



# **COMMONWEALTH GRANTS COMMISSION**

**DRAFT ASSESSMENT PAPER CGC 2003/41**

**CULTURE AND RECREATION**

Prepared for the Commission's 2003 Conferences on Draft Assessments

**AUGUST 2003**

## **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.**

# CONTENTS

---

<b>INTRODUCTION</b>	<b>1</b>
<b>THE 1999 REVIEW ASSESSMENT</b>	<b>1</b>
Description of the category	1
Expenses assessment	2
User charges assessment	4
<b>2004 REVIEW PROPOSED CATEGORY DEFINITION AND ASSESSMENT STRUCTURE</b>	<b>4</b>
Scope of the category	4
<b>FIXED COSTS COMPONENT</b>	<b>5</b>
Administrative scale	5
Input costs	6
<b>SERVICES COMPONENT</b>	<b>7</b>
Dispersion	7
Input costs	9
Economic environment	10
Socio-demographic composition	12
Cross-border	13
<b>NATIONAL CAPITAL COMPONENT</b>	<b>15</b>
National capital	15
<b>ISOLATION COMPONENT</b>	<b>18</b>
Isolation	18
<b>SUMMARY OF RESULTS</b>	<b>19</b>
Calculating the category factor	19
Calculation Formula	20
Comparison of category factors	21
Standardised expenses	21
<b>ANALYSIS</b>	<b>22</b>
<b>USER CHARGES</b>	<b>23</b>
<b>ATTACHMENT A: CALCULATION OF NATIONAL CAPITAL ALLOWANCE</b>	<b>1</b>

## INTRODUCTION

1. This paper presents a draft assessment for the Culture and Recreation category for the 2004 Review. It responds to State comments provided in the Main and Rejoinder Submissions. A discussion paper was not written for this 'no change' category in 2002.

2. The proposed assessment structure for this category in the 2004 Review is shown in Table 21 on page 22.

## THE 1999 REVIEW ASSESSMENT

### *Description of the category*

3. In the 1999 Review, the Culture and Recreation category comprised expenses on administration, support, provision and operation of cultural and recreational services. More specifically, the category included expenses on:

- (i) direct provision of, and subsidies to, libraries open to the public;
- (ii) art galleries;
- (iii) museums;
- (iv) facilities and services for the creative and performing arts such as theatres, concerts, stage productions and orchestras;
- (v) other cultural facilities and services such as exhibition halls and monuments;
- (vi) other recreational facilities and services such as football and cricket grounds; and
- (vii) national, regional or local representation in sporting events, and for equipment, coaching, training and other items needed for teams or players.

4. Table 1 shows the expenses standard for the 1997-98 to 2001-02. In 2001-02, this category, at \$72.86 per capita, represented 1.46 per cent of total standard expenses.

5. In the 1999 Review, all SPPs related to this category were excluded. However, Commonwealth payments in the form of ATSIIC Direct Grants to

non-government organisations (NGOs) for culture and recreation purposes, were included in the expenses standard.

**Table 1** CULTURE AND RECREATION — STANDARD EXPENSES AND USER CHARGES, 2003 UPDATE

	1997-98	1998-99	1999-2000	2000-01	2001-02
Standard expenses (\$pc)	44.00	64.24	74.00	72.31	72.86
% of total standard expenses	1.14	1.41	1.60	1.49	1.46
Standard user charges (\$pc)	9.37	8.32	8.51	9.25	9.76
% of category standard expenses	21.3	13.0	11.5	12.8	13.4

6. Table 2 shows that compared to an equal per capita assessment, the 2003 Update assessment redistributed about \$73.8 million away from New South Wales, Victoria and Queensland to the other States.

**Table 2** EFFECT OF ASSESSMENT ON GRANT DISTRIBUTION — CULTURE AND RECREATION

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total <sup>(a)</sup>
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Contribution to U2003 relativities<sup>(b)</sup></b>	-30.8	-27.8	-15.3	12.3	4.8	13.2	17.7	25.8	73.8

(a) Total redistribution.

(b) Assuming same pool and a constant population.

### *Expenses assessment*

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

**Table 3** CULTURE AND RECREATION EXPENSES ASSESSMENT  
STRUCTURE, 1999 REVIEW

Expenses component	Component weight	Factors	Basis of calculation
Scale-affected expenses	14.72	Input costs	General method with weights of 80% for wages, 2% for accommodation and 1% for electricity.
		Administrative scale	General method.
Services	84.23	Dispersion	General method.
		Economic environment	Differences in corporate support for the arts.
		Input costs	General method with weights of 70% for wages, 2% for accommodation and 1% for electricity.
		Socio-demographic composition	Based on differences in proportions of Indigenous populations and the level of ATSI grant expenditure.
		Cross-border	Assessed for New South Wales and the ACT by the general method.
National capital	0.17	National capital	General method.
Isolation	0.88	Isolation	General method.

8. The factors which had the largest redistributive effect in the category assessment in the 2003 Update, are set out in Table 4.

**Table 4** CULTURE AND RECREATION, REDISTRIBUTIVE IMPACT OF KEY FACTORS, 2003 UPDATE

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total <sup>(a)</sup>
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Scale-affected expenses</b>									
Administrative scale <sup>(b)</sup>	-24.6	-14.4	-7.1	4.0	5.5	10.3	11.9	14.4	46.1
<b>Services Component</b>									
Economic environment <sup>(b)</sup>	-5.7	-4.1	-3.2	4.3	3.2	2.4	1.8	1.3	13.0
Socio-demographic composition <sup>(b)</sup>	-1.3	-4.2	1.8	1.1	-0.6	0.3	-0.2	3.0	6.2
	-31.6	-22.7	-8.5	9.4	8.1	13.0	13.5	18.7	62.7

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

(b) Assuming same pool and a constant population.

