



COMMONWEALTH GRANTS COMMISSION

DRAFT ASSESSMENT PAPER CGC 2003/32

AGED AND DISABLED SERVICES

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 Aged and Disabled Services category for the 2004 Review. It builds on the staff proposals set out in *Discussion Paper CGC 2002/32, Welfare Part One: Aged and Disabled Services* and State comments provided in the main and rejoinder submissions.

1999 REVIEW ASSESSMENT

Scope of the category

2. The expenses covered by this category in the 2004 Review were classified in the 1999 Review to two expense categories: Aged and Disabled Services and Nursing Homes. The Aged and Disabled Services category included all expenses that were specifically designed to meet the needs of aged and disabled people. The category included expenses on home visiting and housekeeping services; delivered meals services; and services for the developmentally and intellectually disabled. It also covered expenses on residential institutions for elderly and physically and mentally disabled persons, day care centres and training centres for the disabled.

3. The Nursing Homes category comprised expenses on chronically ill, frail, disabled or convalescing patients or senile in-patients requiring long-term and regular nursing care. It included expenses on State-run or funded nursing homes which provide long-term care involving regular basic nursing care primarily for persons aged 65 years and over.

4. User Charges revenue for Aged and Disabled Services consisted of miscellaneous fees and charges and was assessed on an equal per capita basis. There was no user charges assessment for nursing homes because revenues from Commonwealth Nursing Home Benefits and other fees and charges were netted off expense.

5. Table 1 shows the gross standard expenses for these two categories in the 2003 Update. In 2001-02, the Aged and Disabled Welfare category represented 3.39 per cent of total gross standard expenses. In 2001-02, the Nursing Homes category represented 0.24 per cent of total gross standard expenses.

Table 1 AGED AND DISABLED WELFARE, AND NURSING HOMES —
GROSS STANDARD EXPENSES, 2003 UPDATE

	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02
Aged and disabled welfare						
\$pc	98.40	109.68	137.94	145.97	157.83	169.97
% of total gross standard expenses	2.67	2.84	3.03	3.15	3.25	3.39
Nursing homes						
\$pc	10.43	10.12	11.69	12.61	12.35	12.12
% of total gross standard expenses	0.28	0.26	0.26	0.27	0.25	0.24

Source: CGC 2003 Update, Working Papers, Vol. 4.

6. The specific purpose payments (SPP) associated with the Aged and Disabled category were *Home and Community Care* and *Disabilities Services*, both treated by inclusion. There were no SPPs associated with the Nursing Homes category and the residential aged care subsidies provided by the Commonwealth to residents of aged care facilities are treated as out of scope.

7. In the 2003 Update, the two categories redistributed \$73.4 million from Queensland, Western Australia and the ACT to the other States. The factors with the greatest impact on grant shares were the socio-demographic composition factors, which redistributed \$71.9 million to Queensland, Western Australia, the ACT and the Northern Territory from the other States.

Structure of the assessment

8. The 1999 Review assessment structure for the Aged and Disabled category is shown in Table 2. The 1999 Review assessment structure for the Nursing Homes category is shown in Table 3.

Table 2 1999 REVIEW ASSESSMENT STRUCTURE — AGED AND DISABLED WELFARE

Expenditure component	Component weight	Factors	Basis of calculation
	%		
Scale-affected expenditure	2.42	Input costs	General method with weights of 80% for wages, 2% for accommodation and 1% for electricity.
Aged services	62.49	Administrative scale	General method.
		Dispersion	General method.
		Input costs	General method with weights of 70% for wages, 2% for accommodation and 1% for electricity.
Disability services	35.00	Socio-demographic composition	Use weights derived from 1997 Home and Community Care (HACC) data with differential weights for Aboriginality (a 15 year differential); an additional cost weight for Aboriginal people in remote locations (1.25) and a cost weight (1.5) for low English fluency.
		Dispersion	General method.
		Input costs	General method with weights of 70% for wages, 2% for accommodation and 1% for electricity.
		Socio-demographic composition	Use weights derived from the Commonwealth-State Disability Agreements (CSDA) with additional weights for Aboriginality (combined use and cost weight of 2) and additional weight for indigenous people in remote locations (1.5) and a cost weight (1.25) for low English fluency.
Isolation	0.09	Cross-border	General method.
		Isolation	General method.
User charges			EPC

Table 3 1999 REVIEW ASSESSMENT STRUCTURE — NURSING HOMES

Expenditure component	Component weight	Factors	Basis of calculation
	%		
Scale-affected expenditure	0.64	Input costs	General method with weights of 80% for wages, 2% for accommodation and 1% for electricity.
Nursing home residents	99.06	Administrative scale	General method.
		Dispersion	General method.
		Input costs	General method with weights of 80 % for wages, 2% for accommodation and 1% for electricity.
		Socio-demographic composition	Covers age and Indigeneity. The factor is based on the non-Indigenous population aged 70 and over and on the Indigenous population aged 55 and over.
Isolation	0.30	Isolation	General method.

PROPOSED CATEGORY DEFINITION AND ASSESSMENT STRUCTURE

Definition of category

9. **1999 Review.** In the 1999 Review, the Aged and Disabled Services category included all expenses that were specifically designed to meet the needs of aged and disabled people but it excluded nursing homes and concessions for council rates.

10. **Preliminary State views.** In response to proposals in the Commission's *Discussion Paper CGC 2001/12 Scope and Structure of the Standard Budget*, the Northern Territory argued that including nursing home expenses in this category would better reflect the way services are provided and administered by the States. It noted that the target population for nursing homes and aged care were the same and clients needs and service provision were also similar.

11. The ACT opposed including expenses on concessions for council rates in this category because it said that these expenses should be assessed in association with the services to which they are linked. No other State commented on matters of scope in the main submissions.

12. **Staff proposals.** *Discussion Paper CGC 2002/32 Aged and Disabled Services* said that the States' expenditure on nursing homes was relatively small and that demand disabilities relating to nursing homes and to other aged services were similar. Thus, they could be assessed together.

13. The paper maintained the proposal to include concessions for pensioners for council rates in the Aged and Disabled Services category because there did not appear to be any other service with which they could logically be assessed. It was noted that expenses associated with other pensioner concessions for electricity, transport and water and sewerage would be included in the relevant economic services categories.

14. **Further State views.** States did not provide further comments on these issues.

15. **Analysis.** Including expenses previously assigned to a separate nursing homes category in the Aged And Disabled Services category has merit. This is because it enables needs relating to most residential and community based services for the aged to be assessed in one category, recognising that there is a degree of substitutability.

16. According to the Commission’s functional classification of services, municipal rates concession expenses are most logically included in the Aged and Disabled Services category. This is because council rate concessions are provided to a subset of the population to which aged and disabled services are directed — people who receive the age pension, bereavement allowance, carer payment, disability support pension, mature age allowance and parenting payment (single).

17. **Commission decision.** The Commission decided that there is a strong conceptual case for including expenses on nursing homes and council rates concessions in the Aged and Disabled Services category. Including these expenses enables a more integrated approach to the assessment of needs associated with provision of services to the aged population and to people with disabilities.

18. The Commission decision is shown in Table 4.

Table 4 COMMISSION DECISIONS — CATEGORY DEFINITION

Decision	Reason
The definition of this category has changed to include expenses on nursing homes services and municipal rate concessions.	These changes enable an integrated assessment of needs associated with provision of services to the aged population and to people with disabilities.

Treatment of Commonwealth residential aged care subsidies

19. **1999 Review.** In the 1999 Review, the Commission treated these payments as out of scope because it considered them to be a Commonwealth responsibility.

20. **Preliminary State views.** Victoria argued that Commonwealth residential aged care subsidies, which are paid by the Commonwealth to residents of aged care facilities, should be treated by inclusion. Victoria said that this treatment would be

consistent with the Commission's treatment of Commonwealth payments for Non-government Schools.

21. **Staff proposals.** *Discussion Paper CGC 2002/32 Aged and Disabled Services* proposed to continue treating the Commonwealth residential aged care subsidy payments to residents of aged care facilities (including nursing homes) by exclusion as the Commonwealth has primary responsibility for these services and States have a minor role in funding nursing homes. The services are largely provided through private and community organisations with Commonwealth assistance. The paper said that, if it were evident that the non-government sector with the assistance of Commonwealth funding lacked the capacity to provide nursing home services, leaving States to provide services, then specific disabilities would be introduced into the assessment.

22. **Further State views.** Tasmania, in its rejoinder submission, supported the Commission's proposal to exclude Commonwealth payments to non-government providers.

23. **Commission decision.** The Commission decided that Commonwealth residential aged care subsidy payments to residents of aged care facilities would be treated by exclusion for the 2004 Review because it noted that States have a minor role in the provision of aged care facilities. This is because the Commonwealth takes primary responsibility for the providing them.

24. The Commission decision is summarised in Table 5.

Table 5 COMMISSION DECISION — TREATMENT OF COMMONWEALTH RESIDENTIAL AGED CARE SUBSIDIES

Decision	Reason
The Commonwealth residential aged care subsidy payments to residents of aged care facilities to be treated by exclusion.	Residential aged care facilities are largely funded by Commonwealth and provided by non-government organisations. The States have a minor role in funding nursing home services.

Assessment structure

25. **1999 Review.** In the 1999 Review, the services delivery components assessed for the Aged and Disabled Welfare Services category were aged care services and disability services. Nursing homes were assessed as a separate category and municipal rates concessions were assessed within the Other Concessions category.

26. **Preliminary State views.** The Northern Territory argued that States have a much bigger role in the provision of community based care services. Hence the needs should be assessed separately for residential aged care and community based age care services.

27. None of the States commented on the proposed assessment of municipal rate concessions.

28. **Staff proposal.** *Discussion Paper CGC 2002/32 Aged and Disabled Services* proposed that nursing homes and aged care services be assessed in a single component, because:

- (i) State expenses on nursing homes were relatively small; and
- (ii) the client characteristics and disabilities associated with these community based and residential care services for the aged were sufficiently similar to make feasible assessing nursing homes and aged services within one expense component.

29. **Further State views.** The Northern Territory reiterated its previous argument against assessing residential and community based care services as a single component on the basis that States' expenditure levels and the demand disabilities relating to these services were different. No other State commented on this proposal.

30. **Analysis.** Evidence available from AIHW, States and the Productivity Commission indicates that aged care and disability services continue to be offered to people with different demand characteristics. Aged care services are directed to the population aged 60 and over whereas disability services are focussed on the population aged under 65. This distinction in terms of age coverage is sufficient to warrant assessment of disabilities associated with these two services in separate components.

31. Expenses on community based care for the aged and expenses on residential services could be assessed in separate components because the age ranges covered by these services differ — 60 years and over for community care and 70 years and over for residential care. However, we consider that there is sufficient commonality in the range of disabilities affecting these two services that assessment in one component is appropriate. Any difference in use or cost rates between residential and community care services can be accounted for within the assessment.

32. Municipal rates concessions are provided to a different population than aged or disabled services. They are provided to both aged and disabled pension recipients who own their own home, as well as pensioners who own their own homes who are single parents, carers or recipients of bereavement or mature age allowances.

33. Because expenses associated with municipal rate concessions comprise ten per cent of the category and because they are paid to target populations which differ from those of other components within this category, there is a conceptual case for assessing municipal rates concessions in a separate component.

34. **Commission decisions.** The Commission accepts that there is a conceptual case to assess this category using three service delivery components:

- (i) aged care services,
- (ii) disability services, and
- (iii) municipal concessions.

