



COMMONWEALTH GRANTS COMMISSION

DRAFT ASSESSMENT PAPER CGC 2003/49

MINING, FUEL AND ENERGY

Prepared for the Commission's 2003 Conferences on Draft Assessments

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NOTE

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

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INTRODUCTION

1. This paper presents a draft assessment for the Mining, Fuel and Energy category for the 2004 Review. It builds on staff proposals set out in *Discussion Paper CGC 2002/38 Services to Industry* and State comments on them provided at the 2002 Conferences and in rejoinder submissions.

2. Table 17 on page 21 provides a summary of the assessment proposed for this category in the 2004 Review.

THE 1999 REVIEW ASSESSMENT

Category definition

3. In the 1999 Review, the Mining, Fuel and Energy category included expenses on administration, regulation, planning and support services in the areas of mining, fuel and energy affairs concerning coals of all grades, oil, natural gas, liquefied petroleum gases and refinery gases, electricity and nuclear energy research. More specifically, the category included expenses on:

- (i) activities relating to prospecting, mining and mineral resources development, in addition to metal bearing minerals; and
- (ii) advances and bounties to foster mineral developments and production; and price control, research, dissemination of information, measures designed to reduce consumption or increase production of mineral products and support in the form of advances, grants, or subsidies.

4. There were no specific purpose payments associated with this category in the 1999 Review.

Importance of the category

5. Table 1 shows the gross expenses standards for this category in the 2003 Update. In 2001-02, the category standard was \$15.33 per capita; this represented 0.31 per cent of total gross standard expenses.

Table 1 MINING, FUEL AND ENERGY — GROSS STANDARD EXPENSES AND USER CHARGES, 1996-97 TO 2001-02

	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02
Gross standard expenses (\$pc)	12.91	14.16	18.20	17.85	16.17	15.33
% of total gross standard expenses	0.35	0.37	0.40	0.39	0.33	0.31
Gross standard user charges (\$pc)	1.52	1.40	1.86	1.86	1.71	1.75
% of category gross standard expenses	11.7	9.8	10.2	10.4	10.5	11.4

6. Table 2 shows that, compared with an equal per capita assessment, this category redistributed \$87.5 million in the 2003 Update. The redistribution reduced the grants of New South Wales, Victoria, Queensland, South Australia and the ACT.

Table 2 EFFECT OF ASSESSMENT ON GRANT DISTRIBUTION — MINING, FUEL AND ENERGY, GST RELATIVITIES

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Redistribution
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Contribution to 2003 Update relativities	-44.1	-36.0	-0.6	68.5	-4.6	1.9	-2.2	17.0	87.5

7. The factor which had the largest impact on grant shares was the economic environment factor. Compared with an equal per capita assessment, it redistributed \$60.3 million in the 2003 Update assessment. The redistribution reduced the grants of New South Wales, Victoria, South Australia, Tasmania and the ACT.

Expenses assessment

8. Table 3 shows the expenses assessment structure that was used in the 1999 Review.

Table 3 1999 REVIEW ASSESSMENT STRUCTURE — MINING FUEL AND ENERGY

Expenses component	Component weight	Factors	Basis of calculation
Scale-affected expenses	16.53	Input costs	General method, with weights of 80% for wage, 2% for accommodation and 1% for electricity.
		Administrative scale	General method.
Regulation training and research in the public interest	48.44	Dispersion	General method, based on mining employment distribution.
		Economic environment	Based on per capita number of mining locations weighted by 60% and per capita value of mining production weighted by 40%.
		Input costs	General method, with weights of 60% for wages, 2% for accommodation and 1% for electricity.
Research for profit and promotion	32.30	None	Equal per capita.
Land rights	0.26	Land rights	Based on the additional costs in the Northern Territory arising from the Commonwealth <i>Aboriginal Land Rights (Northern Territory) Act 1976</i> .
Isolation	0.84	Isolation	General method.
Native title administration	1.63	Native title administration	The additional costs of administering the Commonwealth legislation associated with the <i>Native Title Act (as amended 1998)</i> assessed using expenditure in the three years 1996-97 to 1998-99.

