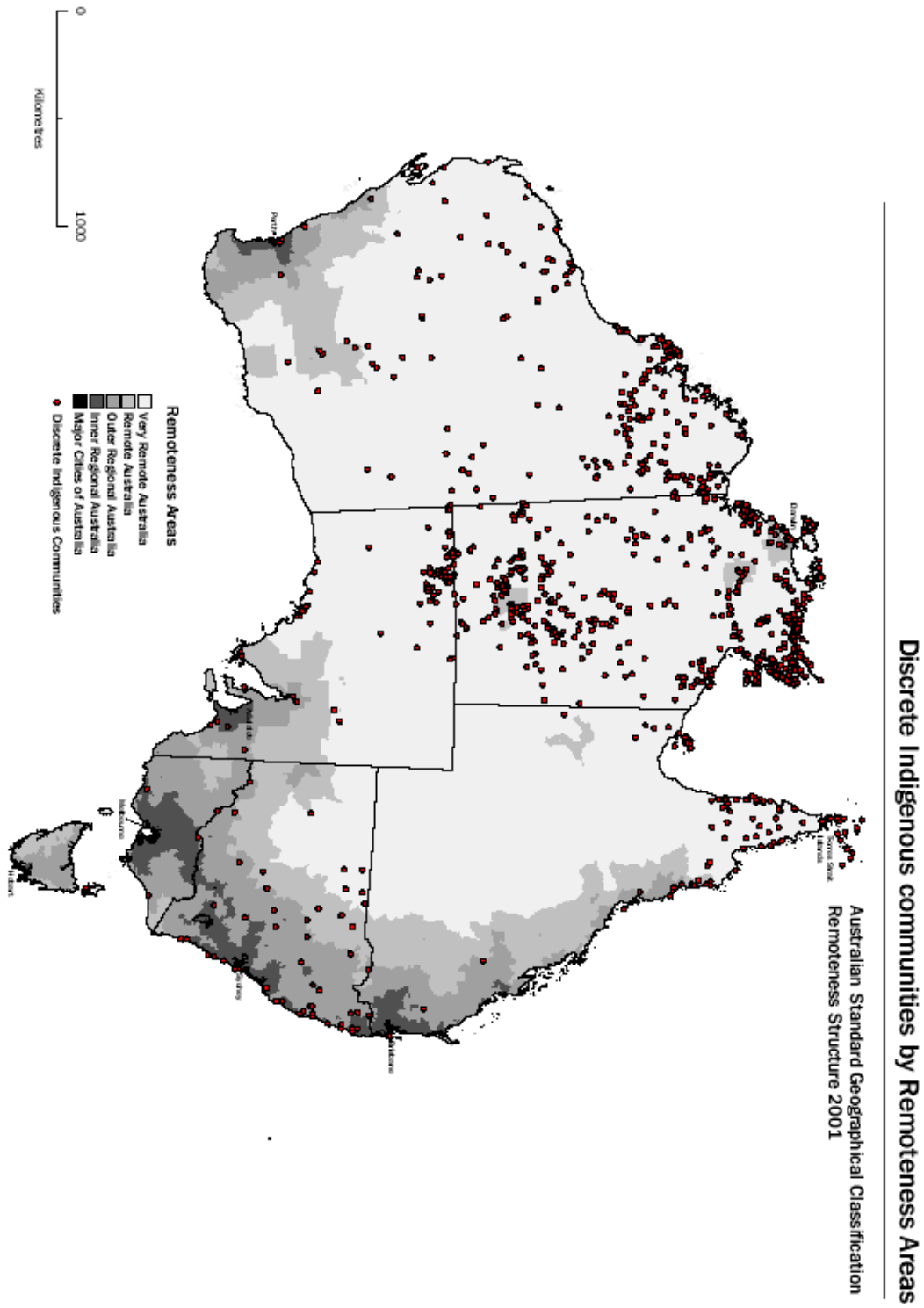
Table 7 INDIGENOUS LOCATIONS, 2001

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
Remote ILOCs selected	5	0	43	82	21	0	0	98	249
Non-remote ILOCs selected	7	0	3	1	4	0	0	2	17
All ILOCs selected	12	0	46	83	25	0	0	100	266
Total ILOCs per State	261	57	194	201	76	28	3	155	975

Source: ABS Census, 2001

³ Two further ILOCs covered Christmas Island and the Cocos (Keeling) Islands, and the Off-Shore, Shipping and Migratory CDs within the AREG 'ATSIC Region Not Defined'.

Figure 1 DISCRETE INDIGENOUS COMMUNITIES BY REMOTENESS



Source: ABS Cat. No. 4710.0 Housing and Infrastructure in Aboriginal and Torres Strait Islander Communities 2001, p. 97

PROPOSED CATEGORY DEFINITION AND ASSESSMENT STRUCTURE 2004 REVIEW

Assessment approach — a single category assessment or a distributed assessment?

22. **1999 Review.** In the 1999 Review, the Aboriginal Community Services category was assessed as a stand-alone category.

23. **Staff proposals.** In *Discussion Paper CGC 2002/37*, staff proposed that the category be dissolved and the assessment be distributed across four general categories (Electricity and Gas; Water, Sanitation and Protection of the Environment; Non-urban Transport; Community Development), on the basis that data to support a single category were not identifiable in the GFS collection. This meant the Commission had to collect data from the States and the Commonwealth to build the category.

24. **State views.** New South Wales, Queensland and Tasmania explicitly supported distributing the assessment across the four general categories. Queensland supported distributing the assessment across categories on the condition that disabilities were fully recognised. Victoria and Western Australia implicitly supported it, stating they had no major concerns with the proposed structure of the standard budget.

25. The ACT supported retaining a separate category, and argued that it offered greater transparency. The Northern Territory strongly objected to the distributed approach on the basis that it would reduce transparency and increase the risk of errors.

26. **Analysis.** This category is unlike other categories because it deals with local government-type services to a range of settlement types, characterised by the predominantly Indigenous background of the inhabitants. This is unlike other categories, which assess 'mainstream' services to the general population.

27. Further consideration of the GFS data has led us to conclude that there are some shortcomings for this category. Preserving this category ensures that relevant disabilities can be appropriately recognised. We propose therefore to continue building the category using data collected from the States.

28. **Commission decisions.** The Commission considers there is a conceptual case for maintaining a separate assessment. The types of services included in it are not mainstream and they are provided to a specific group of people. Recognising the disabilities appropriately is very important to some States because the impact of such services on their budgets is large. Data can be provided by the States to support the category. We accept that the benefits of assessing Services to Indigenous Communities as a separate category include greater transparency and consistency. We therefore propose to retain the category.

Definition of the category — what is it about?

29. ***1999 Review.*** In the 1999 Review, the Aboriginal Community Services category covered those functions described in paragraph 3.

30. ***State views.*** The States did not raise this as an issue.

31. ***Staff proposals.*** The definition was not questioned in *Discussion Paper CGC 2002/37*.

32. ***Commission decision.*** Because the title of this category has changed, there is a need to clarify what the category deals with. This category is about State expenses (including those financed by specific purpose payments and COPOs) on identifiable Indigenous communities.