### *User charges assessment*

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

10. In the 1999 Review, all SPPs related to this category were excluded. However, Commonwealth payments in the form of ATSIC Direct Grants to non-government organisations (NGOs) for culture and recreation purposes, were included in the expenses standard.

## **2004 REVIEW PROPOSED CATEGORY DEFINITION AND ASSESSMENT STRUCTURE**

### *Scope of the category*

11. As a 'no change' category, no proposals were made to change the category definition or the assessment structure for the 2004 Review. Some changes to the assessment were expected to result from changes to component weights.

12. **State Views.** The Northern Territory supported the retention of the existing assessment method of this category. No other States commented.

13. **Commission decision.** As set out in *Draft Assessment Paper CGC 2003/78 Treatment of Specific Purpose Payments*, the Commission has decided:

- (i) to include in the category the Upgrade Tasmanian Sporting Facilities specific purpose payment (current purposes) because this payment is used for the delivery of culture and recreation services by Tasmania;
- (ii) to exclude the Inveresk Woodchopping Stadium specific purpose payment (current purposes), paid to Tasmania; and
- (iii) to exclude from the expenses standard ATSIC Direct Grants paid to non-government organisations for culture and recreation purposes — because such payments do not directly affect State budgets (that is, States act as Commonwealth agents).

14. The Commission decided to change the weights for all components. The proposed proportions of expenses affected by isolation and administrative scale were estimated using the general methods set out in the draft assessment papers for these factors. The component weight for the national capital component was based on the assessed national capital allowance. The weight for the services component is the balance of category expenses.

15. The Commission's decision for the category are summarised in Table 5.

**Table 5** COMMISSION DECISIONS — CATEGORY SCOPE, ASSESSMENT STRUCTURE AND COMPONENT WEIGHTS

Decision	Reason
<b>Scope.</b> No material change in the existing scope of the category from 2003 Update.	
<b>Treatment of SPPs.</b>	
To include the Upgrade Tasmanian Sporting Facilities SPP.	Payment used for service delivery.
To exclude from the category ATSIC Direct Grants paid to non-government organisations for culture and recreation purposes.	ATSIC Direct Grants paid to non-government organisations have no direct impact on State budgets — that is, States act as Commonwealth agents. Asset not created.
To exclude the Inveresk Woodchopping Stadium SPP.	
Assessment structure and component weights <sup>(a)</sup> :	The Commission decided to break this category into these components because evidence available from States in their submissions and ABS Government Finance Statistics, suggested these were the most important groups of culture and recreation services provided. The fixed costs and isolation components are calculated by the general methods. The national capital component is based on the allowance assessed. The Services component is the residual for the category.
<ul style="list-style-type: none"> <li>• Fixed costs: 4.27%</li> <li>• Services: 95.42%</li> <li>• National Capital: 0.06%</li> <li>• Isolation: 0.25%</li> </ul>	

(a) These are component weights for 2001-02.

## FIXED COSTS COMPONENT

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

### *Administrative scale*

17. **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 \$14 million, of which \$7 million was considered as fixed cost and \$7 million as variable cost. The scale-affected expenses component represented 14.72 per cent of expenses in this category.

18. **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 cost component in each category. States did not raise issues specific to this category.

19. 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.

20. The administrative scale factors for this category, shown in Table 6, have been calculated using the 2004 Review general method. Fixed costs for this category have been estimated to be \$9.0 million per State, which represents 4.27 per cent of the category standard in 2001-02.

**Table 6** ADMINISTRATIVE SCALE, 2004 REVIEW

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
1997-98	0.36858	0.50382	0.68027	1.28668	1.56812	4.92560	7.52310	12.32319
1998-99	0.36853	0.50445	0.67767	1.28097	1.57795	4.99478	7.55742	12.25346
1999-2000	0.36854	0.50478	0.67478	1.27836	1.58830	5.05782	7.57230	12.19839
2000-01	0.36846	0.50489	0.67161	1.27768	1.60144	5.12202	7.57722	12.18130
2001-02	0.36891	0.50461	0.66745	1.27717	1.61320	5.17750	7.59249	12.25311

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

### ***Input costs***

22. **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 those inputs. For the scale affected costs component, those factors were applied to the following proportions of standard expenses:

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

23. **2004 Review.** *Discussion Paper CGC 2003/04 Input Costs* discusses the issues raised by the States regarding the assessment of wages and salaries costs. The paper sets out the Commission's proposals for the general method of assessment to be adopted for the 2004 Review. *Draft Assessment Paper CGC 2003/79 Input Costs — Electricity and Accommodation* discusses the issues raised by the States regarding the assessment of input costs relating to accommodation and electricity. The paper sets out the Commission's decisions on the general method of assessment to be adopted for the 2004 Review and on the size of the standard expense proportions in each category for accommodation costs and electricity costs. The States did not raise issues specific to this category.

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

25. The input costs factors for the fixed cost component of this category, shown in Table 7, 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 7** INPUT COSTS, 2004 REVIEW

	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

26. 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.

## SERVICES COMPONENT

27. Culture and Recreation was a 'no change' category. However, as the Commission proposes to exclude from the category standard ATSIC Direct Grants for culture and recreation purposes, any assessment of service delivery expenses funded by these ATSIC grants becomes redundant. Therefore, for the 2004 Review, a change in the category assessment method becomes necessary because the socio-demographic composition assessment was directly associated with the expenses funded by these ATSIC grants.