35. The Commission accepts there is a conceptual case to assess aged care services and disability services as separate components because there was evidence available from AIHW, the States and the Productivity Commission that indicated that these services were provided to people with different demand characteristics. It also accepts that there is a conceptual case to assess municipal rates concessions as a separate component because available data showed that municipal rate concessions are paid to target populations that differ from those of other services within this category.

36. The Commission accepts that there is a conceptual case that there is sufficient commonality in the range of disabilities affecting residential aged care and community based care to make assessment in one aged care component feasible.

Components weights

37. Component weights for the service delivery components — aged care services (both HACC and residential care), disability services and municipal rates concession — have been estimated using GFS data and data published by the Productivity Commission. Component weights for the fixed costs and isolation components were estimated using the general method for the administrative scale and isolation assessments.

38. The Commission decisions regarding the assessment structure for the Aged and Disabled Services category are summarised in Table 6.

Table 6 COMMISSION DECISION —ASSESSMENT STRUCTURE AND COMPONENT WEIGHTS

Decisions	Reason
Community based and residential based aged care services will be assessed in a single aged care services component.	State expenses on nursing homes are small. Disabilities associated with community based and residential based aged care services are sufficiently similar to make feasible assessing them within one expense component.
Disability services will be assessed in a separate component.	Evidence available from AIHW, States and the Productivity Commission indicated that disability services were provided to people with demand characteristics different to those of users of other services included in this category
Expenses on municipal rate concessions will be assessed as a separate component.	States provide municipal rates concessions to a population different from that to which aged or disabled services are provided.
Assessment structure <ul style="list-style-type: none"> • fixed costs: 0.87 % • aged services: 32.05% • disability services: 57.44% • municipal rate concessions: 9.56% • isolation: 0.06 	ABS GFS data and data obtained from the Productivity Commission were used to determine the weights for the service delivery components. The weights for the fixed cost and isolation components were derived according to the general methods adopted for those assessments.

FIXED COSTS

39. Consistent with the general assessment framework adopted for all expense categories, the fixed costs component recognises that in providing a full range of State type services to their populations, each State needs to establish a basic administrative structure. That structure needs to cover the costs of core head office functions of departments and services that must be provided for the whole of the State, the costs of which are inevitably greater in per capita terms to less populous States. Two factors will be assessed for this component: administrative scale and input costs.

Administrative Scale

40. **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 \$5.2.million, of which

\$2.3 million was considered as fixed costs and \$2.9 million as variable cost. The scale-affected expenses component was 2.42 per cent of expenses in this category.

41. **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.

42. 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.

43. The administrative scale factors for this category, shown in Table 7, have been calculated using the 2004 Review general method. Fixed costs for this category have been estimated to be \$3.45 million per State. The Commission also assessed extra fixed costs of \$0.58 million for the Northern Territory to recognise the extra costs it incurs through the dual policy development tasks it must perform because of the high proportion of Indigenous people in its population. The fixed cost component represented 0.87 per cent of the category standard in 2001-02.

Table 7 ADMINISTRATIVE SCALE FACTORS — FIXED COSTS COMPONENT

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
1997-98	0.31523	0.43090	0.58181	1.10045	1.34115	4.21269	6.43423	24.80853
1998-99	0.31519	0.43144	0.57959	1.09557	1.34956	4.27186	6.46359	24.66816
1999-2000	0.31520	0.43172	0.57712	1.09334	1.35841	4.32577	6.47631	24.55729
2000-01	0.31513	0.43182	0.57440	1.09275	1.36965	4.38067	6.48052	24.52287
2001-02	0.31551	0.43157	0.57085	1.09232	1.37971	4.42813	6.49357	24.66745

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

Input costs — fixed costs component

45. **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 fixed costs component, those factors were applied to the following proportions standard expenses:

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

46. **2004 Review.** *Discussion Paper CGC 2003/04 Input Costs* sets out 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* sets out 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.

47. The Commission considered that the prices of labour, accommodation and electricity used in providing aged care and disability services differ across States for reasons beyond the control of individual States. It has therefore decided that input costs will be assessed for this category.

48. The input costs factors for the fixed cost component of this category, shown in Table 8 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 8 INPUT COSTS FACTORS — FIXED COSTS EXPENSES COMPONENT

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
1997-98	1.03302	0.98766	0.98151	0.98039	0.97094	0.93703	1.00802	1.09279
1998-99	1.03482	0.98866	0.97958	0.97693	0.96902	0.93459	1.01228	1.08820
1999-2000	1.03762	0.98781	0.97671	0.97892	0.96546	0.92795	1.01666	1.08353
2000-01	1.03819	0.98920	0.97482	0.97886	0.96427	0.92509	1.01589	1.08084
2001-02	1.03714	0.99034	0.97354	0.97996	0.96824	0.92479	1.01291	1.07737

49. 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.

AGED CARE SERVICES

50. The services that fall within this component are community care and residential care aged care facilities such as hostels and nursing homes. Community based care aims to prevent premature entry into residential care and to maintain older people in the community through the provision of support services. The largest community care program is Home and Community Care (HACC), which includes Community Options Projects (COPS)¹. HACC funds a broad range of services including home help, transport, meals on

¹ Which is called Linkages in Victoria.

wheels, centre day care and respite services. Within HACC, COPS provides case managed packages for more highly dependent individuals. The Commonwealth and States jointly fund HACC. The Commonwealth provides 60 per cent of funding and the remainder comes from the States (39 per cent) and service providers.

51. Residential care is provided in nursing homes and hostels. Nursing home, or high-level care, is provided for frail older people who require 24 hour nursing care and substantial assistance with personal care. Hostel, or low level residential care, is provided for less frail older people and covers a wide range of accommodation, personal care, occasional and nursing services. These services are largely provided by non-government organisations while States provide a small proportion. The Commonwealth provides subsidies and approves the distribution of residential places according to the population profile of areas.

52. Socio-demographic composition, dispersion and input costs factors have been assessed for this component.

Socio-Demographic Composition

53. ***1999 Review.*** In the 1999 Review, a socio-demographic composition factor was assessed in the aged care services component to take account of differences in the socio-demographic composition of States' population. The relevant population for this expenditure component was defined as the population aged 60 and over. Australian standard use rates were applied for the age ranges 60-64, 65-69, 70-74, 75-79, 80-84 and 85 years and over derived from HACC client data for 1993. In addition, different use and cost weights were applied to the following population groups:

- (i) Use weights were applied to Indigenous people based on the use rates for non-Indigenous people 15 years older. Thus the use rates for Indigenous people aged 60 plus were made equivalent to those for the non-Indigenous people aged 70 and over.
- (ii) A cost weight of 1.25 was applied to the Indigenous population living in remote areas. This weight was applied to reflect the different cost of providing services to Indigenous people because of location and their affiliation to traditional culture. This weight was based on investigation of the cost of HACC services in different regions.
- (iii) A cost weight of 1.5 was applied to all people with low English fluency aged 60 and over to account for the additional costs associated with translating and interpreting services.
- (iv) A use weight of 1.5 was applied to single people aged 60 and over (defined as people assigned individual incomes in the Census) to allow for their higher demand for aged care services.

54. For the socio-demographic composition factor in the Nursing Homes category, the relevant population was defined as the non-Indigenous population aged 70 and

over and the Indigenous population aged 55 and over. The socio-demographic composition factor was calculated using the following method:

- (i) a relevant population for each State was calculated using the Indigenous population aged 55 and over and the non-Indigenous population aged 70 and over;
- (ii) this relevant population was then divided by the total State population to obtain a ratio for each State; and
- (iii) each State's ratio was divided by the Australian ratio to obtain its factor.

55. ***Preliminary State views.*** The Northern Territory argued that the appropriate age differential between Indigenous and non-Indigenous population should be 20 years, setting 50 years and over as the benchmark for the Indigenous population and aged 70 years and over for non-Indigenous people.

56. The Northern Territory argued for an increase in the present weight for remote Indigenous people because of the higher cost of providing services to Indigenous people following their traditional lifestyle.

57. New South Wales and Victoria argued that the current weight applied to the people with non-English speaking background understated the disabilities they experienced. Tasmania proposed discounting the weight for NESB people because there were economies of scale involved in providing services to large numbers of people with a similar cultural and linguistic background.

58. New South Wales and Tasmania argued for an additional weight for aged people with low-income status and a higher weight for persons living alone to account for greater demand for services by this group.

59. ***Staff proposals.*** In *Discussion Paper CGC 2002/32 Aged and Disabled Services*, staff recognised that there were differences in use of age care services by the Indigenous and non-Indigenous population groups. They proposed setting the target population for aged care services for the Indigenous population at age 50 and over to account for the Indigenous population's experience of age related diseases at younger ages and its lower life expectancy. It was proposed that the age thresholds for non-Indigenous Australian remain the same as those used in the 1999 Review. The thresholds were over 70 years for residential services and over 60 years for HACC services.

60. The paper proposed using HACC data to review the existing cost weight applied to Indigenous people living in remote areas.

61. States were asked to provide evidence of the additional costs incurred by the culturally and linguistically diverse (CALD) population over and above the costs of interpreting and translating services required by the low English fluency population. The intention was to use this information to recalculate the low English fluency weight and

possibly expand it to include additional costs associated with cultural and linguistic diversity and concentrations of CALD groups.

62. The paper noted that there was a strong correlation between low income and lone person status. Statistics showed that a greater proportion of lone persons aged 60 and over had a low-income level². Staff proposed to continue to apply a weight to single persons rather than persons with low-income status. The present use weight for this sub-population would be reviewed using 2001 Census data.

63. **Further State views.** Queensland, Western Australia, and the Northern Territory supported the Commission's proposal to expand the target population to include Indigenous people aged 50 years and over in its assessment. The Northern Territory further suggested applying the same age differentials for community based care and for residential care.

64. Queensland argued that the cost weight applied to Indigenous people living in remote areas should be increased from 1.25 to 1.4. It said that its average expenditure per Indigenous person aged over 50 years was 1.4 times greater than average expenditure per non-Indigenous person aged over 70 years. It further noted that data on the additional cost of service provision to Indigenous people in remote areas, compared with urban or rural areas, was difficult to obtain. The Northern Territory argued that the current weight of 1.25 applied to remote Indigenous population was insufficient and the weight should be equivalent to the cost weight of 1.5 used in the disability services component.

65. New South Wales restated its argument for an increased weight to reflect the specialist aged care services it provided to culturally and linguistically diverse population groups, as illustrated during its workplace discussions. It noted, however, that no current information was available on the cost of CALD specific services relative to the cost of mainstream services. Victoria opposed Tasmania's proposal for discounting the weight for large CALD groups. It argued that providing services to people with diverse cultural and linguistic backgrounds involved dealing with different social, cultural and economic issues and this imposed significant extra costs. The Northern Territory said that the present weight applied for low English fluency was adequate.

66. Queensland argued against expanding the coverage of the cost weight applied to CALD people beyond the costs associated with English fluency. In addition, it argued that the use weight for CALD populations should be set below one because of under-representation of this group amongst users of aged-care services.

67. Queensland stated that low-income status, either measured by the number of pension recipients, or using Census income data, should be used as the indicator of demand. Tasmania and the Northern Territory supported the Commission's view that lone person status was a stronger indicator of demand for aged care services than low-income status.

68. Tasmania also argued for an additional weight for older people with long term unemployment status to reflect their high dependency on State aged care services.