33. We propose the following definition of the term. An ‘Indigenous community’ is a community in a geographic location:

- (i) that has a predominantly Indigenous population, including town camps, discrete settlements and groups of settlements, remote out-stations and pastoral excisions; and
- (ii) where services are provided in different ways to, and are not usually integrated with, those of non-Indigenous communities in close proximity.

34. We propose that the category continue to include the same range of services (community government and remote essential services) as in the 1999 Review. This is because State budgets show that these are the main service components which the States provide to Indigenous communities.

Scope — the treatment of Commonwealth Own Purpose Outlays (COPOs)

35. ***1999 Review.*** In the 1999 Review, the Aboriginal Community Services category included some expenses funded by Commonwealth Own Purpose Outlays (COPOs). In the case of ATSIC and TSRA grants, the Commission included two-thirds of the payments to non-government service providers in the category, to account for the lack of flexibility States had in using these funds.

36. ***State views.*** *Draft Assessment Paper CGC 2003/78 Treatment of Specific Purpose Payments* considers the arguments presented by the States and the Commonwealth. In brief:

- (i) Queensland, Western Australia and the Northern Territory said COPOs such as the Community Development Employment Program (CDEP) and the National Aboriginal Health Strategy (NAHS) should be treated by exclusion because they were not substitutes for State services and represented a Commonwealth function that the

Commission treated as out of scope. They said States would discontinue these services if the COPO was discontinued.

- (ii) Tasmania and the ACT said COPOs spent on State-type services should be treated by inclusion. The ACT argued that services delivered through the CDEP and NAHS programs were normally the responsibility of States, and that the COPOs relieved States of spending in the relevant area.

37. **Commission decision.** The Commission's decision in relation to COPOs is set out in *Draft Assessment Paper CGC 2003/78 Treatment of Specific Purpose Payments*. The Commission considers that the conceptual case has been established for treating COPOs by inclusion where the standard practice is to pay them to State agencies and by exclusion where the standard practice is to pay them to non-government organisations. The latter payments do not have a direct impact on State budgets. Therefore, the Commission has decided to:

- (i) treat COPOs paid to States and non-government organisations by inclusion where the standard practice is to pay them to State agencies; and
- (ii) treat COPOs paid to States and non-government organisations by exclusion where the standard practice is to pay the COPO to non-government organisations. In these cases, it would exclude both the payment and the expenditure it financed.

38. In terms of this category, the impact of this decision is to exclude those COPOs relating to NAHS and CDEP, which are paid to non-government organisations. However, COPOs paid to the States under the Community Housing and Infrastructure Program (CHIP) relating to infrastructure for remote essential services will be included.

Scope — the treatment of minor capital works

39. **1999 Review.** In the 1999 Review, the Aboriginal Community Services category included minor new works or the upgrading or purchase of assets, where the total estimated project cost was less than \$250 000 or the expected life of the asset was less than three years.

40. **Preliminary State views.** The States did not specifically comment on this issue.

41. **Staff proposals.** In *Discussion Paper CGC 2002/37*, staff sought comment from the States on whether the scope of the category should be changed to exclude expenses on minor capital works. Minor capital works in the 1999 Review were those valued at less than \$250 000 or with a life of less than three years. This proposal was made on the basis that these items were not identifiable in the GFS data and that collecting data from the States and Commonwealth could lead to double-counting.

42. The discussion paper sought information from the States on how they accounted in GFS data for minor capital works.

43. **Further State views.** Queensland, Western Australia and the Northern Territory responded to the question about minor works and how they treat them in their own budgets. Queensland stated that it treated minor capital works as capital outlays according to a \$10 000 asset recognition threshold. It proposed that if this were standard policy, then expenditure on minor capital works could be captured in the Depreciation assessment as capital expenses.

44. Western Australia opposed changing the assessment to exclude expenditures on minor capital works in this category, on the basis that the Debt Charges and Depreciation assessments would need to be changed if this were done.

45. The Northern Territory stated that it treated minor capital works as capital outlays, not recurrent expenditure. Ownership of utilities and transport infrastructure varied — for example, air and barge landings were owned by Indigenous communities, while the Territory incurred the associated capital and recurrent costs. Essential service assets were owned by the Territory’s Power and Water Corporation at a book value of zero, since the earning power of these assets was below cost and their ownership was unclear.

46. **Analysis.** The original intent in the 1999 Review was for this assessment to treat minor capital works in Indigenous communities as though they were operating expenses. This was because of the tendency for State government to relinquish ownership of the assets, together with harsh climatic conditions and inadequate maintenance, which resulted in rapid deterioration and the need for replacement.

47. In *Draft Assessment Paper CGC 2003/77 Equalisation Budget*, the Commission sets out its decision⁴ that the equalisation budget will include capital grants⁵ and capital transfers⁶ using GFS data.

48. This will mean that most of the expenditure which was previously assessed in this category as minor new works will be automatically included, so long as it is correctly classified. Any ‘capital’ expenses which do not create an asset for the States should be included in the GFS data as operating expenses.

⁴ The Commission decided to include capital SPPs in the equalisation budget and apply the SPP guidelines to determine their treatments, and include them in the year they were received.

⁵ Capital grants are included in State operating statements. Those for Aboriginal purposes are often used for creating/upgrading community assets instead of State assets. Under these circumstances, the States should record the transaction as a capital expense in their operating statement but no depreciation expenses should be recorded. If the Commission treats these capital grants by inclusion, it is appropriate that the capital expense be included and assessed. In principle, this is equivalent to bringing in the depreciation expense as a lump sum instead of depreciating the asset over a period.

⁶ Capital transfer payments are included in State operating statements and relate to subsidies for capital purposes or expenses incurred on capital items which do not create State assets. Those for Aboriginal purposes are often made to PTEs or non-government organisations. They do not result in a State asset which is depreciable. Thus it is appropriate for the amounts to be recorded as an expense in the appropriate category.

49. **Commission decisions.** The Commission considers that there is a conceptual case for including any expenses on capital items which do not create an asset for the State, and thus treating those as operating expenses. It considers this can be done using GFS data on capital transfers or capital expenses relating to individual SPPs.

50. The Commission has decided to include in this category any capital transfer payments for Indigenous community government purposes or essential services made by State governments to Public Trading Enterprises (PTEs) or other non-government agencies where the payment does not create a State asset which is depreciable. This will include any transfers funded from capital grants treated by inclusion which do not result in State-owned assets.

51. This decision will mean, for example, that the operating subsidy for remote essential services provided by the Northern Territory Government to the Northern Territory's Power and Water Corporation and any capital transfers relating to the provision of power and water in remote communities should be included in the category. This will require these amounts to be correctly classified in GFS. No adjustment will be required to depreciation expenses.

Structure — should the community government components be combined?

52. **1999 Review.** In the 1999 Review, the Aboriginal Community Services assessment included two community government components — one for remote areas and the other for non-remote areas.

53. **Preliminary State views.** The States did not specifically comment on this issue.

54. **Staff proposals.** In *Discussion Paper CGC 2002/37*, staff proposed that the internal structure of the assessment could be simplified by combining the remote and non-remote community government components. This was because the same dispersion and input cost factors were assessed in both components and the socio-demographic composition factors were complementary. Staff argued that no substantive change in the results would occur if this rationalisation were adopted.

