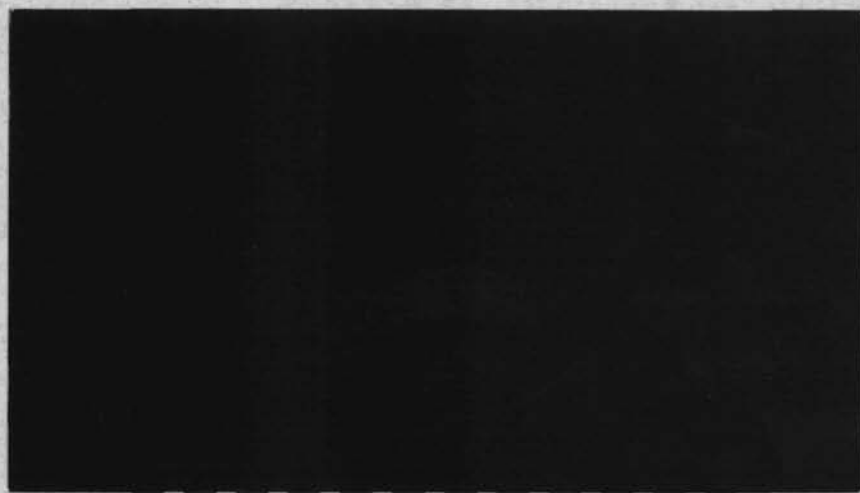


The Australian National University



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Discussion Paper



**The fiscal equalisation model: options
for ATSIC's future funding policy and
practice**

D.E. Smith

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Jon Altman
Director, CAEPR
Australian National University

ABSTRACT

The Aboriginal and Torres Strait Islander Commission (ATSIC) currently lacks integrated policy guidelines for its distribution of funds at regional, state and national levels. Smith (1993) examined ATSIC's existing financial powers and budgetary processes and argued that its financial objectives and the developing role of regional councils are hindered by the lack of funding policy and by an overly complex, functionally-based program structure. It was suggested that ATSIC needed a funding model based on distributive equity, where program expenditure would be allocated on the basis of relative need.

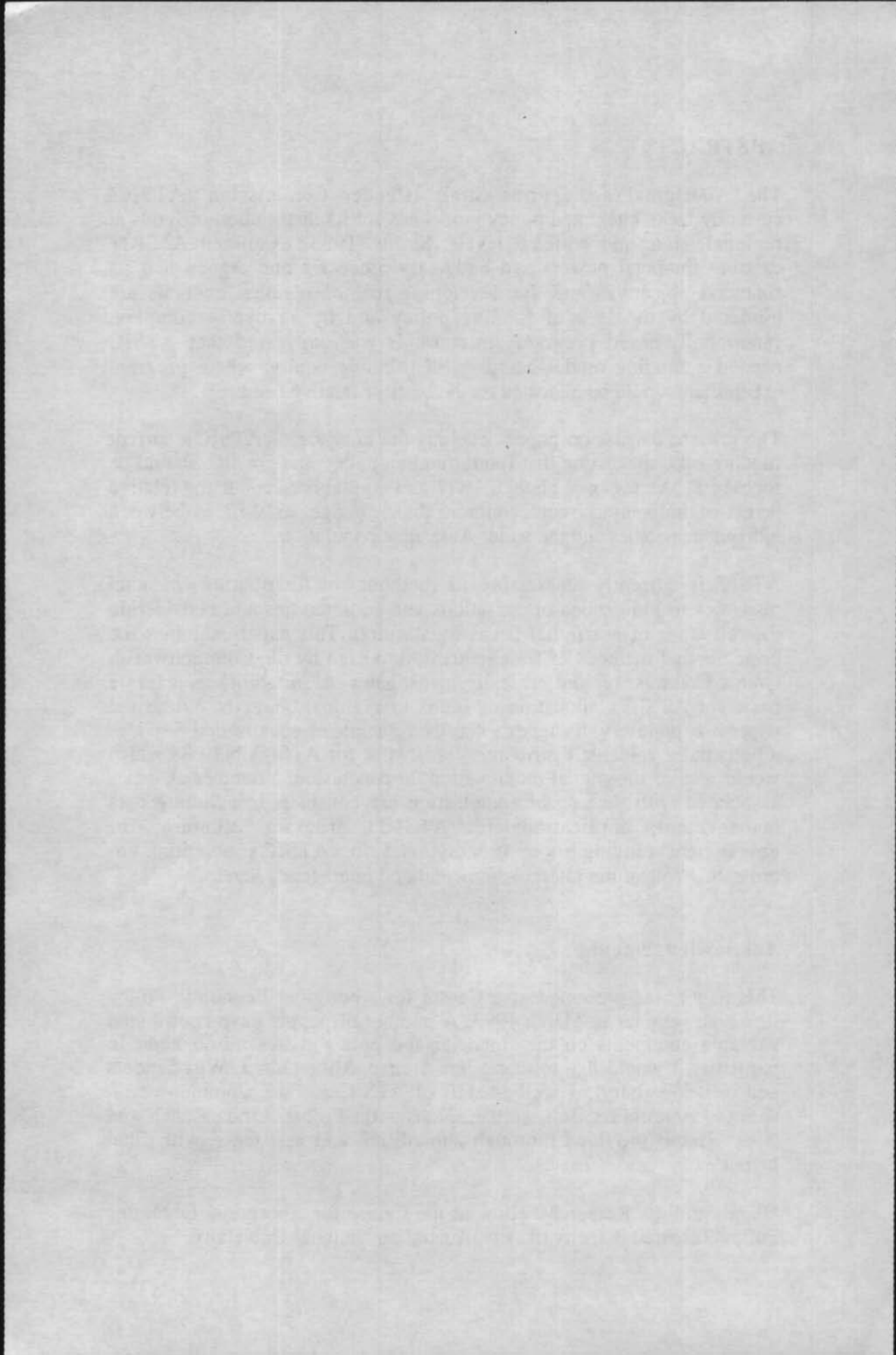
The present discussion paper develops the analysis of ATSIC's current funding role, suggesting that future funding policy and practice should be focused at the regional council level and equitably account for relative levels of indigenous socioeconomic disadvantage, as well as between indigenous peoples and the wider Australian population.