28. After removing the socio-demographic composition and economic environment assessments (refer below), the factors to be assessed for the services component for the 2004 Review are dispersion, input costs and cross-border.

### *Dispersion*

29. **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.

30. 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. Each index was weighted by the proportion of standard expenses affected by each type of dispersion-affected cost. They were combined to form the overall dispersion factor. The proportions of standard expenses estimated for this component are shown in Table 8.

**Table 8** DISPERSION COST WEIGHTS — SERVICES COMPONENT, 2003 UPDATE

Telephone	Freight	Air Travel	Road Travel		Remote Removals	Locality Allowances
			Inter Regional	Local		
0.00287	0.00193	0.00162	0.00173	0.00099	0.00000	0.00000

Source: 2003 Update Working Papers Volume 4, p493.

31. **2004 Review.** *Draft Assessment Paper CGC 2003/63 Dispersion* discusses the issues raised by the States regarding the assessment of dispersion. 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.

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

33. The dispersion factors for services have been calculated according to the 2004 Review general method. There were nine indexes within the dispersion factor for the 2004 Review. Table 9 shows the proportions of standard expenses estimated for each of the nine elements of dispersion affected expenses for this component.

**Table 9** DISPERSION COST WEIGHTS — SERVICES COMPONENT, 2004 REVIEW

Telecommunication		Freight, Air travel general		Road travel		Repairs and maintenance	Remote staff turnover	Locality allowances
Voice	Non-voice			Inter regional	Local			
0.0044	0.0005	0.0034	0.0018	0.0015	0.0014	0.0011	0.0000	0.0000

34. Table 10 shows the dispersion factors assessed for services component for the 2004 Review.

**Table 10** DISPERSION FACTORS — SERVICES COMPONENT, 2004 REVIEW

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
1997-98	0.99935	0.99636	1.00438	1.00379	0.99693	0.99867	0.98947	1.03981
1998-99	0.99934	0.99635	1.00437	1.00378	0.99692	0.99865	0.98946	1.03980
1999-2000	0.99933	0.99634	1.00436	1.00377	0.99691	0.99865	0.98945	1.03979
2000-01	0.99932	0.99634	1.00435	1.00376	0.99690	0.99864	0.98945	1.03979
2001-02	0.99932	0.99633	1.00435	1.00376	0.99690	0.99863	0.98944	1.03978

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

### *Input costs*

36. **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.

37. **2004 Review.** The input costs factors for the services component of this category, shown in Table 11, 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. The Commission has decided that input costs will be assessed for this component.

**Table 11** INPUT COSTS FACTORS — SERVICES COMPONENT, 2004 REVIEW

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
1997-98	1.02932	0.98903	0.98351	0.98292	0.97413	0.94405	1.00688	1.08142
1998-99	1.03090	0.98991	0.98183	0.97989	0.97245	0.94192	1.01061	1.07740
1999-2000	1.03335	0.98917	0.97931	0.98163	0.96934	0.93610	1.01444	1.07331
2000-01	1.03385	0.99038	0.97766	0.98158	0.96830	0.93360	1.01376	1.07096
2001-02	1.03293	0.99138	0.97654	0.98254	0.97177	0.93334	1.01116	1.06793

## *Economic environment*

38. **1999 Review.** The Commission assessed an economic environment factor, based on judgement, for this component. It considered information published by the Australian Council for the Arts (*Corporate Support for the Arts 1996*). That data detailed the share of arts supporters and company head offices located in each State, and the ABS (*Australian National Accounts Cat. No. 5220.0, ABS, 1996-97*) which showed the contribution to Gross State Product of the industries which supported the arts. This published information indicated that there were relatively fewer arts supporters in the smaller States and that industries which generally provided more support tended to be more heavily represented in the larger States. Therefore, the Commission judged that smaller States faced additional and unavoidable per capita costs in supporting the arts in their jurisdictions compared with the larger States, and assessed a factor which reflected that judgement.

39. The economic environment factors assessed are set out in the following table. They have remained unchanged in all updates since the 1999 Review.

**Table 12** ECONOMIC ENVIRONMENT FACTORS — SERVICES COMPONENT, 1999 REVIEW

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
1999 Review (all years)	1.00000	1.00000	1.00000	1.05000	1.05000	1.10000	1.10000	1.10000

40. **Preliminary State views.** States made no comments on this assessment.

41. **Staff Proposal.** Being a ‘no change’ category, no discussion paper was circulated for Culture and Recreation and no staff proposals were made concerning assessment methods for this category.

42. **Further State views.** Victoria argued that the economic environment factor should recognise that a larger city population resulted in greater attendance at cultural events and usage of cultural facilities. It argued that this higher use factor should be reflected by discounting the economic environment factor or by including an urbanisation sub-disability that recognised higher use by urban populations. No other State commented.

43. **Analysis.** The Commission has looked at two new sources of information on this issue — the 2000-01 *Generosity of Australian Business* survey published by the ABS (Cat No 8157.0), and *Securing the Future — Major Performing Arts Inquiry* Final Report December 1999 published by the Department of Communications Information Technology and the Arts (DOCITA). The ABS publication indicated which industry sectors were making donations to the arts across Australia, but not by State.

44. The DOCITA report indicated that:

- (i) about 80 per cent of public funding of the arts is sourced from the Commonwealth and most of the balance is provided by the States; and

(ii) the viability of art form companies varies with their location.