55. **Further State views.** Only two States commented on the proposal to combine remote and non-remote community government components. Western Australia supported this proposed change, on the basis that it would simplify the assessment.

56. The Northern Territory opposed this change, on the basis that the components reflected relevant aspects of service delivery and that the level of disability was not the same. It argued that the lack of commercial activity in remote areas required remote community governments to undertake additional functions normally delivered by the private sector elsewhere (for example, banking and shopping).

57. **Analysis.** There is a conceptual case for distinguishing between remote and non-remote community governments, as they primarily serve different populations. However, combining the two components into Community Government simplifies the

assessment structure and preserves the capacity to apply different disabilities to remote and non-remote community populations.

58. Combining the two components is possible because:

- (i) the same dispersion and input costs factors were applied to the former remote and non-remote community government components;
- (ii) the socio-demographic composition factors assessed in the former remote and non-remote community government components are complementary and can be easily combined. Specifically, the remote community government factor was based on remote relevant population data, and the non-remote community government factor was based on non-remote relevant population data. Cost weights can be applied to the different populations, if required; and
- (iii) we are still able to distinguish between populations according to their remoteness and assign cost weights if the Commission should decide they are needed in the future.

59. **Commission decision.** The Commission has decided to combine the remote and non-remote community government components into a single community government component. This simplifies the assessment structure and preserves the capacity to apply different disabilities for remote and non-remote populations in the future.

Summary of Commission's decisions on structure and scope of the category

60. The Commission has decided to assess a single category named Services to Indigenous Communities, with a component structure as set out in Table 8.

61. The revised definition of the category is:

The Services to Indigenous Communities category comprises State expenditure (including that financed by specific purpose payments or COPOs) on identifiable Indigenous communities. An 'Indigenous community' is understood to be a community in a geographic location:

- (i) that has a predominantly Indigenous population, including town camps, discrete settlements and groups of settlements, remote out-stations and pastoral excisions; and
- (ii) where services are provided in different ways to, and are not usually integrated with, those of non-Indigenous communities in close proximity.

The category will include State expenses on:

- (i) the provision of community management to identifiable Indigenous communities, including services usually provided by local

government, and the development of and planning for community government;

- (ii) the operation, repairs and maintenance costs of essential services to identifiable Indigenous communities, including water, power, sewerage, ablution/toilet facilities, internal and access roads (not considered in the distribution of grants under Commonwealth Road Programs), airstrips, barge landings, telecommunications and cyclone shelters; and
- (iii) any capital transfer payments for Indigenous community government purposes or essential services made by State governments to Public Trading Enterprises (PTEs) or other non-government agencies where the payment does not create a State asset which is depreciable. This will include any transfers funded from capital grants treated by inclusion which do not result in State-owned assets.

62. The Commission has also revised the weights for the components for fixed costs, land rights and isolation, as set out in the relevant draft assessment papers for administrative scale, land rights and isolation. The proposed weight for the remote essential services component is based on the standard proportion of total category expenses reflected in State budgets for Indigenous communities.

63. The component weight for the remaining component — community government — was derived as the balance of category expenses.

64. The Commission has also decided to update component weights for the category on an annual basis. This is because of the large weight associated with community government relative to remote essential services. If States were to spend substantially more or less on one of these components, the relativities would be strongly affected.

65. The Commission's decisions are summarised in Table 8.

Table 8 COMMISSION DECISIONS — EXPENSES CATEGORY DEFINITION, ASSESSMENT STRUCTURE AND COMPONENT WEIGHTS

Decision	Reason
<p>Definition of the category To change the existing definition of the category to specify that it is about identifiable Indigenous communities, and to define that term.</p>	To clarify what the category is about because the title of the category has changed.
<p>Scope of the category To change the existing scope of the category to exclude Commonwealth grants paid to non-government organisations for Services to Indigenous Communities purposes and exclude Commonwealth grants paid to States under the National Aboriginal Health Strategy and the Community Development Employment Program, but to include the infrastructure portion of ATSIC State grants under the Community Housing and Infrastructure Program.</p>	ATSIC grants paid to non-government organisations have no direct impact on State budgets — that is, States act as Commonwealth agents. ATSIC grants paid to States for Commonwealth functions should not be treated as State services. However, ATSIC grants paid to States for remote essential services warrant inclusion as these are substitutes for State services.
<p>Assessment structure and component weights^(a)</p> <ul style="list-style-type: none"> • Fixed costs: 1.90% • Community government: 64.99% • Remote essential services: 30.00% • Land rights: 0.06% • Native title: 1.98% • Isolation: 1.08% 	<p>The Commission decided to structure this category using these components because evidence available from States in their submissions/annual returns suggested these were the most important groups of services to Indigenous communities.</p> <p>The sizes of the component weights for the fixed costs, land rights, native title and isolation components were derived using the general methods for this review.</p> <p>The size of the remote essential services component was based on the proportion of total expenses of the category represented by relevant State budget expenses for such services.</p> <p>The size of the community government component was the balance of the total category expenses after the other component weights had been decided.</p>

(a) Component weights are for 2001-02.

User charges assessment structure

66. ***Commission decision.*** The Commission has decided to discontinue the differential assessment of user charges associated with Services to Indigenous Communities, because such user charges paid by communities to Public Trading Enterprises (PTEs) are now out of scope.

FIXED COSTS COMPONENT

67. As noted in *Discussion Paper CGC 2002/37 Services to Indigenous Communities*, assessments for administrative scale and input costs factors were proposed by staff for this component. This component was previously named scale-affected expenses.

Administrative scale — fixed costs component

68. **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 \$0.8 million, of which \$0.4 million was considered as fixed cost and \$0.4 million as variable cost. The scale-affected expenses component represented 4.84 per cent of expenses in this category.

69. **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.

70. 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.

71. The administrative scale factors for this category, shown in Table 9, have been calculated using the 2004 Review general method. Fixed costs for this category have been estimated to be \$0.5 million per State, which represents 1.90 per cent of the category standard in 2001-02.

Table 9 ADMINISTRATIVE SCALE FACTORS — FIXED COSTS COMPONENT

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
1997-98	0.36026	0.49245	0.66493	1.25766	1.53275	4.81450	0.00000	26.31418
1998-1999	0.36022	0.49308	0.66238	1.25208	1.54236	4.88212	0.00000	26.16529
1999-2000	0.36023	0.49339	0.65956	1.24953	1.55247	4.94374	0.00000	26.04769
2000-01	0.36015	0.49350	0.65646	1.24886	1.56532	5.00648	0.00000	26.01119
2001-02	0.36059	0.49323	0.65240	1.24837	1.57681	5.06072	0.00000	26.16454

72. The factor, which is based on estimated resident population, and the component weight will be updated annually.

Input costs — fixed costs component

73. **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 these inputs. For the scale affected costs component, these 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.

74. **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 sets out the Commission's decisions 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 sets out 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, although the Northern Territory supported the existing methods of assessing disabilities, for the category as a whole.

75. The Commission considered that the prices of labour, accommodation and electricity used in providing head office type 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.

76. The input costs factors for the fixed cost component of this category, shown in Table 10, 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 10 INPUT COSTS FACTORS — FIXED COSTS COMPONENT

	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

77. 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.

COMMUNITY GOVERNMENT COMPONENT

78. This component has been created by combining the former remote and non-remote community government components assessed in the 1999 Review. Reasons for the amalgamation of these two components were set out previously.