² ABS Older people, Australia: *A Social Report*, 4109.0, 1999, p 78-85, Table 4.6 and 4.7.

69. **Analysis.** Separate datasets are available from which use weights can be calculated for residential care services and community care services³. Rather than combine the two datasets to derive composite use weights for aged care services, we have decided to assess separate sub-factors for the two services and to add these sub-factors (weighted by expense proportions) to derive an overall factor for this component.

70. The key issues raised by States in their submissions were:

- (i) selection of the relevant age at which Indigenous people require aged care services;
- (ii) whether the cost weight applied to Indigenous people in remote areas should be revised;
- (iii) whether the cost weight applied to the people with low English fluency should be revised and whether a broader assessment of costs associated with CALD populations should be undertaken; and
- (iv) whether lone person status or low income was the best measure of socio-economic status.

71. Defining the age at which Indigenous people require aged care services is relevant to the calculation of both sub-factors and is discussed first below. The remaining issues are associated with assessment of the sub-factor for community care services. In each of the following sections, the issue is discussed and the Commission's decisions recorded.

72. **Analysis — Indigenous age definition — residential and community care.** When planning aged care for Indigenous people the Commonwealth maintains a twenty year age differential between the non-Indigenous benchmark of 70 years and Indigenous benchmark of 50 years⁴. The *Report of the Indigenous Funding Inquiry* noted that 'the age at which service providers consider Indigenous people to be aged differs, but it begins in the 45 to 55 years range. This is because Indigenous people experience the diseases and disabilities of aging at a younger age and have a lower life expectancy'⁵.

73. Table 9 shows the younger age profile of the Indigenous population. In the 2001 Census, only 1.7 per cent of Indigenous people were aged 70 years and over compared with 9.1 per cent of the general population.

74. The difference between the age distribution of the Indigenous population and that of the total population supports the adoption of a younger population of Indigenous people for aged care services.

³ For community care services, data are available from the HACC National Minimum Data Set. For residential services, data are available from the AIHW publication: *Residential Aged Care in Australia 2000-01*.

⁴ AIHW, *The Health and Welfare of Australian Aboriginal and Torres Strait Island People*, 2001.

⁵ CGC, *Report on Indigenous Funding Inquiry 2001*, pp. 140-141.

Table 9 INDIGENOUS POPULATION DISTRIBUTION, 2001 CENSUS

Indigenous status	50-69 years	Proportion of total population	70 and over	Proportion of total population
	'000	%	'000	%
Indigenous population	39.2	8.6	7.7	1.7
Total population	3 629.0	19.5	1 171.0	9.1

Source: 2001 Census

75. Table 10 shows the age distribution of use of HACC clients by Indigenous and non-Indigenous status.

Table 10 AGE DISTRIBUTION OF USE OF HACC BY INDIGENOUS STATUS, 2001

Age group (years)	Proportion of total use by Indigenous clients	Proportion of total use by Non-Indigenous clients	Rate ratio
	%	%	
Less than 50	20.9	11.0	1.9:1
50-70	32.2	18.2	1.8:1
70 and over	46.9	70.8	0.7:1

Source: *Report on Government Services 2003*, Productivity Commission, Tables 12A,,32, AIHW, *Residential aged care in Australia 2000-01*, Table 2.18.

76. Table 10 shows that Indigenous people use HACC services at a younger age with around 53 per cent of Indigenous users being under 70 years in comparison to 29 per cent of non-Indigenous people.

77. **Commission decision.** The Commission accepts that a strong conceptual case exists for treating the Indigenous population as aged at a younger age than for the general population. It considers that this conceptual case is supported by wide ranging data on the health status and disease profile of the Indigenous population. The Commission is also satisfied that this age differential between the Indigenous and non-Indigenous populations has a material effect on State budgets. It has decided for the assessment of residential aged care services to apply the use rates recorded for the general population aged over 70 years to the Indigenous population aged 50 and over. It has also decided to set 50 years as the starting point for Indigenous use of community aged care services.

78. **Analysis — use cost weight for Indigenous population —community care.** Table 11 shows that Indigenous people access HACC services at a slightly higher level than their population share.

Table 11 INDIGENOUS CLIENTS AS A PROPORTION OF TOTAL RESIDENTIAL CARE AND HACC CLIENTS, 2002

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
	%	%	%	%	%	%	%	%	%
Indigenous people aged 50 and over as a proportion of total population	2.2	0.6	3.1	3.3	1.6	3.3	0.7	53.2	2.4
Indigenous people as a proportion of HACC clients	7.2	1.1	3.2	3.9	1.4	1.1	0.6	43.5	3.7

Source: HACC, *National Minimum Data Set, 2001-02 Annual Bulletin*, Table 4.
Report on Government Services 2003, Productivity Commission, Table 12A.16 and 12A.12.

79. Table 12 shows HACC estimated per capita expenditure on Indigenous and non-Indigenous clients in 2000-01. It shows that Indigenous clients incurred, on average, lower costs compared with the non-Indigenous population. These figures do not support an additional cost weight for the general Indigenous population.

Table 12 ESTIMATED EXPENDITURE ON HACC SERVICES, 2000-01

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
Expenditure per aged Indigenous person ^(a) (\$ per capita)	614.0	645.6	329.9	457.9	638.6	118.0	191.6	539.0	504.3
Expenditure per aged non-Indigenous person ^(b) (\$ per capita)	480.6	596.9	541.2	623.2	499.3	573.0	730.2	1545.0	542.1

(a) Defined as 50 years and over

(b) Defined as 70 years and over

Source: CGC, *Indigenous Funding Inquiry*, Table 6-16.

80. There are no use or cost data available on the use Indigenous people make of aged care services in remote areas. However, there is a strong conceptual case that the entrenched levels of disadvantage experienced by Indigenous people in remote areas is likely to influence the costs of the services used and the way they are delivered. Despite the absence of data, we consider that there is a case for retaining an additional cost weight for Indigenous people in remote areas.

81. The costs associated with providing aged services to remote Indigenous populations are additional to those associated with interpreting and translating services that are accounted for by a low English fluency weight. They include services that address the cultural differences of populations in these areas. The *Report on Indigenous Funding 2001* found that 'cultural practices and beliefs affect the way services are provided [which] also influences costs'⁶.

⁶ CGC, *Report on Indigenous Funding Inquiry 2001*, p. 48.

82. **Commission decision.** The Commission accepts that a conceptual case has been established that the cost of providing services to Indigenous people is higher in remote locations. The conceptual case is supported by limited evidence, but the Commission is satisfied that the strength of the conceptual case, and the indications provided by the data are sufficient to consider equalisation would be improved by assessing a cost weight for Indigenous people in remote areas. The Commission considers that the additional costs have material impact on State budgets. Therefore, the Commission decided to continue to apply a cost weight of 1.25 to the remote Indigenous population.

83. **Analysis — CALD weight.** The Commission recognises the extra costs associated with low English fluency because of the extra time taken in service provision due to the need for interpreter and translating services.

84. The States were generally unable to provide evidence of the additional costs incurred by the culturally and linguistically diverse (CALD) population over and above the costs of interpreting and translating services required by the low English fluency population. Given the lack of information on the cost impact of specific programs targeting CALD groups, we cannot justify an extra cost weighting for these groups in addition to basic costs associated with translating and interpreter services.

85. Table 13 shows the use of aged care services in 2001-02 by people born in non-English speaking countries.

Table 13 USE OF AGED CARE SERVICES BY NON-ENGLISH SPEAKING BACKGROUND GROUPS^(a), JUNE 2002

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
	%	%	%	%	%	%	%	%	%
NESB people as a proportion of total population aged 70 and over	20.7	28.1	9.2	17.2	21.0	7.1	18.5	9.3	19.3
NESB users of HACC as a proportion of total recipients	13.0	19.3	8.9	16.6	15.6	7.4	22.5	11.0	14.7
NESB users of nursing homes as a proportion total users	13.8	18.0	7.5	15.0	14.1	4.3	18.5	9.8	13.5

(a) People aged 70 and over who were born in non-English countries.

Source: HACC, *National Minimum Data Set*, 2001-02 Annual Bulletin, Table 4.

Report on Government Services 2003: Productivity Commission, Table 12A.18

86. The above data show that people born in non-English speaking countries are under-represented amongst users of aged care services. According to these data, in 2001-02, around 19 per cent of the total Australian population aged 70 and over were from non-English speaking countries of which around 14 to 15 per cent were users of aged care services. Although these data indicate that a use weight of less than one would be appropriate for the CALD population, it is not proposed to include such a weight in the assessment. This is because it has not been possible to adjust this implied weight for the effects of age and lone person status.

87. **Commission decision.** The Commission accepts that a conceptual case exists for assessing a weight for the additional cost of providing interpreting and translating services. The conceptual case is supported by limited data. The limited data do not support a case for changing the current weight of 1.5. The Commission proposes to continue the 1999 Review approach of using a weight of 1.5 across all the welfare categories.

88. The Commission is not convinced, given the available data and the difficulty of adjusting those data for the effects of age and lone person status, that a conceptual case has been established demonstrating that non-English speaking migrants have a lower rate of use of aged care services than the Australian born population. The evidence is insufficient to support the assessment of a use weight for the population with low English fluency. If data which enabled a more precise measurement of the use rate for the CALD population become available and if the rate is shown to be significantly different from one, then the Commission would consider assessing a use weight for the CALD population.

89. **Analysis — measurement of socio-economic status.** Data show that there is a strong correlation between low income and lone person status. An ABS report on older people, published in 1999, noted that 28 per cent of all persons aged 65 and over were living alone⁷. Of these, 67 per cent had an average gross weekly income of less than \$225 — government pensions and benefits were the principal sources of income for more than 81 per cent of lone persons aged 65 and over.

90. Including measures of both low income and lone person status would risk significant double counting.

91. There is good evidence that older people living alone on a low income require greater community care services both for financial reasons and because there is no family member to serve as a carer⁸. The AIHW's *Aged Care Statistic: Residential Aged Care in Australia 2000-01* includes latest data on the use of residential care by living arrangements. Table 14, based on that publication, shows persons who lived alone as a proportion of residential aged care service users in 2001. We consider that these data can be used as an indicator of general dependency on community based aged care services of aged persons living alone. These data imply a use weight of about 3 for persons living alone.

Table 14 PEOPLE ADMITTED TO RESIDENTIAL CARE SERVICES FOR PERMANENT AND RESPITE CARE WHO LIVED ALONE^(a), 2001

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
Proportion of people aged 60 and over	17.4	17.3	15.9	15.1	19.1	18.5	12.1	6.3	16.8
RC clients who lived alone	41.5	36.8	36.8	39.5	41.9	47.1	42.5	12.0	39.5

(a) Living arrangement at the time of application for a package.

Source: AIHW, *Aged Care Statistics: Residential Aged care in Australia 2000-01*, A statistical overview, Table 4.6.

⁷ ABS Older people, Australia: a Social Report, 4109.0, 1999, p 78-85, Table 4.6 & 4.7.

⁸ AIHW, *Older Australia at a glance*, 1997.

92. HACC data from 1993, shown in Table 15, implied a use weight of about 3.8 for community based aged care services for lone persons.

Table 15 PROPORTION OF LONE PERSON^(a) USE OF HACC SERVICES AT 1993

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
Proportion aged 60 and over									
HACC users	53.3	53.3	47.9	57.6	42.0	54.2	51.8	48.2	51.8

(a) Living arrangement at the time of application for a package.