45. On the second issue, DOCITA proposed that additional funding be provided to major arts companies located in Adelaide, Brisbane, Hobart and Perth. (No major art form companies are based in Canberra or Darwin). DOCITA indicated that this 'adjustment' reflected the difference between the earned income that a benchmark Sydney or Melbourne art form company could generate as a percentage of costs and that able to be generated by a company based in a less populous State in the same art form. The specific loadings for extra funds are set out in Table 13.

**Table 13** GEOGRAPHIC ADJUSTMENT FACTORS, MAJOR PERFORMING ARTS INQUIRY, DEPARTMENT OF COMMUNICATIONS INFORMATION TECHNOLOGY AND THE ARTS

City	Art form company	Factor %
Brisbane	Queensland Ballet	32
	Queensland Symphony Orchestra	14
	Opera Queensland	25
	Queensland Theatre Company	40
	Average = 28%	
Perth	West Australian Ballet	35
	West Australian Symphony Orchestra	15
	West Australian Opera	27
	Black Swan Theatre Company	39
	Average = 29%	
Adelaide	Australian Dance Theatre	46
	Adelaide Symphony Orchestra	14
	State Opera of South Australia	31
	State Theatre Company of South Australia	47
	Average = 35%	
Hobart	Tasmanian Symphony Orchestras	36
	Average = 36%	

Source: Department of Communications Information Technology and the Arts

46. This table indicates relative to companies located in Sydney and Melbourne, those located in Brisbane and Perth require about 30 per cent extra funding, and those in Adelaide and Hobart about 35 per cent extra. The companies in New South Wales and Victoria are the most viable, but they still require public support to function.

47. **Commission decision.** Table 13 shows that smaller States do incur additional per capita costs in topping up their arts funding buckets, when the breadth and depth of support for the arts in their jurisdictions is comparatively less than that found in more populated jurisdictions. New South Wales and Victoria are home to most of the big companies, which tend to be bigger supporters of the arts. The information presented above suggests that New South Wales and Victoria do not have to support the arts to the extent

that smaller States do. The above information indicates that there is a conceptual case for the assessment of an economic environment factor for this component.

48. No States provided any data on this assessment. In the 1999 Review, the economic environment factor was assessed by judgement supported by indicative information only. While acknowledging a conceptual case, there is currently insufficient evidence on which to consider how an assessment may be made. Unless States can provide data to support the conceptual case, the Commission proposes not to assess an economic environment factor for the services component in the 2004 Review.

**Table 14** COMMISSION DECISION — SERVICES COMPONENT: ECONOMIC ENVIRONMENT FACTORS

Decision	Reason
To not assess an economic environment factor for the services component in the 2004 Review.	A conceptual case of an assessment is acknowledged, but there is insufficient data on which to consider how to make an assessment in the 2004 Review.

***Socio-demographic composition***

49. ***1999 Review.*** A socio-demographic composition factor was assessed to allow for the additional costs associated with providing cultural and recreational services to Indigenous populations. The factor was measured by the differences between the States in the proportion of their total population that is Indigenous, weighted by the proportion of the standard made up of ATSIC Direct Grants for culture and recreation purposes.

50. ***Preliminary State views.*** States provided no comments on this assessment.

51. ***Staff proposal.*** Being a ‘no change’ category, no discussion paper was circulated for Culture and Recreation and no staff proposals were made concerning assessment methods for this category.

52. ***State views.*** Victoria requested that the higher costs State governments face in providing cultural services to people of a diverse cultural heritage should be taken into account through a 10 per cent cost disability.

53. The Northern Territory supported the retention of the existing assessment method. No other State commented.

54. ***Commission decision.*** As set out in *Draft Assessment Paper CGC 2003/78 Treatment of Specific Purpose Payments*, the Commission proposes to exclude ATSIC Direct Grants paid to non-government organisations for culture and recreation purposes from the Culture and Recreation expenses standard. These grants have no direct impact on State budgets. Consequently, the socio-demographic composition assessment directly associated with the expenses funded by those ATSIC Grants, within the Services component, becomes unnecessary.

55. We are inclined to agree with Victoria that there is a conceptual case for assessing a socio-demographic composition factor to reflect the cost differences between States in providing culture and recreation services to peoples of diverse cultural heritage. However, in the absence of hard data, we cannot decide what disability to assess. But we think that additional costs incurred by States due to differences in the populations of diverse cultural heritage, would most likely be small. On materiality grounds, therefore, the Commission has decided not to assess a socio-demographic composition factor to reflect the cost differences between States in providing culture and recreation services to peoples of diverse cultural heritage.

56. The Commission’s decision is summarised in Table 15.

**Table 15** COMMISSION DECISION — SERVICES COMPONENT, SOCIO-DEMOGRAPHIC COMPOSITION FACTORS

Decision	Reason
To not assess a socio-demographic composition factor for the services component in the 2004 Review.	As the ATSI Direct Grants paid to non-government organisations for culture and recreation purposes are to be excluded from the category, the assessment of a socio-demographic composition factor to allow for expenses funded by those grants will become unnecessary.  There are no data to demonstrate that additional costs faced by States because of the extent of cultural heritage diversity in their populations are material.

***Cross-border***

57. ***1999 Review.*** A cross-border factor was assessed for the services component to recognise the additional costs the ACT incurred in providing culture and recreation services to New South Wales residents. The factor was assessed using a general method. It was based on 25 per cent of the total population in Queanbeyan, Yass, Yarrowlunla and Gunning Local Government Areas (LGAs) and 10 per cent of the total population in the Bega Valley, Bombala, Boorowa, Cooma-Monaro, Crookwell, Eurobodalla, Goulburn, Harden, Mulwaree, Snowy River, Tallaganda and Young LGAs.