79. As noted in *Discussion Paper CGC 2002/37*, assessments for dispersion, input costs and socio-demographic composition factors were proposed by staff for this component.

Dispersion — community government component

80. **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 Indigenous population dispersion on State expenses associated with telecommunication, freight, travel and staffing on-costs.

81. 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 11.

Table 11 DISPERSION COST WEIGHTS, REMOTE AND NON-REMOTE
COMMUNITY GOVERNMENT COMPONENTS, 2003 UPDATE

Telephone	Freight	Air Travel	Road Travel		Remote Removals	Locality Allowances
			Inter Regional	Local		
0.00686	0.00234	0.00135	0.01886	0.04760	0.00000	0.00000

Source: 2003 Update Working Papers.

82. **2004 Review.** *Draft Assessment Paper CGC 2003/63 Dispersion* discusses the issues raised by the States regarding the assessment of the dispersion 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 standard expense proportions estimated for each of the nine elements of dispersion-affected expenses. The States did not raise issues specific to this category.

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

84. The dispersion factors for the community government component have been based on the distribution of Indigenous populations within States. There were nine indexes within the dispersion factor for the 2004 Review. Table 12 shows the proportions of standard expenses estimated for each of the nine elements of dispersion affected expenses for this component.

Table 12 2004 REVIEW DISPERSION COST WEIGHTS, COMMUNITY GOVERNMENT COMPONENT

Telecommunication		Freight, General	Air Travel	Road Travel		Repairs and Maintenance	Remote Staff Turnover	Locality Allowances
Voice	Non-voice			Inter Regional	Local			
0.0055	0.0006	0.0097	0.0059	0.0027	0.0107	0.0181	0.0000	0.0000

85. Table 13 shows the dispersion factors assessed for the community government component for the 2004 Review.

Table 13 2004 REVIEW DISPERSION FACTORS, COMMUNITY GOVERNMENT COMPONENT

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
1997-98	0.96791	0.95194	1.01909	1.06710	0.99063	0.97172	0.95035	2.48561
1998-99	0.96776	0.95179	1.01892	1.06693	0.99048	0.97156	0.95020	2.48521
1999-2000	0.96764	0.95167	1.01880	1.06680	0.99036	0.97145	0.95008	2.48491
2000-01	0.96759	0.95162	1.01874	1.06674	0.99030	0.97139	0.95003	2.48477
2001-02	0.96763	0.95166	1.01879	1.06678	0.99034	0.97143	0.95007	2.48488

86. Neither the factor nor the dispersion costs weights will be updated before the next review.

Input costs — community government component

87. **1999 Review.** The following standard expense proportions were applied to each of the factors assessed for this component:

- wages and salaries 70 per cent;
- accommodation 2 per cent; and
- electricity 1 per cent.

88. **2004 Review.** The input costs factors for the community government component of this category, shown in Table 14, 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 70 per cent for wages and salaries, 2 per cent for accommodation and 1 per cent for electricity.

Table 14 INPUT COSTS FACTORS — COMMUNITY GOVERNMENT COMPONENT

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
1997-98	1.02716	0.98914	0.98443	0.98482	0.97724	0.93927	1.00702	1.10302
1998-99	1.02875	0.99001	0.98274	0.98179	0.97556	0.93713	1.01075	1.09900
1999-2000	1.03119	0.98927	0.98023	0.98353	0.97245	0.93132	1.01458	1.09491
2000-01	1.03169	0.99049	0.97857	0.98348	0.97140	0.92882	1.01390	1.09256
2001-02	1.03077	0.99148	0.97746	0.98444	0.97488	0.92856	1.01130	1.08952

Socio-demographic composition — community government component: relevant population

89. **1999 Review.** Socio-demographic composition factors were assessed for the remote and non-remote community government components in the 1999 Review. These assessments were undertaken to account for different costs and patterns of use associated with the Indigenous population in remote Indigenous communities.

90. The factors were calculated by taking the ratio of the Indigenous population of remote and very remote ‘Indigenous locations’ (ILOCs) to the 1996 Census population for each State and Australia, then calculating the factors by dividing the ratio for each State by the Australian ratio.

91. The following criteria were used to select Indigenous locations in either remote or non-remote areas requiring community government services. The Indigenous population of ILOCs was included in the relevant population if:

- (i) Criterion 1 — the total population of the ILOC was less than 1 000 (that is, it was relatively small); or
- (ii) Criterion 2 — the Indigenous population out-numbered the non-Indigenous population (that is, it was more than 50 per cent Indigenous).

92. **Preliminary State views.** Victoria raised concerns about the method of measuring the relevant population being out of date, and opposed applying any disabilities to remote community government on the basis that actual expenditure was used to determine the standard.

93. **Staff proposal.** In *Discussion Paper CGC 2002/37*, staff proposed that the socio-demographic composition assessment would continue to be made in the remote and non-remote community government components using new ILOC data based on the 2001 Census, and a new definition of remoteness related to the Accessibility/Remoteness Index of Australia (ARIA+).

94. Other than using new Census data and combining the two socio-demographic composition factors for the remote and non-remote community government components, no change in the assessment method was proposed by staff.

95. **Further State views.** Victoria queried the rationale of the threshold of 1 000 persons as one of the determinants of relevant populations. The Northern Territory supported the existing method of assessment, but argued that there were additional disabilities for remote community governments due to the lack of commercial activity in remote areas. Other States did not comment specifically on the assessment of this factor.

96. **Analysis.** Although only one State raised concerns, it seems that the method used in the 1999 Review included Indigenous people living in locations that were not predominantly Indigenous. We propose to restrict the scope of this component to locations where the population is predominantly Indigenous.

97. We considered using CHINS data on discrete Indigenous communities but States have expressed concerns about the accuracy of the population estimates it provides (see *Draft Assessment Paper CGC 2003/73 Population Issues*).

98. We asked the ABS whether it can provide estimated resident population (ERP) data for all discrete Indigenous communities it identified. This would include Indigenous and non-Indigenous persons living in these communities. The ABS has indicated that this may be possible, but could take some time. Other clients have requested something similar, and the ABS has told us it is considering releasing a special publication.

99. **Commission decision.** The conceptual case for assessing socio-demographic composition disabilities for this component is strong. State expenses on community government are likely to increase with the number of Indigenous people living in relevant locations. The impact on the budgets of some States is material.

100. Population data by Indigenous Location are available from the ABS 2001 Census. We have used these data to calculate the required factors.

101. The Commission's decisions on identifying the relevant population are summarised in Table 15.

Table 15 COMMISSION DECISION — COMMUNITY GOVERNMENT COMPONENT: RELEVANT POPULATION

Decision	Reason
To use the Indigenous population of those ILOCs that are predominantly Indigenous.	To ensure consistency with the definition of ‘Indigenous community’ as predominantly Indigenous.
To continue to assess a socio-demographic composition factor for this component, based on the sum of the remote and non-remote Indigenous populations living in predominantly Indigenous locations.	Gives States the capacity to provide the average level of community government services to Indigenous communities by assessing the additional costs that States face due to the Indigeneity of their populations.