User charges assessment

9. User charges for this category were assessed by the equal per capita method.

PROPOSED CATEGORY DEFINITION AND ASSESSMENT STRUCTURE 2004 REVIEW

Proposed category definition

10. In *Discussion Paper CGC 2002/3: Scope and Structure of the Equalisation Budget*, Commission staff proposed discontinuing the Regulatory and Other Services category and allocating regulatory expenses to relevant functional categories. This would better align the Commission's category structure with the ABS GFS collection, which does not separately identify regulation expenses but combines them with other State expenses relating to each service. The *Draft Assessment Paper 2003/77: Equalisation Budget* confirms the Commission's decisions:

- (i) to include expenses relating to labour and employment affairs and miscellaneous services previously included in the Regulatory and Other Services category in the General Public Services category; and
- (ii) to discontinue the previous Regulatory and Other Services category.

11. None of the Regulatory and Other Services expenses have been reallocated to this category. An examination of the GFS Mining, Fuel and Energy classification confirms that most of the expenses incurred in regulating this industry were already included in the category. If there were any Mining, Fuel and Energy regulatory expenses in the Regulatory and Other Services category, they would have been small and therefore difficult to find and separate out.

12. In *Discussion Paper CGC 2003/02: Treatment of Commonwealth Revenue Payments* Commission staff proposed to change the treatment of two minor payments — Regional Minerals Program and National Business Information Services — from exclusion to inclusion. In *Draft Assessment Paper 2003/78 Treatment of Specific Purpose Payments*, the Commission confirmed it will treat both payments by the inclusion method.

Extra needs for underground mining

13. ***Preliminary State views.*** *Tasmania* said the extra costs associated with underground mining should be incorporated into the assessment. It argued that underground mining was one of the most dangerous types of mining and thus leads to higher costs relating to safety and regulation in the public interest.

14. ***Staff proposal.*** In *Discussion Paper CGC 2002/38 Services to Industry* Commission staff said, given the size of the category, the additional complexity of the proposal was not justified.

15. ***Further State views.*** *Queensland, South Australia, the Northern Territory* opposed the proposal to make a separate assessment for underground mining operations. While reiterating its support for its proposal, *Tasmania* acknowledged it would add

complexity to the assessment. It also said data, which would be needed to measure the extra costs involved, would not be readily available.

16. **Analysis.** While States may incur higher costs relating to the regulation and provision of services to underground mines, there are no data on the extent of the additional costs. The data needed to make an assessment are not readily available. Table 1 shows that this category comprised 0.31 per cent of total gross expenses in 2001-02. This proposal would increase the complexity of the category but, given its small size, it is unlikely that the additional complexity would be material.

17. **Commission decision.** The Commission acknowledges that a conceptual case has been made for assessing the extra regulation costs associated with underground mining. While the Commission acknowledges the conceptual case, the evidence indicates that the impact on equalisation would be small. The Commission does not consider that the additional complexity that assessing the extra regulation costs would introduce to be warranted and it does not propose to assess them in the 2004 Review.

Category structure and component weights

18. *Draft Assessment Paper CGC 2003/60 Administrative Scale* sets out the Commission's decisions on the administrative scale assessment. These decisions have implications for this category.

19. A fixed costs component will be introduced, replacing the 1999 Review scale-affected expenses component. Minimum fixed costs of \$3 million per State were assessed for this category. This represented 8.65 per cent of the category standard in 2001-02.

20. The *Discussion Paper CGC 2003/05 Treatment of Economic Development Assistance* set out the Commission's proposed treatment of economic development expenses. These decisions have implications for this category.

21. The 1999 Review regulation, training and research in the public interest and the research for profit and promotion components will be replaced by two new components: regulation, and economic development.

22. The regulation component will comprise administration expenses (other than the minimum fixed costs) and regulation expenses. It will include expenses on:

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

23. The economic development component will comprise assistance targeted to specific firms or regions. It will include State expenses whose purpose is improve the

market position and/or the financial circumstances of specific firms or regions, including expenses on:

- (i) delivering training designed to provide information to industry producers — including the provision of extension programs, and the production and distribution of industry publications — to increase their use of improved production techniques and the quality of their products;
- (ii) undertaking pure and applied research, including market research, which supports the mining industry as a whole;
- (iii) grants and subsidies paid to encourage firms to establish, expand or move from other States or nations;
- (iv) infrastructure for the specific benefit of firms or a region;
- (v) price support and marketing schemes directly aimed at firms or a region;
- (vi) schemes to encourage or restrict output of particular products so that the market position of firms or a region are improved; and
- (vii) advertising and other promotional programs which directly support a firm, the whole industry or a region.