58. ***Preliminary State views.*** States provided no comments on this assessment.

59. ***Staff proposal.*** In *Discussion Paper CGC 2002/5 Cross Border Disabilities and Special Circumstances of the Australian Capital Territory*, staff proposed that a cross border factor be made for culture and recreation services for the 2004 Review.

60. ***Further State views.*** The ACT supported the continued assessment of cross-border influences for this category. It illustrated its claims by reporting that:

- (i) New South Wales residents’ membership of ACT libraries was 3140 at June 2001; and

- (ii) the use of ACT arts and cultural services (including Canberra Museum and Gallery, Canberra Theatre Centre, Lanyon, Nolan Gallery, Tuggeranong Arts Centre, Floriade, the Science Festival and the Folk Festival) by non-residents accounted for 15 per cent of total visitation per annum.

61. On the basis of this estimate of non-resident demand for arts and cultural services, the ACT argued that the use of ACT cultural and recreation facilities (in general) by non-residents, was 15 per cent per annum.

62. **Commission decision.** *Draft Assessment Paper CGC 2003/68 Cross Border Factors* discusses the general arguments of the ACT and the other States on the assessment of cross border costs. It sets out the Commission’s general decisions on cross border assessments for the 2004 Review.

63. The Commission accepts that the location of the ACT within New South Wales results in it incurring net additional costs in providing culture and recreation services to New South Wales residents. There is a conceptual case for assessing cross-border factors to recognise the net additional costs incurred by the ACT as a result of the additional demand for ACT culture and recreation services. Comparative data on the actual cross-border use of ACT services are not available to assess these influences. However, the evidence indicates that cross border influences have an impact on the ACT’s budget which the Commission considers to be material. The strength of the conceptual case and the indications provided by the evidence available, are sufficient for the Commission to conclude that equalisation would be improved by assessing cross-border influences for this component.

64. The Commission’s decision is summarised in Table 16.

**Table 16** COMMISSION DECISION — SERVICES COMPONENT: CROSS-BORDER FACTORS

Decision	Reason
To assess a cross-border factor for the services component based in the 2004 Review general method. The factors assume a net annual cross border population of 25 per cent of the usual resident population in Queanbeyan, Yass, Yarrowlunla and Gunning LGAs and 10 per cent of the usual resident population in the Bega Valley, Bombala, Boorowa, Cooma-Monaro, Crookwell, Eurobodalla, Goulburn, Harden, Mulwaree, Snowy River, Tallaganda and Young LGAs.	Gives the ACT the capacity to provide the average level of services by assessing the additional costs that it incurs in providing culture and recreation services to New South Wales residents.

65. **Method and results.** The cross-border factors for this component, shown in Table 17, have been calculated according to the 2004 Review general method. They used 25 per cent of the total population in the nearest LGAs and 10 per cent of the total

population in the rest of the LGAs, because cross-border demand is assumed to be stronger for LGAs closer to the ACT and weaker for LGAs further from the ACT.

**Table 17** CROSS-BORDER FACTORS — SERVICES COMPONENT, 2004 REVIEW

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
2003 Update	0.99588	1.00000	1.00000	1.00000	1.00000	1.00000	1.08271	1.00000
2004 Review (draft)	0.99576	1.00000	1.00000	1.00000	1.00000	1.00000	1.08739	1.00000

66. **Updateability.** Annual estimates of LGA resident populations will be used to update the cross border factors.

## NATIONAL CAPITAL COMPONENT

### *National capital*

67. **1999 Review.** A national capital factor was assessed to take account of the additional costs incurred by the ACT because of its status as the nation's capital and seat of government.

68. A national capital allowance of \$1.0 million was assessed to allow for extra costs associated with maintaining designated land. The national capital factor was applied to 0.06 per cent of category standard expenses.

69. **Staff proposal.** In *Discussion Paper CGC 2002/5 Cross Border Disabilities and Special Circumstances of the Australian Capital Territory*, staff sought clarification from the ACT on whether:

- (i) the specified areas of open space and sportsgrounds are over and above the standard level of similar areas in other cities or States, how the areas were calculated and the extent of the influence of the National Capital Plan on the increased area;
- (ii) it has no option but to manage Commonwealth Designated Areas; and
- (iii) the ACT is reimbursed for (i) and (ii) by the SPP for municipal services from the Commonwealth, or through other arrangements.

70. Staff proposed that a national capital assessment be made for Culture and Recreation for the 2004 Review, based on the estimate of \$1.0 million.

71. **State views.** Victoria proposed that the national capital factor be adjusted to allow for the presence of ‘national’ collections residing outside the national capital.

72. The ACT argued that:

- (i) a national capital allowance should continue to be assessed for the ACT’s above standard area of sportsgrounds and urban area space, which it said was twice the area in comparable cities;
- (ii) an allowance of \$2.2 million per annum should be assessed for the above average costs faced in maintaining this above average urban open space and sportsground system; and
- (iii) an additional allowance of \$1.0 million should be assessed for the additional costs incurred by the ACT in managing and maintaining Commonwealth Designated Areas.

73. In its rejoinder submission, the ACT set out a method of explicitly defining the municipal and territorial urban space. It did so to reassure the Commission that no double counting occurred in its estimate of the cost of maintaining municipal and territorial land. On the basis of that method, it said that an allowance of \$4.8 million per annum should be assessed instead of the \$2.2 million it previously sought. The ACT’s estimate of above standard maintenance costs is at Attachment A.