ATSIC is currently reassessing its methods for distributing financial resources to indigenous organisations and communities and considering the relevance of horizontal fiscal equalisation. This paper examines the principle and methods of fiscal equalisation used by the Commonwealth Grants Commission and critically investigates its suitability as a future basis for ATSIC's allocation of funds to regional councils. While the paper is exploratory, it suggests that the principle of equalisation provides a potentially valuable distributive framework for ATSIC, but one which would require substantial modification. In conclusion, a number of issues associated with the use of equalisation are considered, including data management; implications for ATSIC's program structure; for government funding more broadly; and for ATSIC's potential coordinating role at the intergovernmental and interagency level.

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Diane Smith is Research Fellow at the Centre for Aboriginal Economic Policy Research, Faculty of Arts, Australian National University.



The Aboriginal and Torres Strait Islander Commission (ATSIC) currently lacks funding policy guidelines for its distribution of resources at regional, state and national levels (Smith 1993; Office of Evaluation and Assessment (OEA) 1991a, 1991b). Smith (1993) examined ATSIC's existing financial powers and budgetary processes, arguing that its financial objectives and the developing role of regional councils are hindered by the lack of funding policy and by an overly complex, functionally-based program structure. In particular, it was suggested that ATSIC needs a funding model based on distributive equity; that is, one which would result in a 'fair distribution of economic resources' (Commonwealth of Australia 1992: 21).

While studies of Aboriginal socioeconomic status continue to reveal considerable disadvantage compared with the total Australian population, recent analyses by Tesfaghiorghis (1991) and Khalidi (1992) also indicate substantial regional differences within the Aboriginal population itself.¹ These regional socioeconomic variations have important implications for the distribution of government funding to indigenous people, and for program and policy effectiveness. Tesfaghiorghis has analysed these variations at the ATSIC regional council level and pinpoints a crucial policy issue when he questions whether ATSIC's program expenditure should be allocated to regions on the basis of relative need.

The present discussion paper develops the analysis of ATSIC's current funding role, suggesting that future funding policy and practice should equitably account, at the regional council level, for relative levels of disadvantage and different service needs within the indigenous population, as well as between them and the wider Australian population. It is in this context that the implications and potential relevance of distributive equity as a national funding model for ATSIC are explored.

ATSIC is currently reassessing the methods it uses to distribute financial resources to indigenous organisations and communities and is giving consideration to the relevance of horizontal fiscal equalisation. The Commonwealth Grants Commission (CGC), in its latest review of grant relativities, has recommended that it might usefully work with ATSIC 'towards an approach for harmonising ATSIC's distribution principles with fiscal equalisation' (CGC 1993: 65). This paper examines the principle and methods of fiscal equalisation used by the CGC and critically investigates its suitability as a future basis for ATSIC's allocation of funds between regional councils. While the paper is exploratory, it suggests that the principle of equalisation provides a potentially valuable distributive framework for ATSIC, but is one which would require substantial modification. The introduction of funding equalisation has longer-term implications for ATSIC's program structure; for its data management; for government funding more broadly; and for

ATSIC's potential co-ordinating role at the intergovernmental and interagency level. These issues are considered in the conclusion.

The significance of socioeconomic variations between regional councils

Whilst all ATSIC regional council populations display levels of disadvantage greater than the total Australian, State and section-of-State populations, there are even greater variations in socioeconomic status between the regional council populations themselves (Tsfaghiorghis 1991). Socioeconomic variation within the Aboriginal population is evident across a range of factors and can be examined at many levels. One frequently referred to is the geographical section-of-State division between urban and rural used by the Australian Bureau of Statistics (ABS) to collate aggregated census data. Another distinction is commonly made between remote Aboriginal populations and communities, and those in rural and urban areas of 'settled' Australia. Comparisons of Aboriginal socioeconomic status can also be made between community types and between family and household types. With the advent of ATSIC regional council jurisdictions, another geographical basis for considering socioeconomic variation has been created. This particular geographic division is also one which is linked to specific program funding and service delivery issues in ATSIC's budget. It has been argued that a geographic orientation to program formulation and funding based on ATSIC's regional council structure will become more important as councils establish greater local influence with Aboriginal communities and with State and local governments (Dillon 1992; Smith 1993). Future ATSIC funding policy and practice will need to be more geographically oriented to account for the different program priorities and funding needs of its regional structure.