24. In the 1999 Review, the scale-affected expenses, land rights, isolation and native title administration components comprised 19 per cent of the category. Using expense information provided by States, the remainder of the category was apportioned 60 per cent to the regulation, training and research in the public interest component and 40 per cent to the research for profit and promotion component.

25. The proportion of expenses affected by input costs, administrative scale, dispersion, land rights, isolation and native title have been estimated using the general approaches adopted in the 2004 Review.

26. The regulation component comprises administrative expenses and expenses on regulation and it has, therefore, a narrower scope than the former regulation training and research in the public interest component. On the basis of expense information provided by the States in the previous review and taking account of the changes in the content of each component, the Commission has used judgement to decide the allocation of the remaining expenses between the regulation and economic development components. The Commission proposes to allocate 40 per cent to the regulation component (to reflect its narrower scope) and 60 per cent to the economic development component.

27. Table 4 summarises the Commission's decisions relating to the definition of the category, its assessment structure and the component weights for 2001-02.

Table 4 COMMISSION DECISIONS CATEGORY DEFINITION, ASSESSMENT STRUCTURE AND COMPONENT WEIGHTS, 2001-02

Decision	Reason
Definition. Changed from 2003 Update to include two specific purpose payments	Reflects Commission decisions in Draft Assessment Papers on SPPs and the scope of the equalisation budget.
Treatment of SPPs:	
<ul style="list-style-type: none"> • Regional Minerals Program • National Business Information Services 	<p>Changed from exclusion (previously a minor payment) to inclusion.</p> <p>Changed from exclusion (payment previously deemed to reflect needs; minor payment) to inclusion.</p>
Assessment structure and component weights^(a):	
Fixed costs: 8.65%	This component weight has decreased because the assessment of administrative scale is based on fixed costs only (in the 1999 Review the fixed costs element accounted for about 16 per cent of the category standard). The discontinuation of the Regulatory and Other Services category has not resulted in an allocation of scale affected expenses formerly included in that category among the services to industry categories, because all of those regulatory type expenses have been allocated to the General Public Services category. Refer below for further detail.
Regulation: 35.02%	Expenses component derived by splitting the balance of category expenses 40/60 per cent between regulation and economic development, after the proportions of category expenses on fixed costs, land rights, isolation and native title have been determined.
Economic Development: 52.54%	See above.
Land rights: 0.26%	Proportion of category expenses estimated using the general approach adopted — based on the additional costs in the Northern Territory arising from the Commonwealth <i>Aboriginal Land Rights (Northern Territory) Act 1976</i> .
Isolation: 0.47%	Component derived by the general method.
Native title: 3.06%	Component derived by the general method.

(a) Component weights for 2001-02.

FIXED COSTS COMPONENT

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

Administrative scale — fixed costs component

29. **1999 Review method.** The administrative scale factor was assessed to account for differences in per capita costs of providing central office functions and whole of State services. Scale-affected expenses for this category were assessed as \$4.8 million, of which \$2 million was considered as fixed costs and \$2.8 million as variable costs. The scale-affected expenses component represented 16.53 per cent of expenses in this category.

30. **2004 Review. Draft Assessment Paper CGC 2003/60 Administrative Scale** discusses the issues raised by the States regarding the assessment of this factor. The paper sets out the Commission's decisions on the general method of assessment adopted for the 2004 Review and on the size of the fixed costs component in each category. The States did not raise issues specific to this category, other than those previously covered concerning the abolition of the Regulation and Other Services category.

31. The Commission has decided that an administrative scale factor 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.

32. The administrative scale factors for this category, shown in Table 5 have been calculated using the 2004 Review general method. Fixed costs for this category have been estimated to be \$3 million per State, and represent 8.65 per cent of the category standard.