Socio-demographic composition — community government component: lack of commercial activity in remote Indigenous communities

102. ***Preliminary State views.*** The Northern Territory said that remote community government was more costly to provide because of the lack of commercial activity in remote Indigenous communities. It argued that this created an inadequate municipal rate revenue base and denied Indigenous communities the same services that would normally be available in non-Indigenous communities. It said that community government (and hence State government) was forced to compensate for this lack by taking on additional functions, such as social security services, banking services, management of housing stock and health control.

103. ***Staff proposal.*** In *Discussion Paper CGC 2002/37*, lack of commercial activity in remote Indigenous communities was noted. No proposal stemmed from this. However, the Commission has subsequently examined a possible cost weight to account for this lack of commercial activity. In June 2003, staff sought data and further evidence.

104. ***Further State views.*** The Northern Territory reaffirmed that remote community government was more costly to provide than non-remote community government, and provided some cost data to illustrate the disparity. It supplied per capita cost data (using its own service population estimates and NT Grants Commission data) for community governments in island, other remote, and non-remote locations.

105. ***Analysis.*** These data suggest that remote community government in the Territory costs approximately 74 per cent more to provide than non-remote, and that islands cost 21 per cent more than other remote areas. As we have no data from other States, we cannot reliably say whether this is also the case in other States. However, these data suggest that the maximum cost weight applicable to remote community populations would be between 1.5 and 2.0

106. The data lend support to the conceptual case that it is more costly to provide community government in remote areas, but it is not possible from the data to identify the specific causes. Higher dispersion and input costs would both be expected to inflate costs in remote areas. There is insufficient evidence to judge whether the nature of services

provided by community government in remote areas is substantially different from that in non-remote communities such as town camps.

107. The Commission concluded that there was insufficient evidence to warrant applying a cost weight to remote community populations because of higher costs incurred in providing functions not provided by the private sector.

108. **Commission decision.** There is a conceptual case that lack of commercial activity in remote Indigenous communities may increase the cost of remote community government. In this respect, the Northern Territory has presented data showing a large cost differential, although the reason for this is unclear. While a cost differential would appear to be material for the Northern Territory, we have no information of the extent, if any, to which this applies in other States. In these circumstances, the Commission does not think it is appropriate to assess an additional cost weight for remote Indigenous communities. It would be prepared to revisit this conclusion if more evidence were available.

Socio-demographic composition — community government component: mobility of the Indigenous population

109. **Preliminary State views.** The Northern Territory has argued that the Indigenous ‘service population’⁷ is the relevant population to assess due to its very high mobility. It provided evidence that this mobility inflates demand for services in remote and non-remote Indigenous communities. Queensland expressed similar views in relation to *Discussion Paper CGC 2002/10 Population Issues*.

110. **Staff proposal.** In the course of preparing the draft assessment paper, staff proposed to the Commission that a mobility cost weight be considered, using CHINS data to estimate relevant service population. Staff said that the Indigenous population is known to be very mobile, creating higher demand for services than the resident population figures would suggest, and boosting the demand in multiple communities. Staff said there is good evidence that Indigenous service providers cater to an estimate of the service population, using a variety of methods.

111. Staff sought evidence and cost data from the States via email in July 2003 to substantiate a possible cost weight for remote community government.

112. **Further State views.** *Draft Assessment Paper CGC 2003/73 Population Issues* sets out the States’ views and presents the evidence. The majority of States (New South Wales, Queensland, Western Australia, South Australia, the ACT and the Northern Territory) agreed that Indigenous mobility impacted on costs. However, many States expressed concerns about the proposed methods of measuring mobility factors and about the quality of the CHINS data.

⁷ Although there is no firm definition of ‘service population’ as yet, the concept of a ‘service population’ is that in the course of the year, there will be fluctuating levels of demand as transient populations impose demands on local services and facilities and as usual residents come and go.

113. *Analysis.* There is a strong conceptual case that Indigenous mobility has a significant impact on the cost of providing services. Remote communities are more likely to be affected by population fluctuations because they are typically smaller and because of the relatively poor access to services which itself contributes to mobility.

114. However, the actual cost impact of Indigenous mobility may be greater in locations that act as service destinations, such as rural and urban communities. These may not be predominantly Indigenous communities.

115. The Commission has concluded that mobility could have a significant impact on the capital costs (and therefore the depreciation costs) of States. It also has an impact, but probably smaller, on other operating costs. The categories most likely to be affected are Housing, Services to Indigenous Communities and possibly Health and Education.

116. The critical issue for this particular category is whether Indigenous mobility means that community government services to **remote** areas cost more to provide than to **non-remote** areas (and if so, how much more). We recognise that the cost impact may be difficult to quantify.

117. On the basis of the evidence provided so far, we are not confident that the relationship is simply between remote communities and the cost of remote community government. It appears to be a more complex and pervasive phenomenon that affects services to the total Indigenous population (not only those within predominantly Indigenous communities).

118. The Commission considers it likely that there is a hierarchy of service destinations which cater to flows of Indigenous visitors from more remote locations, and that there are other flows between communities which also contribute to the costs of services. We do not have sufficient data to trace those links or quantify those flows. It would therefore be premature to assign a cost weight to one aspect of a much broader picture. Further investigation will be needed to gain a clearer understanding of the impact of Indigenous mobility on costs.

119. We consider that there is insufficient good evidence at this stage to justify applying a cost weight in the community government component in the 2004 Review.

120. *Commission decision.* The Commission accepts that a conceptual case exists for recognising the impact of Indigenous mobility on costs. There is evidence that Indigenous mobility is high, and that some States incur costs due to this in varying ways. The cost impact is probably material for the Northern Territory, and possibly also for New South Wales, Western Australia, Queensland and South Australia. However, we are not able at this stage to assess a mobility factor because reliable data to do so are not available. If adequate evidence of the relationship between mobility and costs of providing particular services can be provided, and if these costs have not already been recognised in the assessment, we would be prepared to reconsider this decision.

121. *Socio-demographic composition — Method and results.* The Commission has reconsidered the data used to determine the relevant population for this factor. We propose to simplify the criteria and take only the Indigenous population for those locations

which are predominantly Indigenous. This is consistent with the proposed definition of ‘Indigenous community’⁸. For the draft assessment, the factor is based on ILOC data from the 2001 Census.

122. The general method used to calculate the factor will be different from that used in the 1999 Review. This is because smaller ILOCs with less than 1 000 persons will only be included if they are predominantly Indigenous.

123. Table 16 shows the calculation of factors based on the per capita number of remote and non-remote Indigenous people in predominantly Indigenous ILOCs in each State and Australia.

Table 16 SOCIO-DEMOGRAPHIC COMPOSITION FACTORS — COMMUNITY GOVERNMENT COMPONENT

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
Relevant non-remote population	1280	0	4477	89	614	0	0	362
Relevant remote population	1786	0	19137	14583	3246	0	0	37297
Total relevant population	3066	0	23614	14673	3860	0	0	37660
Total State population (2001 Census)	6 332 166	4 669 129	3 517 735	1 822 841	1 468 918	458 898	308 589	183 817
Relevant population per capita	0.00048	0.00000	0.00671	0.00805	0.00263	0.00000	0.00000	0.20488
2004 Review draft assessment factor	0.10961	0.00000	1.51977	1.82234	0.59494	0.00000	0.00000	46.38355
2003 Update community government SDC factor ^(a)	0.38198	0.013663	1.829174	1.42207	0.556101	0.062816	0.00000	33.41019

(a) Constructed from remote and non-remote SDC factors using weighted average of these.