74. **Commission decision.** As outlined in *Draft Assessment Paper CGC 2003/71 National Capital Allowances for the ACT*, the Commission has decided that equalisation principles require national capital allowances to be assessed for the 2004 Review when the ACT incurs additional costs that are:

- (i) undeniably the result of mandated influences that arise because of Canberra’s status as the national capital and the seat of government;
- (ii) not of a municipal government type nature; and
- (iii) assessed to be above standard.

75. The Commission acknowledges that the requirements of the National Capital Plan impose some above standard costs on ACT maintaining municipal and territorial land. The Commission has looked at the ACT’s calculations, and concludes the following:

- (i) The ‘open space and sportsgrounds’ claim is based in part on the width of road verges in the ACT. No information has been provided on what the standard width of road verges is across the States. The only information supplied is that the ACT’s consultants had concluded that the average width of ‘urban open space adjacent to Territorial roads’ was 15 metres. It is difficult for the Commission to make an assessment without knowing whether the ACT’s road verges are indeed greater than the national standard.

- (ii) The open space costs have been based on total costs required to maintain all ‘urban open space and sportsgrounds’ for 2002-03. Whether these costs are directly relevant to the cost of maintaining road verges is doubtful. We think the unit costs of maintaining ACT sportsgrounds would be higher than the unit costs of maintaining road verges, because they require more intensive maintenance. The question then remains whether the ACT is incurring additional costs, above the national standard, in maintaining its road verges, and if so, is this part of the calculations appropriately based.
- (iii) No evidence has been provided that the refurbishment costs are above the average for all States. Again, it is difficult for the Commission to make an assessment without such information.

76. These activities may be costly, but it is not clear that the costs incurred by the ACT are substantially different from costs incurred by the States. Overall, the Commission has concluded that the conceptual case has not yet been made for a national capital allowance based on above average open space of a kind normally managed by State governments. However, the Commission acknowledges that a conceptual case has been made for an allowance to be assessed because additional costs are incurred by the ACT in managing and maintaining Commonwealth Designated Areas (the ACT estimates such costs amount to \$1 million). The Commission accepts that the extra costs incurred in maintaining these areas to the standard required by the Commonwealth arise from an influence that is created by the ACT’s role as the national capital.

77. In the light of the methodology used to make these estimates and the establishment of a conceptual case for managing and maintaining Commonwealth Designated Areas, the Commission has accepted the ACT’s calculation of additional costs incurred for this service and has decided to assess a national capital allowance of \$1 million per annum for Culture and Recreation for the 2004 Review.

78. The Commission’s decision is set out in Table 18.

**Table 18** COMMISSION DECISION — NATIONAL CAPITAL COMPONENT: NATIONAL CAPITAL FACTORS

Decision	Reason
A national capital allowance of \$1.0 million has been assessed for the 2004 Review, to account for the additional costs incurred by the ACT in maintaining the designated land. The assessment is based on the estimate of additional costs provided by the ACT and Commission judgement.	Gives the ACT the capacity to provide the average level of services by assessing the additional costs incurred by the ACT that arise because of Canberra’s status as the national capital and the seat of government.

79. **Method and results.** The national capital factors for the ACT, shown in Table 19, were calculated by dividing the Australian mean resident population by the ACT mean resident population. The factors for all other States are zero.

80. The component weight was calculated by dividing the assessed allowance by total category expenses. For Culture and Recreation, the national capital component is 0.06 per cent of the category.

**Table 19** NATIONAL CAPITAL FACTORS, 2004 REVIEW

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
2003 Update	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	60.73988	0.00000
2004 Review	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	60.95242	0.00000

81. **Updateability.** The factors for the ACT will be updated annually with mean resident population data. The cost component will re-estimated by increasing the original allowance by the CPI.

## ISOLATION COMPONENT

### *Isolation*

82. **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 0.88 per cent of expenses in this category.

83. **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.

84. The isolation factors for the isolation component, shown in Table 20, have been calculated according to the 2004 Review general method. Isolation-affected expenses for this category have been estimated to be 0.25 per cent of the category standard.

**Table 20** ISOLATION FACTORS — ISOLATION COMPONENT, 2004 REVIEW

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
2003 Update	0.03819	0.06197	0.11236	2.40453	0.28781	3.92447	1.17836	56.74472
2004 Review	0.05107	0.10737	0.17783	0.74776	0.56469	3.49490	1.51842	68.27218

85. The factor and component weight will not be updated until the next review. This means that isolation-affected expenses will grow at the same rate as category expenses.

### SUMMARY OF RESULTS

86. Table 21 summarises the proposed assessment for the 2004 Review.

**Table 21** CULTURE AND RECREATION — PROPOSED ASSESSMENT STRUCTURE FOR THE 2004 REVIEW

Component	Component weight	Factors	Basis of calculation
Fixed costs	4.27	Administrative scale Input costs	General method. General method, with weights of 80 % for wages, 2 % for accommodation and 1 % for electricity.
Services	95.42	Dispersion Input costs  Cross-border	General method. General method, with weights of 70 % for wages, 2 % for accommodation and 1 % for electricity. Assessed for New South Wales and the ACT by general method.
National capital	0.06	National capital	General method, based on an assessed allowance of \$1.0 million per annum.
Isolation	0.25	Isolation	General method.

#### *Calculating the category factor*

87. Table 22 summarises the components, component weights and disability factors for the 2004 Review. It shows the calculation of the category factor.