Table 5 ADMINISTRATIVE SCALE FACTORS — FIXED COSTS COMPONENT

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

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

Input costs — fixed costs component

34. **1999 Review method.** 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.

35. **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 proposals for the general method of assessment to be adopted for the 2004 Review and on the size of the standard expense proportions in each category for wages and salaries. *Draft Assessment Paper CGC 2003/79 Input Costs — Electricity and Accommodation* discusses the issues raised by the States regarding the assessment of input costs relating to accommodation and electricity. The paper 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.

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

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

Table 6 INPUT COSTS FACTORS — FIXED COSTS COMPONENT

	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

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

REGULATION COMPONENT

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

Dispersion — regulation component

40. **1999 Review method.** 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 dispersion of mining employment on State expenses associated with telecommunication, freight, travel and staffing on-costs.

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

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

Telephone	Freight	Air Travel	Road Travel		Remote Removals	Locality Allowances
			Inter Regional	Local		
0.01436	0.00201	0.00648	0.01954	0.01778	0.00000	0.00319

42. **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.

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

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

Table 8 DISPERSION COST WEIGHTS — REGULATION COMPONENT, 2004 REVIEW

Telecommunication		Freight, General	Air Travel	Road Travel		Repairs and Maintenance	Remote Staff Turnover	Locality Allowances
Voice	Non-voice			Inter Regional	Local			
0.0122	0.0014	0.0014	0.0066	0.0232	0.0394	0.0000	0.0000	0.0092

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

Table 9 DISPERSION FACTORS ^(a) — REGULATION COMPONENT, 2004 REVIEW

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
1997-98	0.93462	0.91569	1.02676	1.36168	0.99609	0.97093	0.90883	1.55239
1998-99	0.93438	0.91546	1.02650	1.36134	0.99584	0.97068	0.90860	1.55200
1999-2000	0.93425	0.91533	1.02635	1.36114	0.99569	0.97054	0.90847	1.55177
2000-01	0.93419	0.91527	1.02629	1.36106	0.99563	0.97048	0.90841	1.55167
2001-02	0.93415	0.91523	1.02625	1.36100	0.99559	0.97044	0.90837	1.55161

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

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

Input costs — regulation component

47. **1999 Review.** The following standard expense proportions were applied to each of the factors assessed for this component (the former regulation, training and research in the public interest component):

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

48. **2004 Review.** The input costs factors for the regulation component of this category, shown in Table 10, have been calculated according to the general method outlined in *Discussion Paper CGC 2003/04 Input Costs* and in *Draft Assessment Paper CGC 2003/79 Input Costs — Electricity and Accommodation*. The standard expense proportions

applied were 60 per cent for wages and salaries, 2 per cent for accommodation and 1 per cent for electricity.

Table 10 INPUT COSTS FACTORS — REGULATION COMPONENT, 2004 REVIEW

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
1997-98	1.02348	0.99052	0.98644	0.98735	0.98044	0.94630	1.00588	1.09165
1998-99	1.02484	0.99128	0.98500	0.98476	0.97900	0.94447	1.00909	1.08822
1999-2000	1.02694	0.99065	0.98285	0.98626	0.97634	0.93950	1.01237	1.08472
2000-01	1.02738	0.99170	0.98144	0.98622	0.97545	0.93736	1.01180	1.08271
2001-02	1.02659	0.99255	0.98049	0.98705	0.97843	0.93714	1.00957	1.08011

Economic environment — regulation component

49. ***1999 Review method.*** The economic environment factor was assessed to account for differences in the size, complexity and importance of the sector in each State and the affect these influences had on the costs incurred in providing regulation, training and research in the public interest.

50. For the Mining, Fuel and Energy category, the economic environment factors were based on:

- (i) the per capita numbers of mining locations in each State; and
- (ii) the per capita value of mining production in each State.

51. The factor was assessed by weighting the mining locations sub-factor by 60 per cent and the value of production sub-factor by 40 per cent, and combining the results.