124. **Updateability.** The Indigenous population data for this factor are sourced from the ABS 2001 Census, and cannot be updated until after the 2006 Census.

⁸ See paragraph 34.

REMOTE ESSENTIAL SERVICES COMPONENT

125. As noted in *Discussion Paper CGC 2002/37*, this component includes assessments of service delivery scale, dispersion and input costs influences on service delivery costs. These three disabilities are combined under the joint service delivery scale assessment.

Service delivery scale — remote essential services component

126. **1999 Review.** In the 1999 Review, the service delivery scale factor was assessed to reflect the higher costs incurred in having a relatively large number of staff in small delivery units. It differed from the dispersion factors which reflected the higher costs of communication, travel, freight and some allowances paid to staff in dispersed centres. The service delivery scale factor allows for:

- (i) the higher costs per unit of service in small outlets compared with larger ones, principally arising from higher staff to client ratios; and
- (ii) the effects of differences in States' patterns of settlement on the number of such small service outlets.

127. The factor was based on the number of 'Indigenous locations' (ILOCs) counted in the derivation of the relevant population for the remote community government component and on the national average cost of essential services per remote 'Indigenous location'.

128. The Commission decided that allowances should be included for dispersion and input costs. However, it was considered more appropriate to incorporate these influences within a joint factor rather than as separate factors. Hence, the service delivery scale factor in the remote essential services component was a joint factor covering these three types of disabilities.

129. **Preliminary State views.** Victoria questioned whether 1 000 persons constituted an appropriate threshold. The Northern Territory supported the assessment method for the category as a whole, and therefore this factor by implication. Other States made no specific comment on the assessment of this factor.

130. **Staff proposal.** In *Discussion Paper CGC 2002/37*, staff proposed that a joint service delivery scale assessment would continue to be made in the remote essential services component. Like the socio-demographic composition factors assessed in the other main component, the factor would be calculated using new ABS data, and a new definition of remoteness related to the Accessibility/Remoteness Index of Australia (ARIA+). The dispersion and input costs influences incorporated within the joint factor would be the same as those assessed in the other main component.

131. **Further State views.** Victoria again questioned the cut-off of 1 000 persons in determining the relevant population which may be subject to service delivery scale, and the Northern Territory reaffirmed its confidence in the overall assessment.

132. **Analysis.** Since the discussion paper was released, staff have investigated sources of data for identifying the number of Indigenous communities. The Commission has concluded that using ILOCs may be misleading because they cover the whole of Australia (not just Indigenous communities) and ILOCs take in Indigenous population regardless of the pattern of settlement. In other words, it covers situations where there are no Indigenous communities as well as those where there may be one or more communities.

133. The ABS' 2001 Communities Housing and Infrastructure Needs Survey (CHINS) provides data for all discrete Indigenous communities surveyed, by State and classified by remoteness. These data, plus information from the ABS on those communities which were identified but which failed to participate in the survey, may enable us to count the total number of communities accurately and to sort them by remoteness.

134. We note, however, that the ratio of discrete Indigenous communities to 'Indigenous locations' is quite different in different States. The choice of data source will therefore have a substantial impact on the assessment of needs. We have some concerns about both data sources. We have decided to use the number of ILOCs in remote areas to maintain consistency with the ILOC data used to determine the community government component's socio-demographic composition factor.

135. **Commission decisions.** The conceptual case for assessing service delivery scale, dispersion and input costs disabilities for the remote essential services component remains strong. Data are available to recalculate all three elements of the joint factor, in a way that addresses Victoria's concern about using 1 000 persons as a separate criterion. The Commission has decided to continue to use the numbers of remote Indigenous Locations, as in the 1999 Review. These numbers are reduced by changing the method to exclude Indigenous locations which were not predominantly Indigenous.

136. The Commission's decision is summarised in Table 17.

Table 17 COMMISSION DECISION — REMOTE ESSENTIAL SERVICES
COMPONENT: SERVICE DELIVERY SCALE FACTORS

Decision	Reason
To continue the present assessment approach. That is, to assess differences between States in the costs of delivering essential services to remote Indigenous locations, due to dispersion, input costs and service delivery scale influences.	The Commission decided that State expenses on providing essential services to remote Indigenous locations are directly influenced by differences in per capita costs of (a) wages, accommodation and electricity, (b) telecommunications, freight and travel, and (c) diseconomies of small scale incurred in delivering such services.
To change the Rural, Remote and Metropolitan Area (RRMA) classification to one based on the Accessibility / Remoteness Index of Australia (ARIA+) used by the ABS in the 2001 Census.	To produce a more current classification by location adopted by the ABS. The reasons for this are set out in <i>Draft Assessment Papers 2003/50 Socio-demographic Composition</i> and <i>2003/63, Dispersion</i> .

137. **Method and results.** The data used to calculate the service delivery scale factor are in part based on the 2001 Census data using the ARIA+ classification for the 2004 Review. The common cost and population data supporting the assessment of input costs and dispersion disabilities are used in the joint factor calculation. The 1999 Review method of calculating the factor will be updated for the 2004 Review.

138. The service delivery scale factor was calculated as follows:

- (i) apply the number of remote ‘Indigenous locations’ (ILOCs) counted for the relevant population;
- (ii) calculate the average recurrent cost of essential services per ILOC as total Australian expenditure on essential services (estimated as 30 per cent of total category expenditure in the last three years of the assessment review period) divided by the total number of ILOCs derived in (i) above;
- (iii) adjust the average cost for the effects of dispersion and input costs for each State by applying the dispersion and input cost factors assessed for remote community government to the standard cost per ILOC calculated at (ii);
- (iv) estimate the total standardised cost of essential services for each State by multiplying the number of ILOCs in each State and for Australia multiplied by its adjusted cost per ILOC;
- (v) express the results from (iv) in per capita terms for each State and Australia;
- (vi) calculate the total allowance per capita for each State and Australia; and
- (vii) calculate the raw factor by dividing each State’s standardised expenditure per capita by the Australian figure.

139. Table 18 and Table 19 give the details of the calculation of the service delivery scale factor. The adjustment to the standard costs per ILOC for dispersion and input costs (step (iii) above) was achieved by applying the dispersion factors to the allowance per remote ILOC for dispersion, and the input costs factors were applied to the cost per remote ILOC for input costs.