Source: *Community Care Statistics, 1995-96 HACC*

93. Victorian data⁹ provide more recent information on HACC client characteristics by living arrangements. Table 16 shows the total number of HACC clients in Victoria aged 70 and plus, of whom around 46 per cent live alone. Lone people over 70 represented 30.2 per cent of people living alone in the 1996 Census.

Table 16 HACC CLIENTS BY LIVING ARRANGEMENT, VICTORIA, 1996

People age 70 and over	number	per cent(a)
Lives alone	34 545	46.4
Lives with family	33 168	44.5
Lives with others	30 764	9.1
Total clients	98 477	100.0

(a) excluding missing

Source: *Home Care in Victoria, September qtr, p 7.*

94. The data presented above show that older people who lived alone are over represented in aged care services. The figures presented in the above three tables suggest a use weight of at least 2.

95. **Commission decision.** The Commission accepts that a conceptual case exists for assessing a higher use weight for persons living alone. The conceptual case is supported by limited data. The Commission is satisfied that higher use of aged care services by persons living alone has a material impact on State budgets. After examining the available data, the Commission is prepared to use its judgement to assess a weight of 2.5 for aged persons who live alone.

96. The Commission's decisions for the socio-demographic composition factor for the aged care services component are summarised in Table 17.

⁹ *Home Care in Victoria, September Quarter 2001, p7.*

Table 17 COMMISSION DECISIONS — SOCIO-DEMOGRAPHIC COMPOSITION FACTORS — AGED CARE SERVICES

Decision	Reason
Calculate a socio-demographic composition factor based on two separate calculations — one for community care services and the other for residential care services.	Separate datasets are available which make possible the calculation of sub-factors for community aged care and residential aged care.
For the Community Care services element of the assessment:	
(i) treat 50 years as the starting point for Indigenous access to community care services and 60 years as the starting point for the non-Indigenous population.	Because Indigenous people suffer from age-related diseases at younger age and have lower life expectancy compared to the general population.
(ii) apply a cost weight of 1.25 to all remote Indigenous people aged 50 and over.	The Commission concluded that cultural and lifestyle differences in remote areas result in higher costs of providing services to the Indigenous population living in remote areas.
(iii) apply a cost weight of 1.5 to people who speak a language other than English at home and who speak English: ‘not well’ and ‘not at all’.	The Commission considered that additional time is taken to provide interpretation and translating services to people with low English fluency. In the absence of robust data, this weight is based on judgement.
(iv) apply a use weight of 2.5 for all elderly people aged 60 and over who live alone	Evidence suggests that lone persons are over represented in the aged care services because of the lack of family member care for them at home.
For the residential care element of the assessment the factor will be based on age sex use rates for Indigenous people aged over 50 years and Non-Indigenous people aged over 70 years. The use rates for Indigenous people aged 50 and over will be based on use rates for non-Indigenous people aged 70 years and over.	Because Indigenous people suffer from age-related diseases at younger ages and have lower life expectancy compared to the general population.

97. ***Proposed method of calculation.*** The socio-demographic composition factor for aged care component will be calculated in two parts — one part based on use rates by age and sex for community care services and the other based on use rates by age and sex for aged residential care services. The results of these two calculations have been weighted by the proportions of total aged care expenses devoted to the two types of services. They were added together to form the final socio-demographic composition factor for the aged care services component.

98. The socio-demographic composition factor for community care services (HACC) was estimated by the following method.

- (i) Australian use rates for HACC clients by sex in age ranges 50-54, 55-59 (Indigenous) and 60-64, 65-69, 70-74, 75-79, 80-84, and 85 plus (Indigenous and Non-Indigenous) were calculated by dividing each age range's share of HACC clients by its share of the relevant population in the 2001 Census. The use rates for Indigenous people were based on a starting age of 50 years.
- (ii) A use weight of 2 was applied to all people aged 60 and over who lived alone.
- (iii) A cost weight of 1.5 was applied for people with low English fluency to account for additional costs arising from translating and interpreting services.
- (iv) A cost weight of 1.25 was applied to all Indigenous people living in remote areas to account for the additional costs arising from cultural differences.
- (v) A weights matrix was derived by combining multiplicatively weights in (i) to (iv) above.
- (vi) A weighted population for each State and Australia was calculated by applying the weights matrix to 2001 Census data cross-tabulated by age, sex, Indigeneity, lone person status and low English fluency.
- (vii) A ratio was calculated for each State and for Australia by dividing its weighted population by its unweighted population.
- (viii) A factor was calculated for each State by dividing its ratio by the comparable Australian ratio.

99. Table 18 shows the socio-demographic composition factors for HACC services.

Table 18 COMMUNITY CARE SERVICES — CALCULATION OF THE SOCIO-DEMOGRAPHIC COMPOSITION FACTORS

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Australia
Weighted population(a)	10696.4	7701.2	5647.0	2803.5	2911.4	867.3	337.1	232.5	31196.5
2001 Census population	6332.2	4669.1	3517.7	1822.8	1468.9	458.9	308.6	183.8	18764.5
Ratio	1.68921	1.64939	1.60530	1.53799	1.98202	1.89004	1.09234	1.26485	1.66253
Factor	1.01605	0.99210	0.96558	0.92509	1.19217	1.13685	0.65703	0.76080	1.00000

(a) Weights matrix applied to unweighted population.

100. A separate socio-demographic composition factor was calculated for residential care services by the following method:

- (i) A relevant population for each State was calculated using the Indigenous population aged 50 and over and the non-Indigenous population aged 70 and over, cross-classified by age, sex and Indigeneity.
- (ii) Australian use rates for residential care clients by sex in age ranges 70-74, 75-79, 80-84, and 85 plus were calculated from data provided in the AIHW publication: *Residential Aged Care in Australia 2000-01*, Table 2.1.
- (iii) Weighted populations were calculated for each State by applying the use rates calculated at (ii) to its relevant population.
- (iv) A raw factor was calculated for each State and Australia by dividing each State and Australia's weighted population by its unweighted population.
- (v) Each State's ratio was divided by the Australian ratio to obtain its factor.

101. Table 19 shows the socio-demographic composition factors for residential care services.

Table 19 RESIDENTIAL CARE — CALCULATION OF THE SOCIO-DEMOGRAPHIC COMPOSITION FACTORS

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Australia
Weighted population(a)	7 472.8	5 466.7	3 759.6	1 886.4	1 978.9	581.0	234.6	121.4	21 502.6
2001 Census population	6 332.2	4 669.1	3 517.7	1 822.8	1 468.9	458.9	308.6	183.8	18 764.5
Ratio	1.18013	1.17082	1.06876	1.03489	1.34717	1.26599	0.76019	0.66047	1.14592
Factor	1.02986	1.02173	0.93266	0.90311	1.17562	1.10478	0.66339	0.57637	1.00000

(a) Weights matrix applied to unweighted population.

102. The sub-factors calculated above were weighted by the proportions of the component expenses attributable to community care and residential care services. The two weighted sub-factors were then added to form one socio-demographic composition factor for the aged care component.

103. Table 20 shows the derivation of the socio-demographic composition factor for the aged care component.

Table 20 AGED CARE SERVICES COMPONENT — CALCULATION OF THE SOCIO-DEMOGRAPHIC COMPOSITION FACTOR

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
Community sub-factor ^(a)	1.01605	0.99210	0.96558	0.92509	1.19217	1.13685	0.65703	0.76080	1.00000
Residential sub-factor ^(b)	1.02986	1.02173	0.93266	0.90311	1.17562	1.10478	0.66339	0.57637	1.00000
Aged Care Factor	1.01869	0.99777	0.95928	0.92088	1.18900	1.13071	0.65825	0.72549	1.00000

(a) Weighted by 0.81

(b) Weighted by (1-0.81)

104. **Updateability.** Community care and residential care data are published annually. Population data are from the 2001 Census. It will be possible in future updates to estimate revised populations using total estimated resident populations and the population structure at the 2001 Census.

Service delivery scale

105. **1999 Review.** In the 1999 Review, a service delivery scale factor was not included in the assessment.

106. **Preliminary State views.** Tasmania argued that, in rural centres, services are delivered from centralised or larger population centres leading to additional costs. In

addition, Tasmania said that it subsidised Commonwealth funded activities in small facilities in rural and remote areas. Most of the small facilities were managed by the State in conjunction with the local health services or deficit funded by the State.

107. **Staff proposals.** *Discussion Paper CGC 2002/32 Aged and Disabled Services* did not support the inclusion of service delivery scale factor. The paper noted that a service delivery scale was not assessed in the 1999 Review for the aged care services component because the Commission considered that the additional costs associated with providing services to rural and remote areas were generally covered in the dispersion factor assessed for this component. States were asked to provide details of how services were delivered in rural and small facilities and to provide evidence of higher costs incurred in delivering services in country areas other than the cost associated with location.

108. **Further State views.** Tasmania restated its previous argument supporting the assessment of services delivery scale disabilities to account for the additional costs incurred providing services from large and centralised centres to its rural and remote communities. Tasmania also submitted that it needed to provide residential care in small communities at a highly subsidised cost as Commonwealth subsidies were not sufficient.

109. The Northern Territory argued that its remote area services were provided by local community organisations, mainly through local councils. This involved substantial State funding because of the small size of the services delivery units and high staff to client ratio.

110. New South Wales and Queensland opposed the inclusion of service delivery scale disabilities for this component. New South Wales presented 2001 Census data showing that in Tasmania only 2.38 per cent of older people aged 65 and over live in remote or very remote areas and it said that it is more likely that older people who live in remote areas had less impact on States services because they relied more on informal support from family and friends. Queensland submitted that in remote areas, aged care services were provided through hospitals and community health centres. It said that in sparsely populated areas, most aged care services were non-residential.

111. **Analysis.** To the extent that there are higher unit costs associated with providing aged care services in rural and remote areas, they are attributable to:

- (i) travel costs and locality allowances for staff providing the services, building maintenance expenses for SAAP buildings and communication costs;
- (ii) the characteristics of clients such as level of English fluency and Indigenous status; and
- (iii) a less than optimum use of resources — more staff are required to provide the same quantum of services in rural and remote areas than in urban areas.

112. The first group of costs have been recognised through the assessment of the dispersion factor. The second group of costs have been recognised through the assessment of the socio-demographic composition factor.

113. Regarding the third group of costs, in *Discussion Paper CGC 2002/32 Aged and Disabled Services*, Commission staff asked States to provide data which would allow estimation of the size of this group of costs. The States have not been able to provide data. In the absence of data, we are not able to assess a service delivery scale factor.

114. **Commission decision.** The Commission accepts that a conceptual case exists that costs of providing aged care services are higher in rural and remote areas due to the costs of location and the socio-demographic characteristics of the population in those areas. Because there are insufficient data enabling measurement of service delivery scale disabilities, the Commission is not convinced that a conceptual case for service delivery scale costs has been established and has decided not to assess a service delivery scale factor.

115. The Commission’s decision is summarised in Table 21.

Table 21 COMMISSION DECISION — SERVICE DELIVERY SCALE FACTOR

Decision	Reason
Not to assess a service delivery scale factor.	The Commission accepts that there is a conceptual case for the existence of a higher unit cost for services provided in rural and remote areas due to dispersion and socio-demographic composition influences. There are insufficient data by which the existence of service delivery scale influences can be tested.

Economic environment factor

116. **1999 Review.** In the 1999 Review, an economic environment factor was not included in the assessment.