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

- (i) *ABS, Special Data Collection of Locations by State/Territory/Australia by all ANZIC Divisions and Subdivisions within Division, September 1997 and September 1998.* Data on mining locations as at September 1997 were used for the assessment years up to 1997-98. Data on locations as at September 1998 were used for the assessment years 1998-89 to 2001-02.
- (ii) *Australian National Accounts, State Accounts, Main Tables, 2001-02, Cat No 5220.0.*

53. ***Preliminary State views.*** No State commented on this assessment.

54. **Staff proposals.** In *Discussion Paper CGC 2002/38*, Commission staff proposed:

- (i) continuing to assess an economic environment factor for this component; and
- (ii) retaining the 1999 Review assessment method.

55. Commission staff also noted that the ABS data series, which provided the number of locations sub-factor in the 1999 Review, had been changed. In 2001, the ABS changed the way it collected data to make better use of information available from business activity statements. The new data are not comparable with its previous business register data. The new data are single business entities for taxation purposes. This change meant that some multi-location entities (both within States and across States) have been counted as a single business. This change means the number of mining establishments in each State are no longer available from the ABS. Commission staff asked States whether they could provide the data.

56. **Further State views.** *Tasmania* said it was not able to provide industry location information similar to that formerly provided by the ABS. The *Northern Territory* said its data were not comprehensive and would be costly to collect. It also doubted whether locations data supplied by the States would be comparable.

57. **Analysis.** The costs of administering and regulating the mining industry are influenced by the number of mining locations — especially the costs related to inspections of individual establishments. The sector's contribution to economic output also influences State expenses on regulation — States are likely to incur higher costs for industries that are important to the State economy. The Commission considers the number of locations is likely to be the larger of the two influences. For this reason, it gave the number of locations sub-factor a bigger weight in the factor calculation in the 1999 Review.

58. The Commission considers that number of locations is still the bigger influence and it should continue to be given more weight in the factor calculation. As no State has commented on these weights, it proposes to continue to weight the number of locations sub-factor by 60 per cent and the value of production sub-factor by 40 per cent.

59. Commission staff have tried to obtain data similar to that formerly contained in the ABS Business Register, but were not successful. Neither the ABS nor the States can provide the data. The ABS's new data is the best alternative. It has been used for the draft assessment.

60. **Commission decision.** The Commission accepts that the conceptual case has been established for assessing an economic environment factor. The evidence is that the costs of regulating industry are influenced by the number of mining establishments and their output. The evidence indicate that these influences have an impact on State budgets which the Commission considers to be material. The Commission has decided to assess an economic environment factor. The Commission's decision is set out in Table 11.

Table 11 COMMISSION DECISION — ECONOMIC ENVIRONMENT FACTOR

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

61. **Method and results.** The ABS has provided information on the number of single-State entities by industry sub-division, by State, for June 2001. Single-State entities are business entities located within one State. These entities are a mix of employing and non-employing businesses. Multi-State location business (business entities with locations in more than one State) are not included in the data.

62. Table 12 compares the mining locations sub-factor calculated using these data with sub-factor calculated for the 2003 Update (using superseded ABS establishments data). There are large differences in the two mining locations sub-factors. In the absence of Business Register data, the single-State entities are the best source of data for this factor.

Table 12 MINING LOCATIONS SUB-FACTOR — 2004 REVIEW AND 2003 UPDATE

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
2003 Update	0.65736	0.41496	1.05582	3.79996	0.88001	0.60221	0.29142	1.69598	1.00000
2004 Review draft	0.64810	0.45876	1.17401	3.39136	0.75895	0.89972	0.16090	3.11602	1.00000

63. Table 13 sets out calculations for the economic environment factor. The number of locations sub-factor is calculated using ABS single-State entity data at June 2001. The value of production sub-factor has been calculated using ABS value of production data.