**Table 22** CULTURE AND RECREATION — CATEGORY FACTOR DERIVATION, 2004 REVIEW, 2001-02

Factors	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
<b>Fixed costs (FC) (component weight = 4.27%)</b>								
Administrative scale (s)	0.36891	0.50461	0.66745	1.27717	1.61320	5.17750	7.59249	12.25311
Input costs (ic_fc)	1.03714	0.99034	0.97354	0.97996	0.96824	0.92479	1.01291	1.07737
Component factor	0.38432	0.50197	0.65271	1.25719	1.56897	4.80956	7.72502	13.26033
Cont to category factor	0.01641	0.02143	0.02787	0.05368	0.06699	0.20537	0.32986	0.56622
<b>Services (SER) (component weight = 95.42%)</b>								
Dispersion (d)	0.99932	0.99633	1.00435	1.00376	0.99690	0.99863	0.98944	1.03978
Input costs (ic_oth)	1.03293	0.99138	0.97654	0.98254	0.97177	0.93334	1.01116	1.06793
Cross-border (x)	0.99576	1.00000	1.00000	1.00000	1.00000	1.00000	1.08739	1.00000
Component factor	1.02791	0.98775	0.98093	0.98634	0.96871	0.93201	1.08809	1.10776
Cont to category factor	0.98084	0.94252	0.93601	0.94117	0.92434	0.88933	1.03826	1.05703
<b>National Capital (NCAP) (component weight = 0.06%)</b>								
National capital (n)	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	60.95242	0.00000
Component factor	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	60.73988	0.00000
Cont to category factor	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.03610	0.00000
<b>Isolation (ISO) (component weight = 0.25%)</b>								
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	0.00013	0.00027	0.00044	0.00187	0.00141	0.00874	0.00380	0.17068
<b>CATEGORY FACTOR</b>	<b>0.99738</b>	<b>0.96422</b>	<b>0.96433</b>	<b>0.99672</b>	<b>0.99275</b>	<b>1.10344</b>	<b>1.40802</b>	<b>1.79392</b>

**Calculation formula**

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

$$\begin{aligned}
 \text{FC} &= 0.0427 ( \text{ic\_fc} * \text{s} ) \\
 \text{SER} &= 0.9542 [ ( \text{ic\_oth} + \text{d} - 1 ) * \text{x} ] \\
 \text{NCAP} &= 0.0006 ( \text{nc} ) \\
 \text{ISO} &= 0.0025 ( \text{iso} )
 \end{aligned}$$

$$\text{Category factor} = \text{FC} + \text{SER} + \text{NCAP} + \text{ISO}$$

### *Comparison of category factors*

89. Table 23 compares the category factors derived for the 2004 Review draft assessment with the 2003 Update.

**Table 23** CULTURE AND RECREATION — CATEGORY FACTORS, 2004 REVIEW AND 2003 UPDATE

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
<b>2004 Review draft assessment</b>	<b>0.99738</b>	<b>0.96422</b>	<b>0.96433</b>	<b>0.99672</b>	<b>0.99275</b>	<b>1.10344</b>	<b>1.40802</b>	<b>1.79392</b>
2003 Update	0.93796	0.92421	0.93942	1.08334	1.04071	1.37995	1.77467	2.75491

### *Standardised expenses*

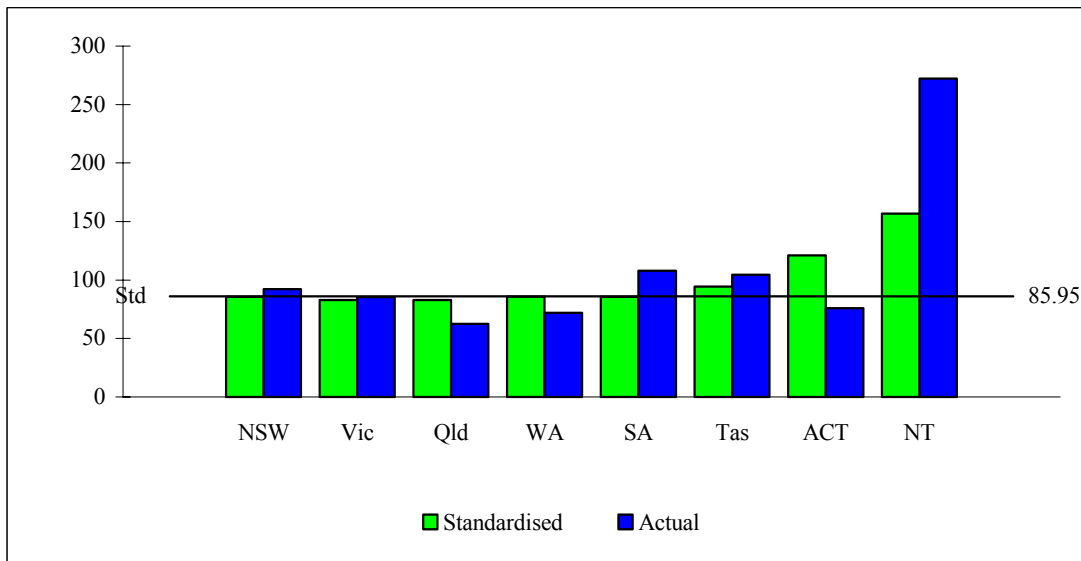
90. Table 24 shows the standardised expenses assessed for the 2003 Update and those for the 2004 Review draft assessments.

