

ISOLATION – ASSESSMENT RESULTS

- 1 This working paper describes the assessment of additional costs incurred by some States due to the distances of those States from other State capitals and sources of supply. The paper also includes information on its impact on the GST revenue distribution for the 2008 Update. The development of the assessment methods for these costs are discussed in Volume 7 of the Working Papers for the 2004 Review.

DESCRIPTION OF ISOLATION COSTS

- 2 The isolation costs assessment accounts for the additional costs incurred by some States owing to their distances from other State capitals and sources of supply. In many instances, isolation reflects the extra costs incurred by some States in moving people or goods across State borders. There is, however, an emphasis on States that are distant from the major cities of Sydney, Melbourne and Brisbane. The factor is also generally confined to costs of movements between State capitals — the effects of distance and population dispersal on the costs incurred in moving people or goods within a State are reflected in the dispersion disability.
- 3 Table 1 shows the calculated isolation expenses of each State for each of the isolation-related expenditure items for 2006-07.

Table 1 Isolation related costs, 2006-07

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Labour related	0.0	0.0	0.0	2.7	0.0	6.4	0.0	54.4	63.5
Freight	0.0	0.0	0.0	21.9	11.0	0.4	0.2	43.8	77.3
Airfares	2.2	2.9	3.8	6.8	3.5	4.1	3.0	6.8	33.1
Travel allowance	0.2	0.1	0.2	0.9	0.3	0.6	0.2	1.8	4.4
Medical travel related	0.0	0.0	0.0	0.1	0.1	0.1	0.0	0.7	1.0
Total	2.4	3.1	4.0	32.4	14.8	11.6	3.5	107.5	179.3
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Per capita total costs	0.35	0.59	0.97	15.55	9.41	23.66	10.34	505.23	8.60

ASSESSMENT METHOD

Description of the assessment

- 4 Costs arising from isolation (or interstate movements) affect most State functions and include:
 - *labour-related costs* such as leave fares, rental subsidies, recruitment expenses, additional recreation leave and fringe benefits tax — also included were professional infrastructure costs which arose from the need to bring in professional expertise not available locally;
 - *freight costs* on the movement of goods and materials used in service provision (including construction materials, plant and equipment) because the sources of supply were in other States;
 - *airfares and travel allowances* relating to attendance by officials at meetings and conferences in other State capital cities; and
 - *medical travel related subsidies* which arose from the need to subsidise travel expenses of hospital patients treated interstate.
- 5 The isolation disabilities were assessed for the expenditure items included in the above list, except that medical travel related subsidies were included in a more general ‘travel related subsidies’ item. The travel related subsidies item also included subsidised travel for students and artistic and sport performers, as well as hospital patients.
- 6 In addition, disabilities were assessed for commercial isolation, which accounted for higher costs of goods (such as high technology equipment and medical supplies) due to small markets and geographical isolation.
- 7 Isolation expense components were assessed in those categories which were judged to contain isolation-related costs. For each relevant category, the average proportion of expenses due to isolation was calculated by:
 - allocating a share of the isolation-related costs to each category, on the basis of the proportion of each category’s expenditure that is affected by isolation¹; and
 - expressing the per capita isolation-related costs allocated to each category as a percentage of the total average per capita expenditure for the category in 2004-05.
- 8 The Commission decided during 2006 that:
 - for the 2007, 2008 and 2009 Updates, all labour related and freight related isolation costs would be based on the 2006 assessments updated by CPI, due to concerns about the quality and reliability of State provided data;
 - the existing cost relativities between States would be preserved; and
 - as their data would not be used, States would not be asked to provide data on isolation costs for future updates.

¹ Commonwealth Grants Commission, Reports on Research in Progress 1995, Volume 1, pp. 387-400.

RESULTS FOR 2006-07

- 9 Table 2 shows the calculated isolation expenses for each State for each year of the update period. Table 3 sets out the 2007 Update isolation factors for all affected categories except Services to Indigenous Communities. Table 4 sets out the 2007 Update isolation factors for Services to Indigenous Communities.