Table 13 REGULATION COMPONENT — ECONOMIC ENVIRONMENT FACTORS, 2001-02

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
Number of locations sub-factor									
Number of locations (mining)	1 532	707	1 360	2 558	469	100	33	119	6 878
Number of locations per capita	0.00023	0.00015	0.00037	0.00133	0.00031	0.00021	0.00010	0.00060	0.00035
Locations sub-factor based on single-State entities 2004 Review ^(a)	0.65736	0.41496	1.05582	3.79996	0.88001	0.60221	0.29142	1.69598	1.00000
Locations sub-factor assessed in the 2003 Update	0.64810	0.45876	1.17401	3.39136	0.75895	0.89972	0.16090	3.11602	1.00000
Value of production sub-factor									
Value of production (mining) (\$m)	4 341	3 017	8 200	14 782	1 063	183	2	1 979	31 004
Value of production per capita (\$pc)	654	621	2234	7706	700	387	6	9898	1582
Value of production sub-factor ^(b)	0.41322	0.39283	1.41224	4.87142	0.44248	0.24448	0.00392	6.25698	1.00000
Economic environment factor for 2004 Review ^(c)	0.55970	0.40611	1.19839	4.22854	0.70500	0.45912	0.17642	3.52038	1.00000

(c) = 0.6*(a) + 0.4*(b)

64. **Reality check.** The factors assessed for all States are in line with expectations. Western Australia and the Northern Territory have the largest factors because they have the highest per capita shares of Australian mining production.

65. **Updateability.** Data are be available to update the two sub-factors annually.

ECONOMIC DEVELOPMENT COMPONENT

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

LAND RIGHTS COMPONENT

Land rights — land rights component

67. **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)*.

68. **2004 Review.** *Draft Assessment Paper CGC 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.

69. Land rights affected expenses for this category have been estimated to be \$715 000, which represents 0.26 per cent of the category standard in 2001-02. Table 14 shows the 2004 Review disability factors implied by those levels of costs.

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

Table 14 LAND RIGHTS FACTOR — 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

ISOLATION COMPONENT

Isolation — isolation component

71. **1999 Review.** The isolation factor was assessed to account for differences in per capita costs of service provision for some States because of their economic and geographical isolation from the main interstate sources of supply in South Eastern Australia. It reflected the combined effect of isolation on labour-related costs, interstate freight costs, professional infrastructure costs, commercial goods costs, airfares, travel allowances and other travel-related subsidies. The isolation-affected expenses component represented 0.19 per cent of expenses in this category.

72. **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.

73. The isolation factors for the isolation component, shown in Table 15, have been calculated according to the 2004 Review general method. Isolation-affected expenses for this category have been estimated to be 0.47 per cent of the category standard.

Table 15 ISOLATION FACTORS — ISOLATION COMPONENT

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

74. 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.

NATIVE TITLE COMPONENT

Native Title — native title component

75. **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.

76. **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.

77. Native title-affected expenses for this category in 2001-02 have been estimated to be \$8.498 million, which represents 3.06 per cent of the category standard for 2001-02.

78. The factors, set out in Table 16, and the component weight determined by the expense proportion will be updated annually.

Table 16 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	204	4 853	50 024
Compensation expenses - actual	765	0	0	34	0	0	0	4 650	5 449
Total expenses	1 265	2480	20 206	14 893	6 718	204	203	9 503	55 473
Factors	0.0673	0.1805	1.9450	2.7431	1.5630	0.1523	0.2231	16.7924	1.00

SUMMARY OF RESULTS

79. Table 17 summarises the assessment structure for the 2004 Review.

Table 17 MINING, FUEL AND ENERGY, ASSESSMENT STRUCTURE FOR THE 2004 REVIEW, 2001-02

Expense component	Component weight	Factors	Basis of calculation
Fixed costs	8.65	Administrative scale	General method.
		Input costs	General method, with weights of 80% for wage, 2% for accommodation and 1% for electricity.
Regulation	35.02	Dispersion	General method, based on mining employment distribution.
		Economic environment	Based on per capita number of mining locations weighted by 60% and per capita value of mining production weighted by 40%.
		Input costs	General method, with weights of 60% for wages, 2% for accommodation and 1% for electricity.
Economic development	52.54	None	Equal per capita.
Land rights	0.26	Land rights	Based on the additional costs in the Northern Territory arising from the Commonwealth <i>Aboriginal Land Rights (Northern Territory) Act 1976</i> .
Isolation	0.47	Isolation	General method.
Native title	3.06	Native title	The additional costs of administering the Commonwealth legislation associated with the <i>Native Title Act (as amended 1998)</i> and related compensation expenses.