**Table 24** ACTUAL AND STANDARDISED AND EXPENSES, 2001-02

	Standard	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
<b>Actual Expenses</b>									
\$ per capita	85.95	92.04	85.27	62.42	71.85	107.99	104.51	75.78	272.38
<b>2003 Update - Standardised Expenses</b>									
\$'000		454 041	327 538	250 972	151 254	115 237	47 538	41 759	39 697
\$ per capita	72.86	68.37	67.46	68.38	78.85	75.88	100.47	129.42	198.55
<b>2004 Review Draft Assessment - Standardised Expenses</b>									
\$'000		569274	402345	304215	164324	129577	448751	390482	308273
\$ per capita	85.95	85.72	82.87	82.88	85.67	85.32	94.84	121.02	154.18

91. Figure 1 shows the gross expenses per capita for the 2004 Review in terms of standardised, estimated and standard expenses.

**Figure 1** CULTURE AND RECREATION — GROSS EXPENSES PER CAPITA — STANDARDISED, ESTIMATED AND STANDARD, 2004 REVIEW



### ANALYSIS

92. Table 25 shows the redistribution of grants resulting from the assessment in the 2003 Update and the 2004 Review draft assessment. It also shows the sources of change.

93. Compared to an equal per capita assessment, the 2004 Review draft assessment redistributed \$34.2 million away from New South Wales, Victoria, Queensland, Western Australia and South Australia to the other States, \$42.4 million less than in the 2003 Update.

94. The main reasons for the changes since the 2003 Update were as follows:

- (i) changes to the component weights, particularly the services component;
- (ii) the economic environment assessment was removed from the services component, because the assessment could not be supported by data;
- (iii) the socio-demographic composition assessment was removed from the services component as a consequence of the exclusion from the equalisation budget of expenses funded by ATSIC Direct Grants to non-government organisations for culture and recreation purposes; and

- (iv) the changes in the input costs assessment reduced the amount redistributed away from New south Wales.

**Table 25** EFFECT OF ASSESSMENT ON GRANT DISTRIBUTION — CULTURE AND RECREATION

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total <sup>(a)</sup>
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Contribution to 2003 Update relativities<sup>(b)</sup></b>	-31.9	-28.9	-15.8	12.8	5.0	13.7	18.4	26.8	76.6
Composition effect	-7.2	-6.5	-3.5	2.9	1.1	3.1	4.1	6.0	17.2
Assessment effect	27.5	14.2	6.6	-12.8	-5.2	-9.5	-7.7	-13.1	48.4
Interactions	6.7	3.5	1.6	-3.0	-1.3	-2.3	-2.0	-3.2	11.8
<b>Contribution to 2004 Review Draft Assessments relativities<sup>(b)</sup></b>	-4.8	-17.6	-11.2	-0.1	-0.5	5.0	12.9	16.4	34.2
<b>Total change</b>	27.1	11.2	4.6	-12.9	-5.4	-8.7	-5.6	-10.4	43.0

(a) Total redistribution.

(b) Assuming same pool and a constant population.

## USER CHARGES

95. **1999 Review.** User charges for this category were assessed by the equal per capita method.

96. **State views.** No State commented on the user charges assessment.

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

## ATTACHMENT A

---

### CALCULATION OF NATIONAL CAPITAL ALLOWANCE

The following steps were proposed by the ACT to calculate its above standard maintenance costs:

**Step 1** – After reviewing documentation of the former National Capital Development Commission (NCDC), it became evident that a suitable standard for urban open space adjacent to territorial roads (for which the ACT has maintenance responsibility) was 15 metres, depending on cut and fill boundaries. This NCDC standard was determined to enhance the visual amenity of the National Capital. NCDC documentation supporting this is:

- *Standard Practices “Guidelines on Planning and Design Practices”*, NCDC, 1988, (Page 8 – 10) Road Standards;
- *Report on an Arterial Road System for Canberra*, prepared by P.G. Pak – Poy & Associates for the NCDC, 1987, which shows verge widths in imperial measurements; and
- *Planning Concepts Canberra*, Paper No. 3 1977 NCDC, Traffic Noise and Planning page 3, Table 1, which provides comparisons of costs for earth mounds and road reserve increases.

**Step 2** - Estimate the amount of land adjacent to territorial roads by overlaying the 15 metre standard on either side of ACT Arterial Roads<sup>1</sup> (as per Austroads Classes 2,6,7 and part Class 3), unless the space adjacent to the road was less than 15 metres (for example, if housing/municipal ovals etc were closer than 15 metres to the road) on the Territory’s Graphic Information System (GIS). This mapping results in 18% of ACT urban open space being territorial and subject to National Capital influences, with the remaining 82% being municipal.

**Step 3** - Quantify the territorial management and maintenance costs attributable to this territorial urban open space by using the 2002-03 urban open space and sportsgrounds maintenance costs of \$41.7m<sup>2</sup>, and multiplying it by the proportion of territorial urban open space (18%):

$$\text{Territorial urban open space costs} = ((\$41.7m - \$1.0m^3) * 0.18) = \$7.326m.$$

---

<sup>1</sup> Appendix A of the ACT Main Submission Roads chapter, p642, provides an outline of the ACT’s arterial roads.

<sup>2</sup> The total operational management cost of \$41.7m is equivalent to the revised ‘Total Cost’ of Output 1.4 Canberra Urban Parks and Places found in 2002-03 ACT Budget Estimates Paper No. 4, page 201.

<sup>3</sup> Identified Designated Land Maintenance costs need to be removed from total to avoid double counting.

**Step 4** - Apply the above standard proportion of urban open space area per capita that the ACT manages (65%)<sup>4</sup> to the above standard territorial urban open space maintenance costs:

$$\text{National Capital urban open space costs} = 0.65 * \$7.326m = \$4.8m.$$

---

<sup>4</sup> ACT Workplace Discussions Briefing Notes, page 110.