Table 2 Isolation expenses — 2008Update

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
2001	1.9	2.7	3.5	27.6	13.0	9.7	2.9	87.5	148.9
2002	2.2	2.9	3.9	29.0	13.8	9.9	3.0	92.3	156.9
2003	2.4	3.0	4.0	29.9	14.3	10.4	3.1	96.5	163.6
2004	2.5	3.2	4.2	30.7	14.7	11.7	3.3	101.8	171.9
2005	2.4	3.0	4.0	31.6	14.5	11.4	3.5	104.7	175.3
2006	2.4	3.1	4.0	32.4	14.8	11.6	3.5	107.5	179.3

Table 3 Isolation factors, all affected categories except Services to Indigenous Communities, 2008Update

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
2000	0.0381	0.0730	0.1234	1.8947	1.1247	2.7047	1.2006	57.8384
2001	0.0421	0.0742	0.1288	1.8849	1.1391	2.6385	1.1846	58.2695
2002	0.0432	0.0751	0.1281	1.8559	1.1374	2.6587	1.1910	58.7384
2003	0.0429	0.0741	0.1245	1.8076	1.1186	2.8356	1.2050	58.7624
2004	0.0422	0.0698	0.1163	1.8199	1.0900	2.7403	1.2787	58.7893
2005	0.0408	0.0692	0.1131	1.8076	1.0936	2.7506	1.2284	58.7408

Table 4 Isolation factors, Services to Indigenous Communities, 2008 Update

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
2000	0.0389	0.0745	0.1259	1.9328	1.1474	2.7591	0.0000	59.0021
2001	0.0429	0.0756	0.1313	1.9222	1.1617	2.6907	0.0000	59.4231
2002	0.0440	0.0766	0.1306	1.8926	1.1599	2.7113	0.0000	59.9006
2003	0.0438	0.0756	0.1269	1.8436	1.1409	2.8921	0.0000	59.9328
2004	0.0431	0.0712	0.1188	1.8583	1.1130	2.7981	0.0000	60.0299
2005	0.0416	0.0706	0.1154	1.8442	1.1158	2.8062	0.0000	59.9291

- 10 Table 5 shows the categories affected by isolation expenses and the component weights for 2006-07. The share of each category in the total isolation expenses remained unchanged from those assessed for the 2007 Update. .

Table 5 Isolation-related costs — 2008 Update.

		\$ m	% of total	% of category
Education				
4010	Pre-school education	1.4	0.76	0.32
4020	Government primary education	17.7	9.82	0.17
4040	Government secondary education	11.7	6.49	0.14
4060	Vocational education and training	9.3	5.18	0.22
Health and community services				
4110	Inpatient services	36.4	20.16	0.20
4115	Non-inpatient and community health services	9.7	5.40	0.10
4120	Population and preventive health	1.8	1.02	0.12
4130	Family and child services	2.0	1.12	0.09
4135	Aged and disabled services	3.9	2.14	0.08
4160	Housing	3.7	2.07	0.12
4180	Services to indigenous communities	3.8	2.09	1.05
Law, order and public safety				
4440	Police	11.1	6.18	0.21
4450	Administration of justice	7.2	3.99	0.30
4465	Corrective services	5.4	2.98	0.23
4470	Public safety and emergency services	3.2	1.78	0.18
Culture and recreation				
4710	Culture and recreation	8.5	4.72	0.37
4720	National parks and wildlife services	2.4	1.31	0.38
Economic activities				
5420	Water sanitation and protection of the environment	1.2	0.69	0.07
5430	Roads	5.7	3.15	0.08
5440	Primary industry	6.3	3.52	0.30
5450	Mining fuel and energy	2.6	1.45	0.67
5455	Tourism	4.5	2.52	1.08
General public services				
5525	General public services	20.6	11.45	0.39
Total		180.4	100.00	(a) 0.19

(a) proportion of total expenditure on categories with isolation component.

CONTRIBUTION TO GST REVENUE DISTRIBUTION

11 Table 6 shows the redistribution of GST revenue due to the isolation assessments in the 2007 Update and the 2008 Update.

Table 6 Isolation, effect of assessment on GST revenue distribution, 2007 Update and 2008 Update

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total redist'd
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Redistribution from EPC resulting from the 2007 Update assessment (a)	-67.9	-48.8	-36.9	18.7	2.0	9.2	0.5	123.2	153.6
Redistribution from EPC resulting from the 2008 Update assessment (a)	-63.5	-46.6	-35.5	16.7	1.7	8.1	0.6	118.5	145.6
Total effect of revisions and updating^(b)	4.3	2.3	1.5	-1.9	-0.3	-1.1	0.1	-4.7	8.1

(a) Assuming same pool.

(b) This figure shows the change in the amount redistributed among the States between the 2007 Update and the 2008 Update. It does not necessarily equal the difference in the total redistribution from EPC between the two inquiries.

- 12 Compared with an equal per capita assessment, the 2008 Update redistributed \$145.6 million away from the New South Wales, Victoria and Queensland, mostly to the Northern Territory. The influence of isolation is declining because the CPI is growing slower (about 3 per cent per year) than category expenses (6 per cent) or the pool (more than 7 per cent). The declining influence of isolation reduces the share of WA, SA, Tas and the NT and improves the share of the other States.

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