Derivation of category factor

80. Table 18 summarises the components, component weights and disability factors assessed for this category for 2001-02. It shows how the category factor is derived.

Table 18 MINING, FUEL AND ENERGY — DERIVATION OF CATEGORY FACTOR, 2001-02

Factors	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
Fixed costs (FC) (component weight = 8.65%)								
Administrative scale	0.40404	0.55267	0.73102	1.39881	1.76684	5.67060	2.53083	13.42007
Input costs	1.03498	0.99044	0.97446	0.98186	0.97135	0.92001	1.01306	1.09897
Component factor	0.41955	0.54919	0.71470	1.37795	1.72186	5.23416	2.57231	14.79678
Cont. to category factor	0.03629	0.04750	0.06182	0.11919	0.14894	0.45275	0.22251	1.27992
Regulation (REG) (component weight = 35.02%)								
Dispersion	0.93415	0.91523	1.02625	1.36100	0.99559	0.97044	0.90837	1.55161
Input costs	1.02656	0.99252	0.98046	0.98702	0.97840	0.93711	1.00954	1.08008
Economic environment	0.55970	0.40611	1.19839	4.22854	0.70500	0.45912	0.17642	3.52038
Component factor	0.54111	0.37417	1.13130	4.11058	0.64511	0.40629	0.15841	4.64403
Cont. to category factor	0.18952	0.13105	0.39624	1.43972	0.22595	0.14230	0.05548	1.62656
Economic development (ED) component weight = 52.54%)								
EPC Factor	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000
Cont. to category factor	0.52537	0.52537	0.52537	0.52537	0.52537	0.52537	0.52537	0.52537
Land Rights (LRTS) component weight = 0.26%)								
Land rights	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	0.25290
Isolation (ISO) (component weight = 0.47%)								
Isolation	0.05107	0.10737	0.17783	0.74776	0.56469	3.49490	1.51842	68.27218
Component factor	0.05107	0.10737	0.17783	0.74776	0.56469	3.49490	1.51842	68.27218
Cont. to category factor	0.00024	0.00050	0.00084	0.00351	0.00265	0.01643	0.00714	0.32088
Native Title (NT) (component weight = 3.06%)								
Native title administration	0.06730	0.18047	1.94495	2.74309	1.56301	0.15232	0.22312	16.79242
Component factor	0.06730	0.18047	1.94495	2.74309	1.56301	0.15232	0.22312	16.79242
Cont. to category factor	0.00206	0.00552	0.05952	0.08394	0.04783	0.00466	0.00683	0.51385
CATEGORY FACTOR	0.72331	0.68815	1.00507	2.42126	0.92829	1.12269	0.80983	4.59521

Calculation formula

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

FC	=	0.0865 (s * ic_fc)
REG	=	0.3502 (e * [d + ic_OTH - 1])
ED	=	0.5254
LRTS	=	0.0026 (l)
ISO	=	0.0047 (iso)
NT	=	0.0306 (nt)
Category Factor	=	FC + REG + ED + LRTS + ISO + NT

Standardised expenses

82. Table 19 compares the category factors derived for the 2004 Review draft assessment with the 2003 Update.

Table 19 MINING, FUEL AND ENERGY — CATEGORY FACTORS, 2004 REVIEW AND 2003 UPDATE

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
2004 Review draft assessment	0.72331	0.68815	1.00507	2.42126	0.92829	1.12269	0.80983	4.59521
2003 Update	0.64859	0.60700	1.01858	2.83736	0.83143	1.20220	0.63842	5.63165