117. **Preliminary State views.** The ACT argued that an economic environment factor needed to be assessed for aged care services to recognise the additional cost it incurs because of the short supply of high care residential places in the ACT. The Northern Territory submitted that it needed to provide capital subsidies to the non-government service providers of the residential care facilities because these were unable to operate solely on Commonwealth subsidies and patients contributions.

118. **Staff proposals.** States were asked to provide evidence of the additional expenses incurred supporting services for the aged which were not commercially viable or not provided by the Commonwealth.

119. **Further State views.** Tasmania supported the inclusion of an economic environment factor because of its greater involvement in aged care services due to the inability of private providers to provide these services in Tasmania. Queensland did not

support the assessment of an economic environment factor because the Commonwealth takes the primary responsibility for funding residential aged care places.

120. The Northern Territory reiterated its previous argument that it provided capital subsidies to private residential care providers because Commonwealth subsidies and patients contributions were not sufficient to meet the full costs of aged care services. The Northern Territory submitted that in 2000-01, it provided \$0.34 million recurrent funding and \$4.0 million in capital funding to residential aged care facilities.

121. *Analysis.* Most States did not provide information on the costs they incur delivering aged care services in rural and remote areas. While the Northern Territory provided information on the amount of capital subsidies paid to private providers, we have no other data to compare it with. We cannot determine whether the amounts paid are due to need or policy.

122. Our analysis based on the Productivity Commission Report and AIHW statistical information on aged care services shows that the Commonwealth annual subsidy per occupied residential places was higher in Tasmania and in the Northern Territory than all States and the Australian average¹⁰. Evidence also shows that the allocation of residential places among the States was consistent with the proportion of the aging population by localities¹¹ and the allocation of residential places and Community Aged Care Packages (CACP) per thousand people in Tasmania and in the Northern Territory was greater in rural/remote areas than the Australian average¹².

123. It can be seen from Table 22 that the ACT has fewer nursing home places but more hostel and CACPs than the Australian average. This does not support the ACT's view that it is disadvantaged by the level of provision of Commonwealth funded residential services for the aged. Whether the level of nursing home type patients in ACT hospitals is a disability is an issue for the Hospital assessment¹³.

¹⁰ *Report on Government Services 2003*, Productivity Commission, Table 12A.5.

¹¹ *Report on Government Services 2003*, Productivity Commission, table 12A.2. AIHW, *Residential Aged Care in Australia 2000-01-A statistical overview*, Table 1.4, p 21.

¹² AIHW, *Residential Aged care in Australia 2000-01-A statistical overview*, Table 1.4, p 21.

¹³ In looking at this issue, it will be necessary to consider whether States have above or below average numbers in their public hospitals, the reasons for this (is it policy or need driven) and whether, in so doing, they incur a cost advantage or disadvantage. (For example, is it more expensive for States to provide nursing home type beds in public hospitals than it is to provide additional nursing home beds in nursing homes? Would small rural hospitals close without such patients?)

Table 22 NUMBER OF RESIDENTIAL AGED CARE PLACES AND CACPs (PER 1000 PEOPLE AGED 70 YEARS AND OVER)

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
2000									
Nursing Homes	48.5	39.3	42.5	41.8	46.1	47.3	35.3	61.1	44.2
Hostel/low care residential	35.8	40.9	46.6	44.5	40.4	36.8	48.8	46.9	40.3
Community Care packages	10.7	10.4	11.0	11.2	10.3	12.9	17.5	49.0	10.9
Total	95.0	90.7	100.1	97.4	96.8	97.0	101.5	157.0	95.4
2001									
Nursing Homes	47.6	38.8	42.8	41.9	44.6	47.5	34.4	61.5	43.6
Hostel/low care residential	35.1	39.7	45.0	43.9	40.6	35.8	48.2	48.3	39.4
Community Care packages	14.2	14.0	13.6	14.6	14.5	14.6	18.4	77.7	14.3
Total	96.8	92.4	101.4	100.3	99.6	97.9	101.0	187.5	97.3

Source: Northern Territory submission for 2004 Review, p 138.

124. The information shown in the above table does not support the assessment of an economic environment factor for aged care services on the basis that remote areas suffer from a lack of Commonwealth residential care places or inadequate subsidy levels.

125. **Commission decision.** The Commission is not convinced that a conceptual case has been established that economic environment disabilities affect the relative cost of providing aged care services. It has decided not to include an economic environment factor in the assessment.

126. The Commission's decisions are summarised in Table 23.

Table 23 COMMISSION DECISION — ECONOMIC ENVIRONMENT FACTOR

Decision	Reason
Not to assess an economic environment factors.	A conceptual case has not been established that economic environment disabilities affect the relative cost of providing aged care services.

Input costs — aged care

127. **1999 Review.** The following standard expense proportions were applied to each of the factors assessed for this component:

- (i) wages and salaries 70 per cent;
- (ii) accommodation 2 per cent; and
- (iii) electricity 1 per cent.

128. **2004 Review.** The input costs factors for the aged care component of this category, shown in Table 24 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 24 INPUT COSTS FACTORS — AGED SERVICES COMPONENT

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
1996-97	1.02932	0.98903	0.98351	0.98292	0.97413	0.94405	1.00688	1.08142
1997-98	1.03090	0.98991	0.98183	0.97989	0.97245	0.94192	1.01061	1.07740
1998-99	1.03335	0.98917	0.97931	0.98163	0.96934	0.93610	1.01444	1.07331
1999-2000	1.03385	0.99038	0.97766	0.98158	0.96830	0.93360	1.01376	1.07096
2000-01	1.03293	0.99138	0.97654	0.98254	0.97177	0.93334	1.01116	1.06793

Dispersion

129. **1999 Review.** The dispersion factor was assessed to account for differences in per capita costs of providing services arising from differences between States in the spread of their population. The factor reflects the effects of population dispersion on State expenses associated with telecommunication, freight, travel and staffing on-costs.

130. 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 25.

Table 25 COST WEIGHTS FOR DISPERSION, 2003 UPDATE

Telephone	Freight	Air Travel	Road Travel		Remote Removals	Locality Allowances
			Inter Regional	Local		
0.01065	0.00151	0.00272	0.01886	0.00528	0.00000	0.00287

Source: 2003 Update Working Papers, Volume 3, p 384.

131. **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.

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

133. The dispersion factors for Aged Care Services have been calculated according to the 2004 Review general method. There were nine indexes within the dispersion factor for the 2004 Review. Table 26 shows the proportions of standard expenses estimated for each of the nine elements of dispersion affected expenses for this component.

Table 26 2004 REVIEW DISPERSION COST WEIGHTS, AGED SERVICES COMPONENT

Telecommunications		Freight	Air Travel	Road Travel		Building Maintenance	Remote Removals	Locality Allowances
Voice	Non-Voice			Inter Regional	Local			
0.0027	0.0003	0.0010	0.0005	0.0008	0.0052	0.0002	0.0000	0.0002

134. Table 27 shows the dispersion factors assessed for this component for the 2004 Review.

Table 27 DISPERSION FACTORS — AGED SERVICES COMPONENT

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
2003 Update	0.99777	0.99028	1.00829	1.01373	0.99438	1.01170	0.97278	1.08539
All years	0.99945	0.99824	1.00146	1.00320	0.99831	0.99823	0.99329	1.03147

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

136. The dispersion disabilities shown in Table 27 were also applied in the disability services component within this category.

DISABILITY SERVICES

137. The Commonwealth and States provide funding for disability services under the Commonwealth-State Disability Agreements (CSDA). The CSDA covers five service types relating to accommodation, community support, community access, respite and employment services. The Commonwealth has responsibility for employment services and the States provide accommodation and other services. Services are provided to those aged less than 65 years with severe or profound disabilities requiring on-going support. Under

the CSDA, the Commonwealth provides funds to assist the States to provide the services for which they are responsible.

Socio-demographic composition

138. ***1999 Review.*** In the 1999 Review, a socio-demographic composition factor was assessed for the disability services component covering the population aged under 60 years. Australian use rates were applied to the age ranges of 0-4, 5-14, 15-24, 25-44 and 45-59 based on the use of services as measured by CSDA client data for 1995. In addition, use or cost weights were applied as follows:

- (i) A use weight of 2 was applied to Indigenous people based on evidence of higher prevalence of disabilities amongst these people. This weight was based on CSDA data. It was consistent with the weight included in the funding formula for the 1998 CSDA.
- (ii) A cost weight of 1.5 was applied to all Indigenous people who lived in remote areas because there was evidence that services are provided in remote locations and the cost of providing services are higher than providing such services in non-remote locations, even after allowing for other disabilities.
- (iii) A cost weight of 1.25 was applied to all age ranges for people with low English fluency.

139. ***Preliminary State views.*** Victoria said that National Disability Services data showed that the demand on CSDA accommodation and activity support services is relatively similar for the Indigenous and non-Indigenous population. On the basis of this information Victoria argued that the present weight of 2 for Indigenous people should be discounted to 1.02. Tasmania supported the current weighting applied to the Indigenous population, but did not provide any data to support its view.

140. Victoria provided evidence indicating significant costs involved in providing culturally appropriate services to the population with non-English background. Tasmania said that there were economies of scale associated with serving larger groups of population with non-English speaking background and argued for discounting the cost weight applied to this population group.

141. New South Wales said that low-income families and single parent families caring for disabled dependents placed extra demand on State services. It said that this additional demand should be recognised in the assessment.

142. ***Staff proposals.*** In Discussion Paper 2002/32 staff proposed that the current cost weight for Indigenous people would be reviewed.

143. Staff also proposed retaining the current weight for low English fluency to reflect the extra cost associated with interpreter and other facilities. States were asked to provide information about the range of ancillary services specifically provided for disabled

people of non-English speaking origin and of the additional costs involved. It was noted that the lower use rates of disability services by the NESB population suggested that NESB use weights should be reduced.

144. Staff proposed investigating the inclusion of a weight for single parent families if Centrelink and ABS Census data could be matched to allow its calculation.

145. **Further State views.** Queensland argued that statistics relating to the use of disability services by Indigenous people were unreliable and that the current Indigenous weights should not be altered until better data were available.

146. Western Australia proposed retaining the current weight of 2 for the Indigenous population to reflect the higher prevalence of disability and the higher costs of providing culturally appropriate services to this population group.

147. The Northern Territory argued that the present use weight of 2 was a conservative estimate. It said that Indigenous people of all ages experienced higher rates of illness. As a result, there was a higher than average incidence of permanent disabilities. It presented data for the most recent three years from the CSDA national minimum data set. The data showed that, in the Northern Territory, Indigenous people used disability services at the rate which was twice that of their population share.

148. New South Wales argued that the costs of providing services to CALD ageing persons and persons with a disability were very similar. Hence, the same weights should be applied in both cases to reflect the additional costs and the complexity of service delivery to CALD people of all ages.

149. Tasmania argued for recognition of the additional cost required to provide services in smaller centres that have relatively few persons in each ethnic group. Queensland proposed reducing the use weight while retaining the cost weight associated with CALD populations. The Northern Territory considered that the CALD weight was adequate and did not need revision.

150. Queensland suggested that the number of Commonwealth pension recipients or low-income households would be a more appropriate determinant of demand for disability services. The Northern Territory suggested that lone parent status was a better indicator of demand as it captured some of the demand from low-income status families.

151. **Analysis.** The issues raised by the States regarding the socio-demographic composition factor include:

- (i) the need for a revised use and cost weights for Indigenous people using disability services;
- (ii) the need to revise the cost weight used for the CALD population; and
- (iii) the need to include a measure of socio-economic status.