Selected regionally-based socioeconomic variations have been considered for the ATSIC council areas by Tsfaghiorghis (1991) using 1986 Census data and by Khalidi (1992). Indications of other possible regional variations are provided by Altman and Gaminiratne (1992), Ross (1988), Taylor (1991) and Daly (forthcoming). The differences initially apparent between regional councils include population size, geographical area and location. The regions also display a range of community types and cultural characteristics and vary in their demographic profiles, health characteristics, labour force participation rates, degree of involvement in the informal economy, income levels, cost of living, educational attainment, and household and family characteristics. Furthermore, regional economies vary considerably according to the nature of the labour market, the presence or absence of Aboriginal-owned land and related economic development options, and the type and extent of

government funding and transfer flows into the region. Stage 1 of the ATSIIC (1992a) Housing and Community Infrastructure Needs Survey revealed significant variations in infrastructure levels, housing and community amenities between States, but has not yet been analysed by council area. Regional plans could augment information on this variability, as could the analysis of Census 1991 data currently being obtained by ATSIIC for all regional council areas.

Different levels of socioeconomic disadvantage, varying service provision costs and different regional economic opportunities, will all create very different program and funding needs between council areas. Smith (1993) has argued that ATSIIC's program structure needs to be streamlined and based upon a narrower range of priority areas established by regional councils (see also Dillon 1992). The distribution of ATSIIC funds will similarly need to be co-ordinated increasingly around the key program needs of regions. This will require mechanisms by which assessments of the relative disadvantages and cost disabilities between regions can be made. The identification of these varying regional needs will highlight equity of access to resources within the indigenous population, and the different standard of services provided to them. It could enable funds to be more effectively targeted towards identified areas of disadvantage and assist in monitoring programs whose outcomes can be substantially affected by such regional variations.

The pre-eminent ATSIIC policy is self-determination. A central corporate strategy for promoting this objective is to 'ensure that the Commission and regional Councils have the capacity to plan, determine priorities and allocate resources to enhance the lifestyle of Aboriginal and Torres Strait Islander people' (ATSIIC 1992b: 9). The need to equitably distribute financial and other resources is arguably fundamental to such a strategy. There is a demonstrated need within ATSIIC for a funding framework which enables the identification and prioritisation of regional needs on a national basis and which facilitates an equitable distribution of ATSIIC's resources (see OEA 1991a, 1991b; Smith 1993). A potential option available for addressing the existing inadequacies in its funding policy and practice is for ATSIIC to consider the relevance of horizontal fiscal equalisation.

The principle of horizontal fiscal equalisation

Horizontal fiscal equalisation is the principle which has guided the Commonwealth government's transfer of revenue to the States since the 1930s. It is based on principles of social justice and equity; that people 'should receive equal fiscal treatment by governments' (CGC 1990: 20, 26, 110). Both the principle and assessment mechanisms have evolved