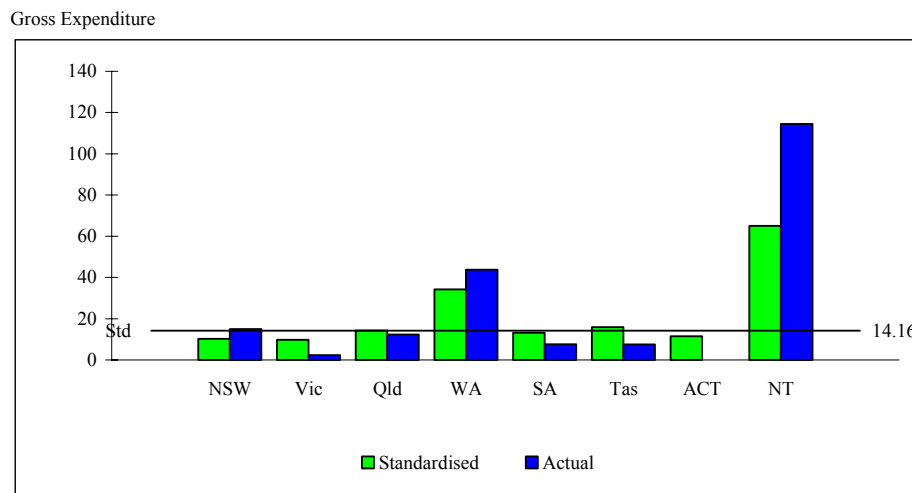
83. Table 20 presents for 2001-02, the draft assessment standardised expenses and compares them with the 2003 Update results.

Table 20 MINING, FUEL AND ENERGY — ACTUAL AND STANDARDISED AND EXPENSES, 2001-02

	Standard	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
Actual Expenses									
\$ per capita	14.16	14.95	2.25	12.36	43.76	7.56	7.51	0.00	114.44
2003 Update - Standardised Expenses									
\$'000		66 048	45 189	57 329	83 457	19 361	8 723	3 159	17 266
\$ per capita	15.33	9.95	9.31	15.62	43.51	12.75	18.43	9.79	86.36
2004 Review Draft Assessment - Standardised expenses									
\$'000		70 842	48 799	54 240	58 978	20 441	7 647	3 734	12 793
\$ per capita	14.16	10.67	10.05	14.78	30.75	13.46	16.16	11.57	63.98

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

Figure 1 MINING, FUEL AND ENERGY — GROSS EXPENSES PER CAPITA — STANDARDISED, ESTIMATED AND STANDARD, 2001-02



ANALYSIS

85. Table 21 shows the redistribution of grants resulting from the assessment in the 2003 Update and the Draft Assessment. It also shows the sources of change.

86. Compared to an equal per capita assessment, the Draft Assessment redistributed \$59.6 million away from New South Wales, Victoria, Queensland, South Australia and the ACT to the other States, \$27.9 million less than in the 2003 Update. This

is because the category now has a much larger component (the economic environment component) assessed by the equal per capita method.

87. The main reasons for the change in grants were changes to assessment methods and data, including changes to the component weights. In particular, the expansion of the economic environment type component assessed by the equal per capita method and the reduction of the regulation type component which is assessed differentially is a key driver of change. This assessment effect has been the main cause of the increase in notional grants for those States which have an advantage in providing mining industry services — notably New South Wales, Victoria and the ACT.

88. 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 21 MINING, FUEL AND ENERGY — EFFECT OF ASSESSMENT ON GRANT DISTRIBUTION, GST RELATIVITIES

	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)	-44.1	-36.0	-0.6	68.5	-4.6	1.9	-2.2	17.0	87.5
Composition	4.5	3.7	0.1	-7.0	0.5	-0.2	0.2	-1.8	9.0
Assessment	10.4	8.2	-0.8	-15.7	2.2	-0.9	1.0	-4.6	21.9
Interactions	-1.1	-0.8	0.1	1.6	-0.2	0.1	-0.1	0.5	2.3
Contribution to 2004 Review Draft Assessments relativities^(b)	-30.2	-25.0	-1.2	47.4	-2.2	1.0	-1.0	11.1	59.6
Total Change	13.9	11.1	-0.6	-21.1	2.5	-1.0	1.1	-5.8	28.6

(a) Total redistribution.

(b) Assuming same pool and a constant population.

USER CHARGES

89. **1999 Review.** In the 1999 Review, user charges for this category were assessed by the equal per capita approach.

90. **State views.** No State commented on the user charges assessment for this category.

91. **Commission decision.** The quantum of user charges for this category is small and remains policy influenced. Given that no State has opposed the assessment, the Commission has decided to continue to assess user charges for this category by the equal per capita method.