152. *Analysis — Indigenous weights.* The 1999 Review assessment included a use weight of 2 for the Indigenous population. This weight was partly based on the weight included in the funding formula under the 1998 CSDA.

153. There is reasonably good evidence of the higher incidence of disability amongst Indigenous people. For example, an AIHW report¹⁴ published in 1996 noted that eyesight and hearing disabilities, acquired brain injury and specific learning disabilities are more commonly reported among Indigenous recipients than among non-Indigenous ones. A more recent version of that report provided data showing that Indigenous people experienced a higher prevalence of disabilities when compared with the non-Indigenous population, particularly physical disabilities and brain injury¹⁵. Nationally, 18 per cent of Indigenous people had physical disabilities compared to 12 per cent of non-Indigenous people. The incidence of brain injury was 6 per cent for the Indigenous population compared with 4 per cent for non-Indigenous population.

154. Other evidence of the prevalence of disability among Indigenous population includes:

- (i) Indigenous people in the Northern Territory were twice as likely to be users of disability support services and made greater use of HACC services at a younger age¹⁶; and
- (ii) a study in a New South Wales region using ABS data found rates of severe handicap about 2.4 times higher for Indigenous people than for the total population¹⁷.

155. In CSDA data for 2002, Indigenous people were recorded as having a slightly higher use of State provided services relative to their population share¹⁸. The data showed that Indigenous clients represented about 2.7 per cent of clients of accommodation services compared with their population share of 2.6 per cent. This result is consistent with the usage data shown for all disability services. The AIHW has acknowledged the lack of extensive data on disability among Indigenous people¹⁹. It has also noted that activity data for the Indigenous population should be treated with caution because the numbers of disability service clients for whom 'not stated' is recorded for the Indigenous question is large compared with the number of identified Indigenous clients.

156. There are no data available from which the cost differential, if any, associated with Indigenous status could be measured directly. Table 28 shows data from which cost differentials can be inferred. It shows that a higher proportion of Indigenous clients are classified as requiring continual support compared with non-Indigenous clients.

¹⁴ AIHW: *Disability support services provided under the CSDA*; available data 1996, Ken Black et al, p 22

¹⁵ AIHW: *Disability Support services 2001, National data on services provided under the CSDA*, p 36.

¹⁶ AIHW: *Demand for Disability Support Services in Australia –Size, cost and Growth*, p 76.

¹⁷ *Ibid*, p 76.

¹⁸ AIHW, *Consumers of all CSDA-funded services, 2002, Interactive disability data* (available through the AIHW website: <http://www.aihw.gov.au>).

¹⁹ AIHW, *Demand for Disability Support Services in Australia –Size, cost and Growth*, p 76.

From these data it can be inferred that services provided for Indigenous clients are, on average, more costly.

Table 28 CONSUMERS OF CSDA-FUNDED SERVICES REQUIRING CONTINUAL SUPPORT, ON A SNAPSHOT DAY, 2001

Type of service	Proportion of Indigenous consumers requiring continual support	Proportion of non-Indigenous consumers requiring continual support	Ratio: Indigenous/non-Indigenous
	per cent	per cent	
Activities of daily living	38.8	33.0	1.2:1
Home and social living	46.8	43.2	1.1:1
Education, work and leisure	54.3	47.8	1.1:1

Source: AIHW: Disability Support Services 2001: National data on services provided under the CSDA, Table 3.18

157. In summary, there is evidence of slightly greater use of services by Indigenous people and some indication of higher average costs for Indigenous clients. Given the available data, it is not possible to directly calculate the value of the additional weight to be applied to the Indigenous population to reflect higher use and costs. We have confirmed that the Commonwealth continues to include a use weight of 2 for Indigenous people in the funding formula for the CSDA payments.

158. **Commission decision.** The Commission considers that a conceptual case exists that Indigenous people have above average use rate and cost rate for State provided disability support services. The conceptual case is supported by limited data. The Commission is satisfied by the strength of the conceptual case. It is also satisfied that higher use of disability services by Indigenous people, and the higher unit cost of those services, has a material impact on State budgets. After examining the available data and noting that the Commonwealth funding associated with disability services assigns a use weight of 2 to Indigenous people, the Commission is prepared to use its judgement to assess a use weight of 2 for Indigenous people.

159. **Analysis — CALD weights.** There is a conceptual case that extra costs are incurred in providing translating and interpreting services to people with low English fluency. The current weight of 1.5 applied to the low English fluency population is sufficient to account for the additional cost associated with interpreter and translating services. This weight is consistent with other welfare service categories.

160. Table 29 shows the proportion of the CALD population using accommodation support services as reported in the 2002 CSDA MDS collection.

Table 29 NESB^(a) POPULATION USE OF CSDA FUNDED ACCOMMODATION SUPPORT SERVICES ON SNAP SHOT DAY 2002

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
CALD people as proportion of all population	17.5	18.3	7.0	11.7	9.8	3.4	13.9	8.1	13.8
CALD consumers as a proportion of total population	2.34	3.18	1.55	3.7	3.5	1.1	4.3	2.4	2.7
CALD people using services per 1000 population	0.15	0.26	0.20	0.35	0.61	0.54	0.31	0.18	0.24
All people using services per 1000 total population(a)	1.10	1.52	0.89	1.12	1.69	1.64	0.98	0.61	1.21

(a) People from non-English speaking countries.

Source: *The Report on Government Services 2003*: Productivity Commission, Table 13A.16.

AIHW; *Disability Support Services 2002: First National Results on services provided under CSDA*, Table A1.16

161. Table 29 shows that the CALD population were under-represented in disability services, which implies a weight of 0.2. This low use rate by CALD groups is likely to be associated with the health screening for immigrants²⁰.

162. **Commission decisions.** The Commission accepts that a conceptual case exists for assessing a cost weight for the additional cost of providing interpreting and translating services. The conceptual case is supported by limited data. The limited data do not support a case for changing the current weight of 1.5. The Commission is satisfied by the strength of the conceptual case and in the absence of evidence to the contrary, it proposes to continue the 1999 Review approach of using a weight of 1.5 across all the welfare categories.

163. The Commission accepts that there is some evidence to support the assessment of a use rate less than one for the CALD population. It considers that the observed rate should be adjusted for the effects of age and has decided not to include a differential use rate for the CALD population in the assessments.

164. **Analysis — measure of socio-economic status.** Disabled people are very likely to be reliant on a pension and to have a lower income level. The 2001 national disability data showed that around 89 per cent consumers of disability services aged 16 years and over reported receiving a disability support or other pension and only 5 per cent of them were in paid jobs²¹. Further, those disabled people in paid jobs were far more likely to be on a low income. ABS data shows that in 1998 the median weekly income for employed people aged 15 to 64 was \$360, while for disabled people it was \$210²².

²⁰ AIHW, *Disability Support Services 2001, National data on services provided under CSDA*, p 34 - 35.

²¹ AIHW, *Disability Support Services 2001, National data on services provided under CSDA*, Table 3.19.

²² ABS, *Disability, Aging and Carers, Disability and Long Term Health Conditions*, 4433.0, 1998, p 13.

165. Given that the vast majority of disability service users are low income earners, there is no conceptual case that including a low income weight would contribute to the refinement of the assessment. In addition, we have no evidence that income levels of users will influence the unit cost of providing services.

166. There are no available data enabling the assessment of any greater costs imposed by lone parent families with a disabled child.

167. **Commission decision.** The Commission does not accept that a conceptual case exists for the inclusion of a weight for socio-economic status. It considered that an assessment based on age specific use rates of disability services derived from national disability services data with the addition of the weights described above for Indigenous people will accurately capture use and unit costs impacts of disability services in each State.

168. **Analysis — weight for Indigenous people in remote areas.** Information provided to the 1999 Review indicated that there were large differences between Indigenous populations of the States in terms of the proportions who: speak an Indigenous language; have low English fluency; have limited education; are unemployed; live in households where there are two or more families; and live in remote areas. The level of disadvantage often appeared to be greater in remote areas.

169. None of the States raised any issues regarding the current weight applied for this subgroup. In line with the aged care services component we consider that there is a conceptual case for retaining the current weight for remote Indigenous populations in recognition of the special needs of remote Indigenous people associated with their customary lifestyle, greater levels of poverty and disadvantage.

170. The costs associated with providing disability services to remote Indigenous populations are more than those associated with interpreting and translating services that are accounted for by a low English fluency weight. They include services that address the cultural differences of populations in these areas. The *Report on Indigenous Funding* found that ‘cultural practices and beliefs affect the way services are provided [which] also influences costs’²³. A weight of 1.25 is consistent with weights attributed to the remote Indigenous population in comparable welfare categories.

171. The cost weight for remote Indigenous populations does not risk double counting with the general Indigenous weight because the latter is a use weight.

172. **Commission decision.** The Commission accepts that a conceptual case has been established that the cost of providing services to Indigenous people varies according to remote location. The conceptual case is supported by limited evidence, but the Commission is satisfied that the strength of the conceptual case, and the indications provided by the data are sufficient to consider equalisation would be improved by assessing a cost weight for Indigenous people in remote areas. It is also satisfied that the additional costs have material impact on State budgets. Therefore, the Commission decided to continue to apply a cost weight of 1.25 to the remote Indigenous population.

²³ CGC, *Report on Indigenous Funding Inquiry 2001*, p 48.

173. The Commission decisions are summarised in Table 30.

Table 30 COMMISSION DECISIONS — SOCIO-DEMOGRAPHIC COMPOSITION FACTORS — DISABILITY SERVICES

Decision	Reason
Assess a socio-demographic composition factor based on age specific use rates derived from CSDA national data for the age groups 0-4, 5-14, 15-24, 25-44 and 45-59.	Use of disability services varies by age.
Apply a use weight of 2 for the Indigenous population aged under 60 years.	There is a conceptual case that Indigenous use is higher than that of the non-Indigenous population. The Commonwealth funding formula for disability services assigns a weight of 2 to Indigenous people.
Apply a cost weight of 1.25 to all remote Indigenous people aged under 60.	The Commission considered that cultural and lifestyle differences and a greater level of poverty and disadvantage among the Indigenous people result in higher costs for providing services to the Indigenous population living in remote areas.
Apply a cost weight of 1.5 who speak a language other than English at home and who speak English: 'not well' and 'not at all'.	The Commission considered that additional time is taken to provide interpretation and translating services to people with low English fluency. To account for the additional costs associated with providing interpreter and translating services. In absence of robust data this weight is based on judgement.

174. **Proposed method of calculation.** The joint socio-demographic composition factors will be calculated using 2001 Census and 2001-02 Commonwealth State Disability Agreement (CSDA) client data. The factors were calculated by the following procedure.

- (i) The relevant population for this expense component was defined as the population aged under 60 years with age ranges of 0-4, 5-14, 15-24, 25-44 and 45-59.
- (ii) For the relevant age ranges, Australian standard use rates were derived from the Commonwealth State Disability Agreement (CSDA) client data for 2002. The standard use rates were calculated for each age range by dividing its share of CSDA users for Australia as a whole by its share of the relevant Australian population.
- (iii) Weights were applied for low English fluency, Indigeneity and the cost of servicing different groups of Indigenous people. These were:
 - low English fluency — a cost weight of 1.25 was applied to all age ranges for people who speak a language other than English and who do not speak English well or do not speak English at all,

considering that the additional costs associated with providing services to people with low English fluency arise through the additional time involved in providing the services as well as the cost of interpreters;

- low English fluency — a use weight of 0.2 was applied to all non-Indigenous people with low English fluency;
- Indigeneity — a use weight of 2 was applied to Indigenous people because of the higher prevalence of disabilities amongst Indigenous people; and
- Indigenous people in remote locations — a cost weight of 1.5 was applied because of the higher cost of providing services in remote locations.