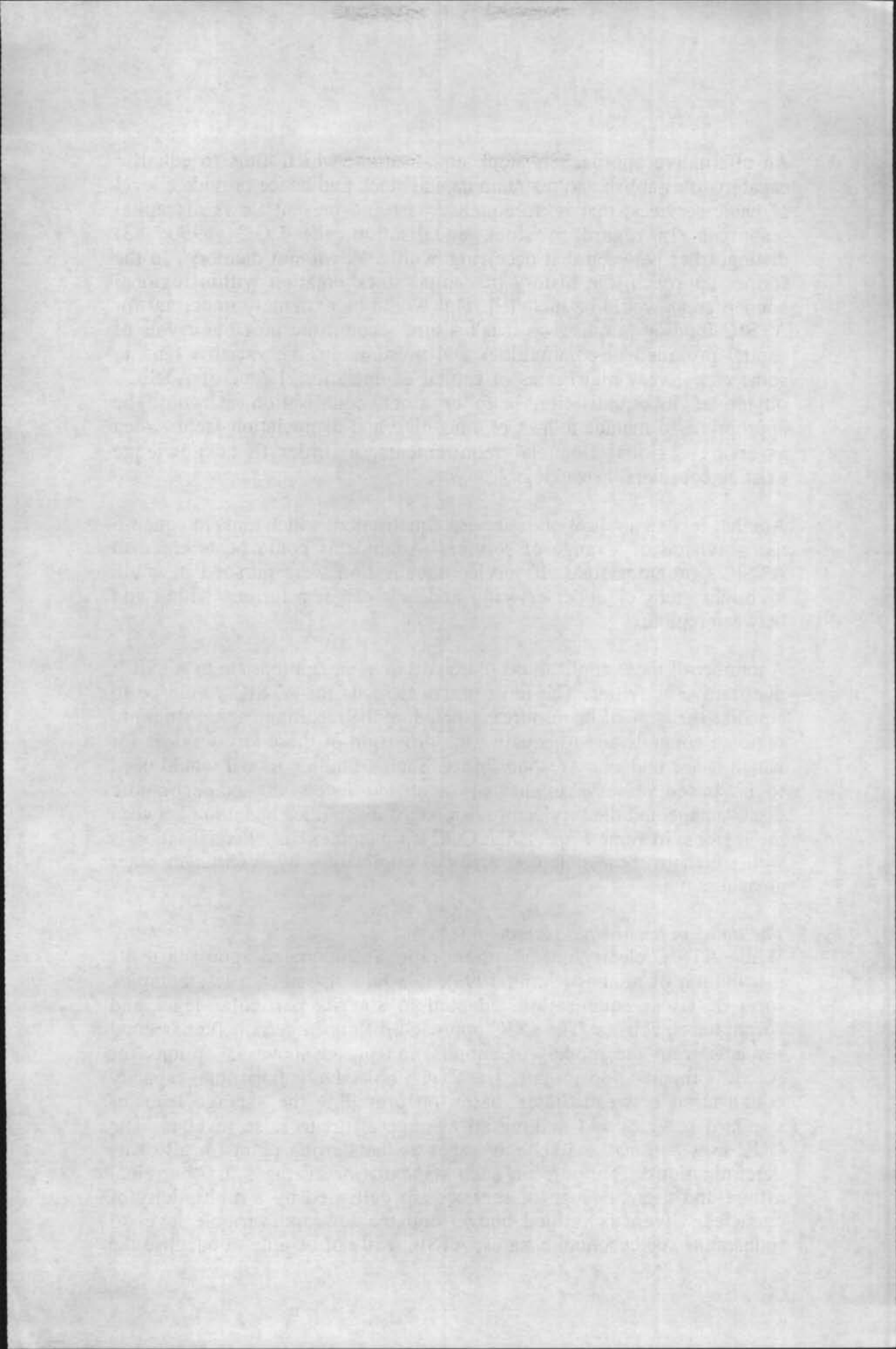
since then as a result of review recommendations by the CGC, with Commonwealth and State input. The CGC's role is to assess the revenue needs of the States and Territories with the objective of achieving horizontal equalisation in their capacity to provide a range of standard services at standard prices. The end-product of its assessments is a set of relativities used by the Commonwealth to determine the redistribution of revenue it raises to each State.

CGC recommendations for fiscal equalisation are based on a system of periodic measurement of the standard budgets of each State. Over 100 functional areas of state revenue-raising and expenditure are assessed against the Australian average (constituted by the average of all state expenditure or revenue in a particular budgetary function). Activities such as education, health, welfare, police and Aboriginal community services are included, while housing and roads are excluded. The CGC emphasises recurrent, not capital, expenditures and assessments are based on rolling five-yearly financial data to provide a degree of stability.

An important aspect of CGC methodology is the identification and measurement of the particular factors which differentially affect state service-provision costs. These differences are called disability factors and represent any influences beyond a State's control that require it to spend more, or enable it to spend less. The CGC assesses a wide range of disabilities, including having different proportions of the population as the target group for a service; the demographic and social composition of the population; the physical, economic and environmental factors that may adversely effect service delivery; economies and diseconomies of scale; urbanisation; and the spatial distribution of the state population. Some disabilities associated with the socioeconomic characteristics of the indigenous population in each State are also included in CGC assessments (Smith 1992a).

The CGC applies disability weights to the range of standard state expenditure and revenue functions, to produce detailed factor values for state budgetary components. These factor values are incorporated into its determination of each State's total financial assistance requirements. This latter total is expressed in the form of a State's final global relativity factor, calculated by converting that requirement (after subtracting Commonwealth specific purpose payments received by the State) to per capita terms and expressing it as a proportion of the comparable Victorian baseline figure. Final state relativities are based then on a subset of detailed assessments for separate expenditure and revenue functions.

The degree of fiscal equalisation achieved between the States and Territories is influenced by the budgetary needs that are incorporated and the methods used for measuring them. The CGC relies heavily on data



An alternative approach is stock equalisation, which aims to equalise capacity to establish and maintain capital stock and hence provide a level of basic services; that is, to equalise past and present flows of capital resources. In regard to stock equalisation, the CGC (1990: 83) distinguishes between that occurring 'with' and 'without memory'. In the former approach, the history of capital stock creation within regional council areas would be included. This would be extremely important for ATSIC funding purposes as it takes into account the previous levels of capital provided to communities and presumably, the variable (and in some cases, very high) rates of capital depreciation. If one of ATSIC's objectives in equalisation is to be stock equalisation, it would be appropriate to include a 'lack of amenities' and depreciation factor when assessing regional financial requirements, in order to acknowledge existing considerable backlogs.²

Another related application is service equalisation, which aims to equalise the provision of a range of services. Again, this could be oriented to ATSIC's program areas. If service equalisation were pursued it would highlight areas of underservicing and help target priorities within and between regions.