Table 18 REMOTE ESSENTIAL SERVICES COMPONENT — CALCULATION OF THE STANDARD COST PER REMOTE INDIGENOUS LOCATION, 2001-02

		Allocation per remote ILOC
		\$
Average expenses on Services to Indigenous Communities over 3 years to 2001-02 (\$)	197 716 528	
Estimated expenses on remote essential services (30% of category) (\$)	29 657 479	
Estimated cost of essential services dispersion costs	11.410%	13 590
Estimated input costs	70.000%	83 374
Estimated balance cost per remote ILOC	18.590%	22 142
Total	100.000%	119 106

140. The factors used for the draft assessments are shown in Table 19. The same factors are used for all years.

Table 19 REMOTE ESSENTIAL SERVICES —SERVICE DELIVERY SCALE FACTORS

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
No. of remote ILOCs	5	0	43	82	21	0	0	98	249
Cost related to dispersion disabilities (\$)	85 943	82 667	81 498	82 080	81 282	77 421	84 319	90 842	83 374
Cost related to wages, rent and electricity disabilities (\$)	13 009	12 771	14 112	15 327	13 617	13 216	12 208	29 428	13 590
Balanced cost per ILOC in remote area (\$)	22 142	22 142	22 142	22 142	22 142	22 142	22 142	22 142	22 142
Total cost per ILOC (\$)	121 094	117 580	117 751	119 549	117 042	112 778	118 669	142 411	119 106
Total cost per State (\$'000's)	605	0	5 063	9 803	2 458	0	0	13 956	29 657
Standardised cost per capita	0.09	0.00	1.38	5.11	1.62	0.00	0.00	69.80	1.5132
Ratio	0.06025	0.00000	0.91162	3.37726	1.06956	0.00000	0.00000	46.12878	1.07514
2004 Review factors	0.05604	0.00000	0.84790	3.14123	0.99481	0.00000	0.00000	42.90492	1.00000
2003 Update factors	0.13516	0.00000	1.02132	2.77886	0.62941	0.16802	0.00000	42.94798	1.00000

141. *Updateability.* The remote Indigenous location data for this factor are derived from the 2001 Census, and cannot be updated until after the 2006 Census. However, the input costs and dispersion cost influences will be updated annually.

LAND RIGHTS COMPONENT

Land rights — land rights component

142. *1999 Review.* The land rights factor was assessed to take account of the additional costs incurred by the Northern Territory arising from the operation of the Commonwealth Aboriginal Land Rights (Northern Territory) Act 1976 (ALRA).

143. *2004 Review.* *Draft Assessment Paper CGC 2003/69 Land Rights* 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 would be assessed.

144. Native title-affected expenses for this category have been estimated to be \$0.13 million, which represents 0.06 per cent of the category standard. Table 20 shows the 2004 Review disability factors implied by those levels of costs.

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

Table 20 LAND RIGHTS FACTORS , LAND RIGHTS COMPONENT

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
1997-98	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	98.58552
1998-99	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	98.02771
1999-2000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	97.58712
2000-01	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	97.45037
2001-02	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	98.02489

NATIVE TITLE COMPONENT

Native title — native title component

146. **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.

147. **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.

148. Native title-affected expenses for this category in 2001-02 have been estimated to be \$4.15 million, which represents 1.98 per cent of the category standard. Table 21 shows the 2004 Review calculation of the factor for 2001-02 implied by those expenses.

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

Table 21 NATIVE TITLE FACTORS, 2001-02

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
Administration expenses - actual	500	2 480	20 206	14 859	6 718	204	0	4 853	50 024
Compensation expenses - actual	765	0	0	34	0	0	0	4 650	5 449
Total expenses	1 265	2 480	20 206	14 893	6 718	204	0	9 503	55 473
Factors	0.06730	0.18047	1.94495	2.74309	1.56301	0.15232	0.00000	16.79242	1.00000

ISOLATION COMPONENT

Isolation — isolation component

150. **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 2.15 per cent of expenses in this category.

151. **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.

152. 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 1.08 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	0.00000	68.27218

153. 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

154. Table 23 summarises the proposed Services to Indigenous Communities expenses assessment for the 2004 Review.

Table 23 SERVICES TO INDIGENOUS COMMUNITIES — PROPOSED ASSESSMENT STRUCTURE FOR THE 2004 REVIEW, 2001-02

Component	Component weight	Factors	Basis of calculation
	%		
Fixed costs	1.90	Input costs Administrative scale	General method. General method.
Community Government	64.99	Dispersion Input costs Socio-demographic composition	General method. General method. Based on relevant Indigenous populations of non-remote and remote (including very remote) Indigenous locations (ILOCs).
Remote essential services	30.00	Service delivery scale	Based on the number of predominantly Indigenous locations in remote and very remote areas. Incorporates assessment of input costs and dispersion disabilities.
Land Rights	0.06	Land rights	General method.
Native title	1.98	Native title	General method.
Isolation	1.08	Isolation	General method.

Calculating the category factor

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

Table 24 SERVICES TO INDIGENOUS COMMUNITIES EXPENSES —
DERIVATION OF CATEGORY FACTOR, 2001-02

Factors	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
Fixed costs (FC) (component weight = 1.90%)								
Administrative scale (s)	0.36059	0.49323	0.65240	1.24837	1.57681	5.06072	0.00000	26.16454
Input costs (ic_fc)	1.03498	0.99044	0.97446	0.98186	0.97135	0.92001	1.01306	1.09897
Component factor	0.36917	0.48324	0.62887	1.21249	1.51510	4.60564	0.00000	28.44365
Cont to category factor	0.00701	0.00918	0.01195	0.02304	0.02879	0.08751	0.00000	0.54043
Community government (CG) (component weight = 64.99%)								
Dispersion (d)	0.96763	0.95166	1.01879	1.06678	0.99034	0.97143	0.95007	2.48488
Input costs (ic_oth)	1.03077	0.99148	0.97746	0.98444	0.97488	0.92856	1.01130	1.08952
Socio-demographic composition (sdc)	0.10961	0.00000	1.51977	1.82234	0.59494	0.00000	0.00000	46.38355
Component factor	0.06180	0.00000	0.85502	1.08183	0.32429	0.00000	0.00000	67.43345
Cont to category factor	0.04016	0.00000	0.55564	0.70303	0.21074	0.00000	0.00000	43.82163
Remote essential services (RES) (component weight = 30.00%)								
Service delivery scale (sd) ^(a)	0.05604	0.00000	0.84790	3.14123	0.99481	0.00000	0.00000	42.90492
Component factor	0.05604	0.00000	0.84790	3.14123	0.99481	0.00000	0.00000	42.90492
Cont to category factor	0.01681	0.00000	0.25437	0.94237	0.29844	0.00000	0.00000	12.87147
Land rights (LRTS) (component weight = 0.06%)								
Land Rights (l)	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	98.02489
Component factor	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	98.02489
Cont to category factor	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.05391
Native title (NT) (component weight = 1.98%)								
Native title (nt)	0.06730	0.18047	1.94495	2.74309	1.56301	0.15232	0.00000	16.79242
Component factor	0.06755	0.18114	1.95212	2.75320	1.56877	0.15288	0.00000	16.85433
Cont to category factor	0.00134	0.00359	0.03865	0.05451	0.03106	0.00303	0.00000	0.33372
Isolation (ISO) (component weight = 1.08%)								
Isolation (iso)	0.05107	0.10737	0.17783	0.74776	0.56469	3.49490	0.00000	68.27218
Component factor	0.05238	0.11013	0.18239	0.76694	0.57916	3.58451	0.00000	70.02267
Cont to category factor	0.00057	0.00119	0.00197	0.00828	0.00625	0.03871	0.00000	0.75624
Category factor	0.06589	0.01396	0.86258	1.73123	0.57528	0.12925	0.00000	58.37741

(a) This factor includes an allowance for dispersion and input costs.