- (iv) A weights matrix was derived by combining the weights in (ii) and (iii).
- (v) A weighted population for each State and Australia was calculated by applying the weights matrix to a cross-tabulation of 2001 Census data.
- (vi) A ratio was calculated for each State and Australia by dividing its weighted population by its unweighted population.
- (vii) A factor was calculated for each State by dividing its ratio by the comparable Australia ratio.

175. Table 31 shows the ratios of weighted population to unweighted populations.

Table 31 DISABILITY SERVICES COMPONENT — CALCULATION OF SOCIO-DEMOGRAPHIC COMPOSITION FACTORS

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
Weighted pop('000)	6 061.6	4 408.8	3 458.7	1 842.6	1 377.8	431.3	310.6	296.4	18 187.8
2001 Census('000)	6 332.2	4 669.1	3 517.7	1 822.8	1 468.9	458.9	308.6	183.8	18 764.5
Ratio(a)	0.96	0.94	0.98	1.01	0.94	0.94	1.01	1.61	0.97

(a) Weighted population/2001 Census pop.

176. Table 32 shows the calculation of the socio-demographic factor.

Table 32 DISABILITY SERVICES COMPONENT — SOCIO-DEMOGRAPHIC COMPOSITION FACTORS

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
All years	0.98762	0.97417	1.01440	1.04289	0.96767	0.96965	1.03859	1.66366

177. **Updateability.** Disability services data are published annually. Population data are from the 2001 Census. It will be possible in future updates to estimate revised populations using total estimated resident populations and the population structure at the 2001 Census.

Service delivery scale

178. **1999 Review.** In the 1999 Review, a service delivery scale factor was not assessed for the disability services component.

179. **Preliminary State views.** Tasmania argued for the assessment of services delivery scale disabilities for disability services for reasons given under the aged care services component.

180. **Staff proposal.** *Discussion Paper CGC 2002/32 Aged and Disabled Services* did not propose inclusion of a service delivery scale factor.

181. States were asked to provide information on the standard policy provisions when delivering services in rural and remote areas to test the assumption in the present assessment that States arrange the provision of these services to achieve some economies of scale.

182. **Further State views.** Queensland, Tasmania, the ACT and the Northern Territory argued for an adjustment of service delivery scale disabilities for this component. Queensland argued that its Local Area Co-ordination initiative distributed grants, general support and advocacy in smaller communities. Queensland said that this imposed some service delivery scale costs although comprehensive data to demonstrate these costs were not available. Tasmania argued that a greater proportion of its consumers of disability accommodation support services lived in rural and remote locations. A high proportion of these clients needed support on a one-to-one basis, leading to additional costs.

183. The ACT argued that the contemporary people-centred models of support and funding adopted by the CSDA required a greater financial commitment by all States, leading to a high service delivery cost. The Northern Territory argued that it provided funding for delivering services to its remote areas.

184. **Analysis.** To the extent that there are higher unit costs associated with providing aged care services in rural and remote areas, they are attributable to:

- (i) travel costs and locality allowances for staff providing the services, building maintenance expenses for SAAP buildings and communication costs;
- (ii) the characteristics of clients such as level of English fluency and Indigenous status; and
- (iii) a less than optimum use of resources — more staff are required to provide the same quantum of services in rural and remote areas than in urban areas.

185. The first group of costs have been recognised through the assessment of the dispersion factor. The second group of costs have been recognised through the assessment of the socio-demographic composition factor.

186. Table 33 shows use of disability services by rural and remote people per 1000 compared with that of other groups, according to 2002 national data.

Table 33 COMPARISON OF ACCOMMODATION SUPPORT SERVICES CONSUMERS BY LOCALITY, PEOPLE UNDER 65 YEARS, 2002

People under 65 years (*000)	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
Rural and remote consumers	1.322	1.883	1.06	0.229	0.229	0.416	0.001	0.059	5.199
Rural and remote population	1 364.3	1 000.8	1 288.2	456.4	347.1	237.4	0.4	103.9	4 798.4
Other consumers	6.034	7.283	3.314	1.981	2.328	0.796	0.296	0.124	22.156
Other population	4 383.6	3 195.9	1 923.8	1 240.1	947.3	170.6	293.8	88.6	12 243.7
Ratio	0.70	0.83	0.48	0.31	0.27	0.38	2.48	0.41	0.60

Source: AIHW, *Disability Support Services 2002: First National Results on Services Provided under CSDA*, Table A2.18.

187. Table shows that people in rural and remote areas use disability support services at a significantly lower rate than people in other areas of States. These data suggest lower levels of demand for disability services in remote areas or a tapering of service provision in more remote areas. We have no cost data with which to test for the existence of scale effects in the provision of services to people with disabilities in remote areas. In the absence of data, we are not able to assess a service delivery scale factor.

188. **Commission's decision.** The Commission accepts that a conceptual case exists that costs of providing disability services are higher in rural and remote areas due to the costs of location and the socio-demographic characteristics of the population in those areas. Because there are insufficient data on which to consider whether service delivery scale disabilities exist, the Commission is not convinced that a conceptual case for service delivery scale costs has been established and has decided not to assess a service delivery scale factor.

189. Table 34 summarises the Commission decision.

Table 34 COMMISSION DECISION — SERVICE DELIVERY SCALE

Decision	Reason
Not to assess a service delivery scale factor.	The Commission accepts that there is a conceptual case for the existence of a higher unit cost for services provided in rural and remote areas due to dispersion and socio-demographic composition influences. There are insufficient data by which the existence of service delivery scale influences can be tested.

Input costs — disability services

190. ***1999 Review.*** In the 1999 Review, the input costs factors assessed for this component were the same as those for the aged care component.

191. ***2004 Review.*** The Commission considers that this approach remains appropriate for the 2004 Review because the proportion of standard expenses affected by input costs factor in the aged care and disability services component remain similar. The input costs factors shown in Table have also been applied in the disability services component.

Dispersion — disability services

192. ***1999 Review.*** In the 1999 Review, the dispersion factors assessed for this component were the same as those for aged care component.

193. ***2004 Review.*** The Commission considers that this approach remains appropriate for the 2004 Review because the proportion of standard expenses affected costs in aged care services and disability services components remain similar. The dispersion factors shown in Table have also been applied in the disability services component.

Cross-border

194. In the 1999 Review, a cross-border factor was assessed for the ACT and New South Wales. The Commission considered that the disability services provided by the ACT were accessible to residents of New South Wales. A cross-border factor was assessed by reference to 25 per cent of the populations aged 0 to 59 in four LGAs very close to the ACT and 10 per cent of the same population range in 12 LGAs which were slightly more distant.

195. ***State views.*** The ACT supported the continued assessment of cross-border factor for this component based on its proposed modified general method.

196. ***Analysis and Commission decisions.*** *Draft Assessment Paper CGC 2003/68 Cross-border Factors* sets out the Commission's general decisions on cross-border assessments for the 2004 Review.

197. The Commission accepts a conceptual case exists for assessing cross-border influences on demand for disability services, to compensate the ACT for the additional costs it incurs in providing services to New South Wales residents in excess of those New South Wales provides to ACT residents. Actual cross-border population data are not available to assess these influences. However, the Commission is satisfied that the strength of the conceptual case and the indications provided by the evidence available, are sufficient to consider that equalisation would be improved by assessing cross-border influences for this component. The evidence indicates that cross-border influences have a material impact on the ACT's budget. The cross-border factors will be assessed using the general method.

198. The Commission's decisions are summarised in Table 35.

Table 35 COMMISSION DECISION — DISABILITY SERVICES: CROSS—BORDER

Decision	Reason
Cross-border factor to be assessed for the disability services component for the 2004 Review.	Adjusts for services provided to residents of New South Wales who use ACT services.
To include different weights according to proximity to Canberra.	There is a conceptual case that use would vary with distance. These weights are based on judgement.

199. **Results.** For this component, the weights were 0.25 for Group 1 SLAs and 0.1 for Group 2 SLAs. Consistent with the socio-demographic factor, the population aged under 60 was used to calculate the factors shown in Table 36.

Table 36 CROSS—BORDER FACTORS — DISABILITY SERVICES COMPONENT

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
All years	0.99656	1.00000	1.00000	1.00000	1.00000	1.00000	1.06907	1.00000

200. **Updateability.** Estimated resident populations are available for each year so this factor can be updated annually.

MUNICIPAL RATE CONCESSIONS

201. Municipal rate concessions are provided to all people who hold Commonwealth Pensioner Concession Card or Health Care Card²⁴ and own a property or are legally responsible for the payment of municipal rates for a property. Pensioner concession cards are issued to people who receive the age pension, bereavement allowance, carer payment, disability support pension, mature age allowance and parenting payment (single). They are also issued to people over 60 on Newstart, sickness, widow, partner and special benefit allowances. The proportion of rebate paid to the eligible cardholder is different across the States. It generally ranges from 20 to 50 per cent of rates charged. One factor will be assessed for this component: socio-demographic composition.

Socio-demographic composition

202. **1999 Review.** In the 1999 Review, all expenditure related to concessions was assessed by a socio-demographic composition factor in the Other Concessions category. The Commission considered that the differential needs for concessions were mainly associated with the different proportions of State populations eligible for Commonwealth pensions and being able to access concessions. The number of Commonwealth pension recipients was used as the basis for calculating the socio-demographic factor for the concession assessment.

203. **State views.** No State commented on this factor in main or rejoinder submissions.

204. **Commission decision.** The Commission accepts that a conceptual case exists that different numbers of people eligible for municipal rates concessions have different impacts on State budgets. Data are available which will enable measurement of these differences within an acceptable range of error.

205. The Commission decision is summarised in Table 37.

Table 37 COMMISSION DECISIONS — SOCIO-DEMOGRAPHIC COMPOSITION FACTORS — MUNICIPAL RATES CONCESSION

Decision	Reason
To assess a socio-demographic composition factor on the basis of total number Commonwealth pension recipients.	All pensioner cardholders are entitled to a municipal rates rebate.

Method of calculation

206. The factor was calculated by following method:

²⁴ The Health Care card includes Newstart and other allowances and it may also be claimed by low income earners not in receipt of Social Security payments from Centrelink.

- (i) the target population was defined as those who are eligible to receive a Commonwealth pension;
- (ii) the number of Commonwealth pensioners in each State and Australia at the beginning and end of each financial year were averaged to give financial year figures;
- (i) a ratio was calculated for each State and Australia by dividing the number of Commonwealth pensioners by the mean resident population; and
- (ii) a factor was calculated for each State by dividing its ratio by the comparable Australia ratio.

207. Table 38 shows Commonwealth pensioners by State in comparison to mean resident population.

Table 38 NUMBER OF COMMONWEALTH PENSIONERS IN EACH STATE AND AUSTRALIA, 2001-02

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
Commonwealth pensioners	1 170.9	855.4	661.2	309.1	327.6	110.6	43.7	19.0	3 497.6
Commonwealth pensioners Average over two years	1 156.3	850.7	649.0	303.4	324.4	109.1	39.5	19.0	3 451.5
Mean resident population	6 640.9	4 855.0	3 670.5	1 918.2	1 518.6	473.2	322.7	199.9	19 599.0
Commonwealth pensioners per capita	0.17412	0.17522	0.17681	0.15818	0.21364	0.23060	0.12253	0.09492	0.17610

Source: Centrelink and Department of Veterans' Affairs — Unpublished data.