A number of these applications of equalisation are appropriate to ATSIC's distributive activities. The most practical focus for ATSIC would be to equalise the flow of its resources (including the resulting capital stock) to regional councils and to equalise the provision of those key services for which it has budgetary responsibility. Such a funding model would need to be based on assessments of identified levels of socioeconomic disadvantage and the service provision cost disabilities operating between the regions. In some respects the CGC's principle of fiscal equalisation is well-suited to these potential areas of application by ATSIC; in other areas it is not.

The limits of fiscal equalisation

While ATSIC clearly needs a more rational, integrated approach to its distribution of monies (Smith 1993), it would also need a less complex form of fiscal equalisation, adapted to suit its particular legal and corporate objectives. The CGC approach differs in certain fundamental respects from the models of equalisation posed above as options for ATSIC's financial operations. The CGC's objective is horizontal capacity equalisation between States, based on providing the average level of standard services and making an average effort to raise revenue. The CGC uses national and state averages as the starting point for all of its determinations. There are no such standards or averages in Aboriginal affairs and a great range of services are delivered by a multiplicity of agencies. Given its limited budget and the low and variable level of indigenous socioeconomic status, ATSIC will not be able to equalise the

broad expenditure capacities of regional councils. To do so would require the co-ordination of all government funding and service delivery in the Aboriginal affairs area. More to the point, regional councils do not have fiscal capacities; they can neither receive or spend monies. It is the distribution of ATSIC funds (including flow and stock aspects), and the subsequent delivery of programs and services via regional council authorisation, that should form the focus of an equalisation model. This type of model could more appropriately be called distributive equity.

Adapting equalisation to ATSIC's funding role

In order to equalise the flow of resources and service provision, ATSIC would need to decide which disability factors and socioeconomic disadvantages were pertinent to its own program activities. The CGC ascertains a wide range of disability factors for which it establishes factor values that are used to adjust financial assistance requirements in particular budgetary areas. The CGC also accepts that it costs all States more to provide services to Aboriginal people (CGC 1992: 8) and applies an additional weight to the Aboriginal component of some expenditure functions to account for the additional costs (see Smith 1992). For example, when assessing factors relating to Aboriginality in the area of pre-school education, the CGC determines a unit-of-use factor estimated on the number of three-year-old Aboriginal children residing in non-metropolitan areas of a State, added to the total four-year-old Aboriginal population and three-year-olds from low income families in metropolitan areas. To this is added a social composition factor where Aboriginal children aged three and four years residing in non-metropolitan areas are weighted by 1.7. The result is a set of comparative disability factor values that can be applied to state expenditure requirements in this particular service area. A range of these disability factor values are periodically assessed at the State level by the CGC and could be broadly applied to particular program areas of ATSIC's budget. However, the target population would be within regional councils, not States.

The degree of funding equalisation able to be achieved will be influenced by considerations related to measuring disability factors, including data availability and their cultural applicability. There is always a degree of subjective judgement in these measurements, as there would be in ATSIC determinations. However, in establishing the practical parameters of equalisation, ATSIC would be in a position to expand the range of disabilities to cover its own financial role and to incorporate some aspects of the unique cultural characteristics of the indigenous population which might not necessarily be included in CGC assessments.³

An important determinant of cost levels and financial need is locational disadvantage. This includes isolation, administrative scale, population dispersion, urbanisation, the physical environment and stage of

development. The CGC has argued that fiscal equalisation would not be fully achieved if these disabilities were excluded from the assessment process (CGC 1990: 15). One such locational factor focuses on cost differences between the States where the CGC has determined that without equalisation, the Northern Territory would have to incur per capita costs of more than twice those of other States. New South Wales and Victoria are relatively low-cost States, Western Australia and Tasmania would incur costs 9 per cent above the average, while Queensland and South Australian costs would be 4 per cent above the average (CGC 1990: 15). These comparative state disabilities indicate broad cost variations that will affect Aboriginal organisations and communities at the State level.

These state variations and additional Aboriginal components to service costs could be used to form a preliminary basis for an ATSIC equalisation model. However, there are further cost variations within States that will differentially affect regional council financial needs. To be effective, an ATSIC approach to distributive equity would need to focus on the regional level of its funding activities and a range of disabilities and cost factors would have to be assessed at that level. If ATSIC were to proceed with streamlining its program structure and formulating geographically-based program packages around a narrower set of priority services (see Dillon 1992; Smith 1993), it would be possible to assess a selected, smaller group of factors relevant to those key areas. The important methodological issue would be to relate disability factors to program areas and, in turn, to regional program needs.

The end-product for the CGC is the determination of a single, final relativity factor for each State which is applied, as a per capita formula, to the Commonwealth's redistribution of revenue to the States. Undoubtedly, one could arrive at a single indicator of funding need for each regional council area which could be used as a guiding basis for establishing distributive equity. But the single indicator approach could prove to be overly restrictive and inflexible for ATSIC's needs, especially if it were subsequently taken to constitute 'the answer' to all funding decisions. A range of indicators that focused on selected program funding requirements and related disabilities would better suit the varying needs of regional councils, at the same time as enabling assessments of comparative funding need to be made. The advantage of the CGC's approach to equalisation is that it does not have to be monolithic in its application. Rather, it has the flexibility of being based on a package of assessments, relevant to separate budgetary functions, which are periodically updated. An ATSIC funding model would preferably retain this flexibility rather than opting for a complex assessment system producing an all-powerful single index figure that could potentially be misused and poorly understood.