Calculation formula

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

$$\begin{aligned} \text{FC} &= 0.0190 (\text{ic_fc} * \text{s}) \\ \text{CG} &= 0.6499 ([\text{ic_oth} + \text{d} - 1] * \text{sd}) \\ \text{RES} &= 0.3000 [\text{sd}] \\ \text{LRTS} &= 0.0006 (1) \\ \text{NT} &= 0.0198 (\text{nt}) \\ \text{ISO} &= 0.0108 (\text{iso}) \end{aligned}$$

$$\text{Category factor} = \text{FC} + \text{CG} + \text{RES} + \text{LRTS} + \text{NT} + \text{ISO}.$$

Standardised Expenses

157. Table 25 compares the category factors assessed for the 2004 Review draft assessment with those for the 2003 Update.

Table 25 SERVICES TO INDIGENOUS COMMUNITIES — CATEGORY FACTORS, 2004 REVIEW AND 2003 UPDATE

Category factors	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
2004 Review draft assessment	0.06589	0.01396	0.86258	1.73123	0.57528	0.12925	0.00000	58.37741
2003 Update	0.26023	0.04656	1.14443	1.48154	0.49849	0.28414	0.00000	48.56896

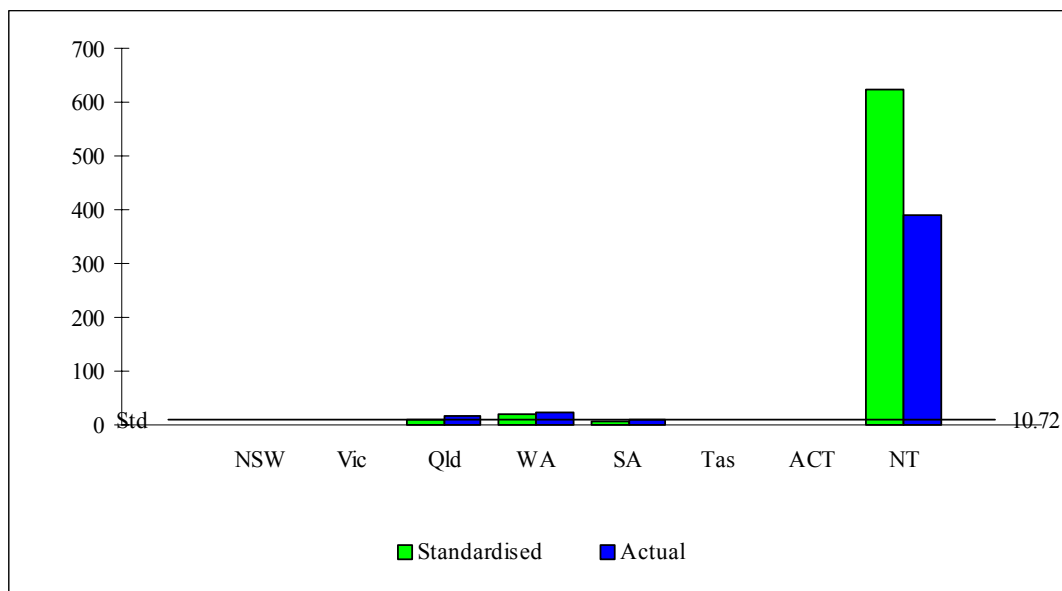
158. Table 26 shows the standardised expenses assessed for this category for 2001-02 in the draft assessment, compared with those assessed in the 2003 Update.

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

	Standard	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
Actual Expenses									
\$ per capita	10.72	0.84	1.15	15.50	24.21	11.35	0.10	0.00	391.30
2003 Update - standardised expenses									
\$'000		22 594	2 955	54 920	37 155	9 898	1 758	0	126 962
\$ per capita	13.07	3.40	0.61	14.96	19.37	6.52	3.71	0.00	635.00
2004 Review draft assessment - standardised expenses									
\$'000		4 689	726	33 925	35 584	9 361	655	0	125 067
\$ per capita	10.72	0.71	0.15	9.24	18.55	6.16	1.38	0.00	625.53

159. Figure 2 shows the gross expenses per capita for 2001-02 in terms of standardised, estimated and gross standard expenses.

Figure 2 SERVICES TO INDIGENOUS COMMUNITIES — GROSS EXPENSES PER CAPITA — STANDARDISED, ESTIMATED AND STANDARD, 2001-02



ANALYSIS

160. 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.

161. Compared with an equal per capita assessment, the draft assessment redistributed \$138.5 million to Western Australia and the Northern Territory from the other States, \$9.8 million more than in the 2003 Update.

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

- (i) The impact of the socio-demographic composition assessment has changed because the factor no longer includes populations of small non-majority Indigenous locations. This means States with a greater proportion of relevant Indigenous populations (those for which Indigenous people outnumber the non-Indigenous population) will attract larger notional grants. In particular, the grants of the Northern Territory have increased from this change to the assessment method.
- (ii) Because of the reduction in the number of remote locations assessed in the service delivery scale factor, those States with fewer remote ILOCs have had their notional grants reduced. The impact of this change in the assessment has been greatest for New South Wales.

163. 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 EFFECT OF ASSESSMENT ON GRANT DISTRIBUTION — SERVICES TO INDIGENOUS COMMUNITIES

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total ^(a)
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Contribution to 2003 Update relativities^(b)	-57.6	-54.5	6.1	10.8	-8.9	-4.0	-3.7	111.8	128.7
Composition	5.7	5.3	-0.6	-1.0	0.9	0.4	0.4	-11.0	12.5
Assessment	-14.4	-1.9	-12.8	5.1	1.2	-0.7	0.0	23.4	29.8
Interaction	1.3	0.2	1.2	-0.5	-0.2	0.0	0.0	-2.0	2.7
Estimated contribution to draft 2004 Review relativities^(b)	-65.0	-51.0	-6.1	14.4	-7.0	-4.2	-3.3	122.3	136.7
Total change	-7.4	3.6	-12.2	3.6	1.9	-0.3	0.4	10.5	19.9

(a) Total redistribution. (b) Assuming same pool and a constant population. The contribution of the category as defined in the 2004 Review has been calculated for the 2003 Update.

USER CHARGES

Description of the category

164. The Services to Indigenous Communities category covers user charges raised by States from the provision of services to Indigenous communities, including water and electricity charges.

Proposed assessment in the 2004 Review

165. **Staff proposals.** In *Discussion Paper CGC 2002/37*, staff proposed no change be made to the method used to assess Services to Indigenous Communities user charges for the 2004 Review.

166. **State views.** No States commented specifically on the user charges assessment. However, the Northern Territory supported the existing assessment method in general.

167. **Commission decisions.** User charges for this category now appear to be virtually non-existent (Table 1 shows that user charges have been zero since 1998-99). Furthermore, user charges that would have been paid by communities to power and water authorities are now treated as out of scope. The Commission has decided to cease the assessment of user charges altogether for this category. The Commission's decision is summarised in Table 28.

Table 28 COMMISSION DECISION — SERVICES TO INDIGENOUS COMMUNITIES USER CHARGES

Decision	Reason
To cease the differential assessment of user charges associated with this category.	User charges are out of scope for this assessment.

168. With the cessation of the differential user charges assessment for this category, the notional grants of those States with higher proportions of Indigenous people in remote areas have increased marginally — in particular, Queensland, Western Australia and the Northern Territory.