208. The socio-demographic composition factors for this component are shown in Table 39.

Table 39 MUNICIPAL RATES CONCESSION COMPONENT — SOCIO-DEMOGRAPHIC COMPOSITION FACTOR

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
Socio-demographic composition	0.98873	0.99496	1.00403	0.89820	1.21312	1.30945	0.69576	0.53904

209. **Updateability.** The factors can be updated every year using States estimated number of Commonwealth pensioners and the mean resident population.

ISOLATION

210. **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.

211. **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.

212. The isolation factors for the isolation component, shown in Table 40, have been calculated according to the 2004 Review general method. Isolation-affected expenses for this category have been estimated to be 0.06 per cent of the category standard.

Table 40 ISOLATION FACTORS — ISOLATION COMPONENT

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
Isolation	0.03819	0.06197	0.11236	2.40453	0.28781	3.92447	1.17836	56.74472

213. 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.

PROPOSED ASSESSMENT STRUCTURE FOR THE 2004 REVIEW — EXPENSES

214. Table 41 shows the proposed assessment structure for the Aged Care and Disability Services category.

Table 41 PROPOSED ASSESSMENT STRUCTURE FOR THE 2004 REVIEW

Component	Component weight	Factors	Basis of calculation
Expenses	%		
Fixed costs	0.009	Input costs Administrative scale	General method General method
Aged Care Services	0.321	Socio-demographic composition Dispersion Input costs	Age and sex use weights derived from 2002 HACC data with differential weights for Indigeneity (a 20 year differential); an additional cost weight for Aboriginal people in remote locations (1.25) and a cost weight (1.5) for low English fluency. Use weights for nursing homes services derived from 2002 AIHW residential care data with differential weights for age and sex. General method General method
Disability Services	0.574	Socio-demographic composition Dispersion Input costs Cross-border	Usage weights derived from CSDA with additional weights for Aboriginality (combined use and cost weight of 2) and additional weight for indigenous people in remote locations (1.5) and a cost weight (1.25) for low English fluency. General method General method Assessed for New South Wales and the ACT by the general method.
Municipal Rates Concession	0.096	Socio-demographic composition	Based on the number of Commonwealth pension recipients.
Isolation	0.001	Isolation	General method

SUMMARY OF RESULTS – EXPENSES

Calculating the category factor

215. Table 42 summarises the components, component weights and disability factors for this category for 2001-02. It shows the calculation of the category factor.

Table 42 AGED AND DISABILITY SERVICES — DERIVATION OF CATEGORY FACTOR, 2001-02

Factors	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
Fixed costs (component weight = 0.009%)								
Administrative scale (s)	0.31551	0.43157	0.57085	1.09232	1.37971	4.42813	6.49357	24.66745
Input costs (ic_sae)	1.03714	0.99034	0.97354	0.97996	0.96824	0.92479	1.01291	1.07737
Component factor	0.32483	0.42427	0.55167	1.06258	1.32610	4.06507	6.52925	26.38127
Cont. to category factor	0.00283	0.00369	0.00480	0.00924	0.01154	0.03537	0.05680	0.22952
Aged Services (component weight = 0.321%)								
Dispersion (d)	0.99945	0.99824	1.00146	1.00320	0.99831	0.99823	0.99329	1.03147
Input costs (ic_oth)	1.03293	0.99138	0.97654	0.98254	0.97177	0.93334	1.01116	1.06793
Socio-demographic composition (sdc_rc)	1.01869	0.99777	0.95928	0.92088	1.18900	1.13071	0.65825	0.72549
Component factor	1.05240	0.98809	0.93881	0.90836	1.15422	1.05405	0.66163	0.79815
Cont. to category factor	0.33733	0.31672	0.30092	0.29116	0.36997	0.33786	0.21208	0.25584
Disability Services (component weight = 0.574%)								
Cross-border (x_cs)	0.99295	1.00000	1.00000	1.00000	1.00000	1.00000	1.12601	1.00000
Dispersion (d)	0.99945	0.99824	1.00146	1.00320	0.99831	0.99823	0.99329	1.03147
Input costs (ic_oth)	1.03293	0.99138	0.97654	0.98254	0.97177	0.93334	1.01116	1.06793
Socio-demographic composition (sdc_cs)	0.98762	0.97417	1.01440	1.04289	0.96767	0.96965	1.03859	1.66366
Component factor	1.01159	0.96328	0.99128	1.02718	0.93796	0.90256	1.17371	1.82754
Cont. to category factor	0.58104	0.55329	0.56937	0.58999	0.53874	0.51841	0.67416	1.04970
Municipal Rate Concession (component weight = 0.096%)								
Socio-demographic composition (sdc_mrc)	0.98873	0.99496	1.00403	0.89820	1.21312	1.30945	0.69576	0.53904
Component factor	0.98873	0.99496	1.00403	0.89820	1.21312	1.30945	0.69576	0.53904
Cont. to category factor	0.09471	0.09530	0.09617	0.08603	0.11620	0.12543	0.06664	0.05163
Isolation (component weight = 0.001%)								
Isolation (iso)	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	0.00003	0.00006	0.00011	0.00045	0.00034	0.00210	0.00091	0.04096
Category Factor	1.01593	0.96906	0.97137	0.97688	1.03679	1.01916	1.01059	1.62765

216. *Calculation formula.* 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).

$$\begin{aligned}
 FC &= 0.01(s*fc_ic) \\
 AS &= 0.32(sdc_aged*(d+ic_1)) \\
 DS &= 0.57(x*sdc_DS*(d+ic_1)) \\
 MRC &= 0.10(sdc_mrc) \\
 ISO &= 0.001(iso)
 \end{aligned}$$

$$\text{Category Factor} = FC + AS + DS + MRC + ISO.$$

217. Table 43 shows the category factors calculated for the draft assessment for the 2004 Review compared with the category factors assessed for this category in the 2003 Update.

Table 43 COMPARISON OF CATEGORY FACTORS, 2003 UPDATE AND THE DRAFT ASSESSMENT FOR THE 2004 REVIEW

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
2003 Update	1.03027	1.00685	0.92099	0.96635	1.07616	1.05530	0.84736	1.13878
Draft Assessment - 2004 Review	1.01593	0.96906	0.97137	0.97688	1.03679	1.01916	1.01059	1.62765

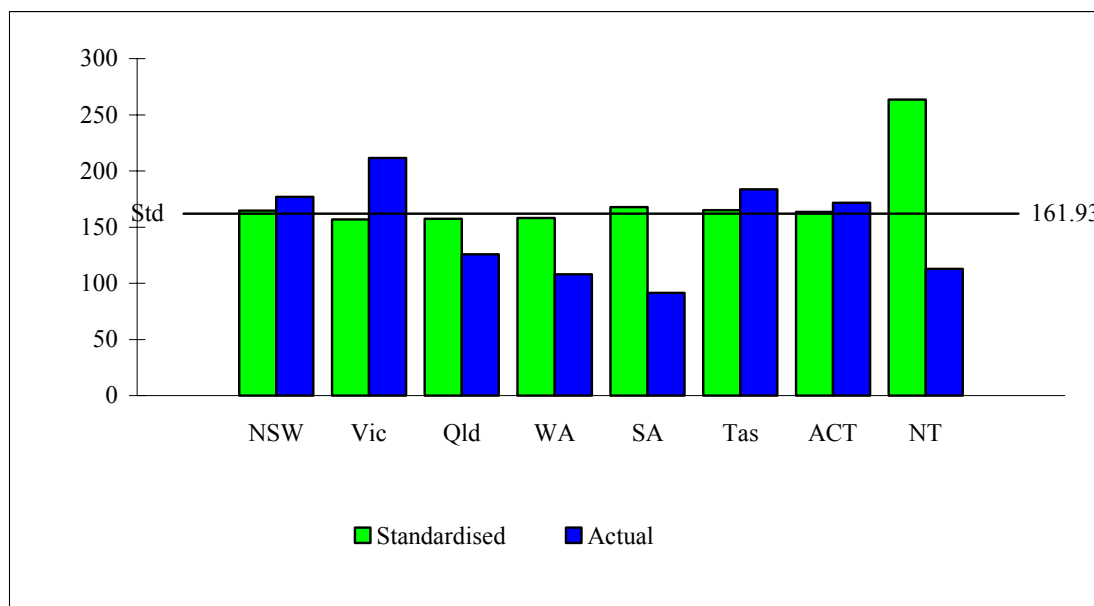
Standard expenses

218. Table 44 shows the standardised expenses assessed for this category for 2001-02 in the draft assessment compared with that assessed in the 2003 Update.

Table 44 ACTUAL AND STANDARDISED AND EXPENSES, 2001-02

	Standard	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
2003 Update									
Estimated expenses									
\$ per capita		223.53	192.04	57.27	135.29	166.96	249.38	163.92	101.48
Standardised Expenses									
\$ per capita	169.97	175.11	171.13	156.54	164.25	182.92	179.37	144.03	193.56
2004 Review									
Estimated expenses									
\$ per capita		176.86	211.63	125.62	107.96	91.40	183.55	52.804	52.698
Standardised Expenses									
\$m		1092.513	761.861	577.354	303.438	254.965	78.091	52.804	52.698
\$ per capita	161.93	164.5	156.92	157.30	158.19	167.89	165.04	163.65	263.57

219. Figure 1 shows the gross expenses per capita for 2001-02 for the 2004 Review in terms of standardised, actual and standard expenses.

Figure 1 AGED AND DISABLED SERVICES— GROSS EXPENSES PER CAPITA — STANDARDISED, ESTIMATED AND STANDARD, 2001-02

Effect of assessment on grants

220. Table 45 shows the redistribution of grants resulting from the assessment in the 2003 Update and the new assessment.

Table 45 EFFECT OF ASSESSMENT ON GRANT DISTRIBUTION — AGED AND DISABLED 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)	36.7	4.7	-51.2	-12.7	22.9	5.2	-9.6	4.0	73.4
Contribution to 2004 Review Draft Assessments relativities ^(b)	9.6	-30.3	-11.5	-5.2	9.5	2.6	0.9	24.4	47.0
Total Change	-27.1	-35.0	39.7	7.4	-13.4	-2.6	10.4	20.4	78.0

(a) Total redistribution.

(b) Assuming same pool and a constant population.

(c) This figure shows the change in the amount redistributed among the States between the 2003 Update and the 2004 Review Draft Assessment. It does not necessarily equal the difference in the total contributions to the relativities between the two inquiries.

221. Compared to the 2003 Update assessment, the draft assessment redistributed \$78.0 million away from New South Wales, Victoria, South Australia and Tasmania to the other States.

222. The main reasons for the change in grants were due to the:

- (i) changes to the socio-demographic composition factor for aged services – increased Indigenous use weights has increased the factor for Northern Territory;
- (ii) changes to wages input costs — due to a recognition that ‘location effect’ (a broader measure of cost-of-living) is higher for New South Wales (particularly in recent years) and the Northern Territory — moves grants to these two States.

USER CHARGES

223. **1999 Review.** In the 1999 Review, user charges for this category were assessed by the equal per capita approach.

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

Commission decision. The quantum of user charges for this category is small and remains policy influenced. The Commission has decided to continue to assess user charges for this category by the equal per capita method.