There are a number of other areas in which ATSIC could make the instrument of equalisation more appropriate to its legal, cultural and socioeconomic objectives. For example, the CGC focuses on recurrent expenditure activities and costs, so that capital expenditures are excluded. In ATSIC's financial activities there is a blurred distinction between these two areas, and, as noted previously, it could expand the range of expenditure needs included in a funding model to cover capital costs. Furthermore, ATSIC has considerable financial responsibilities (recurrent and capital) for housing, roads and essential services, such as water, sewerage and power in many communities, and should include them in its assessment of regional needs and disabilities.

The Aboriginal Community Services (ACS) function is a special category by which the CGC assesses financial requirements in the provision of Aboriginal community management and local government-type services, as well as the recurrent costs of operating, repairing and maintaining essential services such as water, power, sewerage, internal access roads, airstrips, barge landings, telecommunications and cyclone shelters. It excludes from its assessments local government funds which are separately distributed to the States and not subject to CGC fiscal equalisation. ATSIC may wish to distinguish the local-government-type services provided by communities themselves (for example, through community decisions to use Community Development Employment Project (CDEP) scheme funds) from those funded by State and local governments, in order to highlight areas where States are not assuming their service roles. However, data on all these areas of government-type service provision (community, local and State) within a region will be extremely pertinent to assess the needs and requirements of different regions. Further, the CGC only includes in the ACS category those Aboriginal communities where the population is predominantly Aboriginal and 'which are based on traditional culture' (CGC 1992: 10). This restriction is inappropriate to ATSIC's activities and would need to be expanded to include all indigenous populations wherever they live. While the CGC assesses this function at the State level, consideration could be given to assessing it for regional council areas. Certainly, there appears to be data available for a number of elements of the ACS from five-yearly ABS censuses and ATSIC's own survey information. The ACS function, when related to ATSIC's program role, could constitute a valuable initial step in establishing funding equalisation at the regional council level.

As a practical instrument, distributive equalisation would establish the type of funding framework called for by OEA reports (OEA 1991a, 1991b) and, increasingly, by regional councils in their annual reports. Importantly, it would enable the identification and prioritisation of regional financial and program needs on a national basis. It would also

highlight 'hot spots' of socioeconomic and service disadvantage which could be linked to ATSIC programs. Areas of pressing local economic need could be used to establish schedules of priorities within individual councils and between regions. These schedules would facilitate ATSIC's corporate plan to 'rigorously set priorities' (ATSIC 1992b: 6) and do so in a manner which promoted allocative realism (Smith 1993). They would also provide tangible plans against which levels of outstanding disadvantage could be monitored.

The objectives of ATSIC equalisation would not simply be confined to highlighting and overcoming relative disadvantage between regional councils. That would effectively mean equalising to a common low denominator of indigenous socioeconomic status. ATSIC has argued with respect to its state grants that the ultimate aim is to achieve equity in 'basic' service provision comparable to that of the wider Australian community (OEA 1991b: 9). While distributive equity between regions is an important medium-term objective, the longer-term aim is equity with the wider Australian population. In terms of this objective, equalisation would be oriented towards benchmark standards based on the socioeconomic status of the total Australian population, or to more relevant comparable populations in similar geographic locations.⁴

A central aspect of the CGC's approach to fiscal equalisation is its recognition of the policy and economic integrity of the respective States. The theme of 'equality in diversity' is especially applicable to ATSIC. An equalisation model for ATSIC would support local control in determining program priorities and content, rather than imposing these centrally. This regard for diversity is important when regional councils and constituent communities have been shown to vary considerably in many respects.

Equalisation: implementation and implications for ATSIC

The crucial issue is not that a more equitable approach to funding distribution is needed within ATSIC, but the extent to which such an approach could be effectively implemented. To be feasible, an equalisation funding model must be as simple as possible (after all, ATSIC has to consider the financial needs of 60 regional councils); it must be able to be progressively developed and implemented; amenable to periodic update, preferably over a rolling period of more than one financial year; and importantly, it must be sensitive to the changing nature of ATSIC's program structure.

The role of the CGC

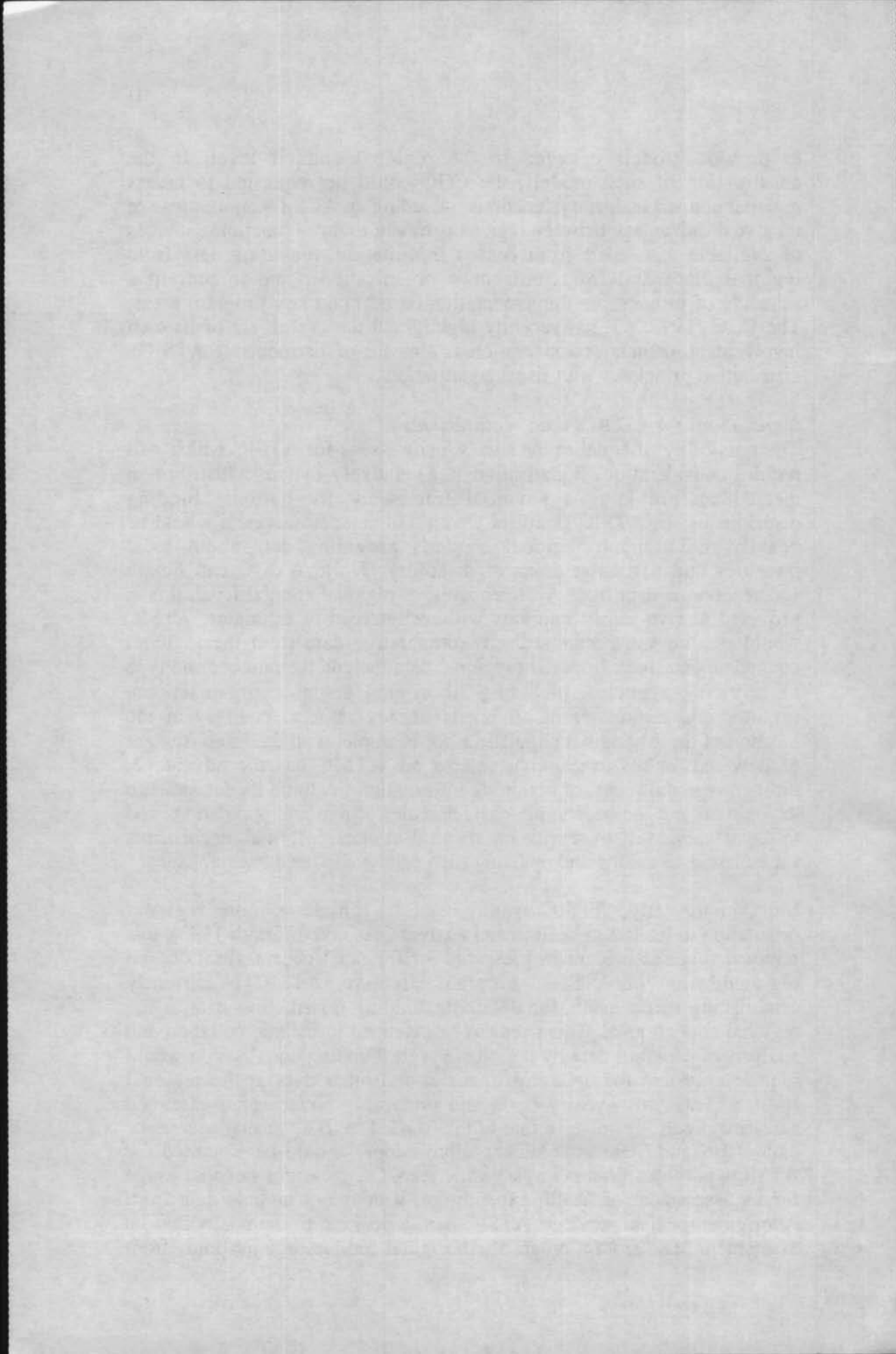
In its initial consideration of the feasibility of establishing a more equitable funding approach, ATSIC might consider approaching the CGC

to provide models oriented to the regional council level. In the construction of such models, the CGC could be requested to assess regional council budgetary functions, including an ACS function; areas of relative disadvantage between regions pertinent to those functions; sources of available data apart from census information, including data from regional plans and from indigenous organisations; and to present a schedule of progressive implementation based upon key program areas. The CGC (1993: 65) has recently highlighted the usefulness of its own involvement in such a consideration as a means of 'harmonising ATSIC's distribution principles with fiscal equalisation'.

Implications for ATSIC's data requirements

The possibility of equalisation raises many issues for ATSIC which will require consideration. Equalisation is a relatively dynamic distribution mechanism providing a potential framework for national funding decisions by the ATSIC Board of Commissioners. However, it would be heavily reliant upon regional councils providing data about local priorities and particular areas of disability. While ATSIC can obtain socioeconomic data from ABS censuses, at regional council level, this is provided at five-yearly intervals without intercensal estimates. ATSIC would require some standardised, comparative data from the regional councils themselves. Important regional data include the number and type of servicing agencies, including Aboriginal resource organisations; funding into regions from all levels of government; changes in the location of the Aboriginal population (for example, with the establishment of new outstations or camps), and so on. ATSIC has the advantage, through regional plans, of obtaining information to attune its decisions to the cultural and socioeconomic characteristics of regional populations and to the actual quality of service provision. But clearly, formal mechanisms for collating, assessing and updating such data would need to be established.

Most importantly, ATSIC would need to initiate a more regional orientation to its data collection and analyses. As noted (Smith 1993), this regional focus is evident in pressures for financial decentralisation and regionalisation of ATSIC's program structure. ATSIC is currently establishing mechanisms for obtaining funding distribution data at the regional council level. This needs to be extended to include collation and analysis of program data by regions as well. Funding equalisation would require a system for updating financial and other data at the regional level, at least on a yearly basis and preferably covering an extended assessment period similar to that of the CGC. The CGC's usual sources of data (ABS and State government submissions) should be extended for ATSIC's purposes. For example, while the CGC measures hospital usage for its assessment of health expenditure, it does not include data from Aboriginal medical services. ATSIC is in a position to include within its assessment, data from a range of Aboriginal service organisations, from



Similarly, national program funds for CDEP scheme participant communities have capital on-costs which are often directed to capital works and community services. The receipt of such additional funds, beyond income support entitlements, should be taken into account in an equalisation model, for determining allocations to regions which do not have CDEP scheme communities, or have fewer such communities and therefore lower per capita funding. The effective distribution of national program funding should be subject to equalisation at the regional council level. For similar reasons, it can be argued that equalisation has potential as a framework for determining ATSIC's distribution of state grants. Distribution of these funds should, first and foremost, address the concerns identified in regional plans and follow ATSIC's proposed schedules of relative priorities for distributing funds between regional councils.

Implications for government funding

By logical implication, the issue of distributive equity extends beyond ATSIC's activities. After all, in 1991-92, 44 per cent of all Commonwealth outlays on programs for indigenous people were made by agencies other than ATSIC (Commonwealth of Australia 1992: 30).⁶ In the longer-term, an ATSIC policy of equalisation could inform allocations by all agencies at the regional council level.

If ATSIC proceeds with the negotiation of bilateral agreements with State and Territory governments regarding the delivery and funding of services to indigenous communities, the framework of distributive equity could potentially provide a valuable mechanism by which ATSIC might not only distribute its own funds between regional councils, but by which it might attempt the long-heralded co-ordination of service delivery and funding in Aboriginal and Torres Strait Islander affairs more generally.

Conclusion

Equalisation's broad objectives would support flexibility in the pursuit of different budgetary and program aims at the regional level, accommodate changing socioeconomic factors affecting regional populations, and recognise the crucial impact of regional economic and social diversity on financial assistance requirements. These characteristics make it especially suited to the cultural and economic heterogeneity of the indigenous population, to the evolving relationship between ATSIC's board, its regional structure and central administration, and to ATSIC's particular objective of furthering indigenous economic, social and cultural development in all its diversity. Equalisation offers a potentially valuable policy instrument and funding mechanism to ATSIC, but careful

consideration needs to be given to the extent to which it can be effectively implemented and maintained.

Many of the broader issues and implementation difficulties that are raised when considering the option of funding equalisation are more closely linked to the deficiencies created by ATSIC's current lack of funding policy guidelines and mechanisms than to the relevance of the equalisation principle itself. The proposal of alternative distribution options throws into sharp relief a number of crucial issues that currently affect ATSIC's operation, including the need for change in its program structure; far more effective analysis of program outcomes at the regional council level; the issues of financial self-determination and decentralisation within the ATSIC structure; and the wider imperative to establish a more holistic, integrated approach to funding in Aboriginal affairs at the intergovernmental and interagency level. ATSIC's evolving financial structure and role are poorly served by a complex, cumbersome program structure, by inadequate mechanisms for fairly assessing regional funding needs, and by the apparent absence of any funding policy by which national and regional funding decisions and planning can be guided. If equalisation is difficult to achieve in practice, it nevertheless presents ATSIC with an alternative approach that may result in a more effective distribution of resources to areas of greatest need, and which may greatly assist in the resolution of some of these more enduring difficulties long associated with funding and performance in Aboriginal public policy.

Notes

1. The terms 'Aboriginal' and 'indigenous' are used throughout this paper to refer to both Aboriginal and Torres Strait Islander peoples.
2. ATSIC has previously argued to the CGC that it should accept and assess a 'lack of amenities' disability factor for the Aboriginal population in the Northern Territory because of the considerable backlog in basic infrastructure and community amenities in many Aboriginal communities (ATSIC 1991). The need for such a disability factor extends to many Aboriginal communities in other States and highlights the considerable differences between communities in the level of amenities that have been provided by government.
3. For example, culturally-based views of what constitutes housing and housing need may vary between regions; sources of cash income may be supplemented by activity within the informal economy in some regions and not others; some outstation populations may require low maintenance technology and a more restricted range of basic amenities than larger communities. Not only the costs of providing services, but the type of services required may vary considerably from one region to another.
4. It may well be that comparative assessment of well-being and socioeconomic status of indigenous populations in remote locations should more appropriately be made with the wider population in a similar area. For example, the CGC's (1989) report to the Commonwealth government on the Cocos (Keeling) Islands argued that the

standard of living of the Cocos Malay community 'should be comparable to that enjoyed by other remote Australian communities'. In making this comparison the inquiry took into account the range and quality of public services, demographic characteristics, cultural and social characteristics, the level of taxes and charges, the social security benefits available, employment opportunities, productivity and the pattern of employment, wage and money income levels, the cost of living, the quality of housing and community infrastructure, and the quality of the environment including facilities for recreation, education and information services (CGC 1989: 6). The CGC took these factors to be indicative of the standard of living reflected in services provided by the Commonwealth government, and used them to establish a schedule for raising the level of Cocos Island services to the relevant Australian standard; that is, a remote Australian population.

5. The CGC assesses both the expenditure functions and revenue-raising efforts of States in determining their financial assistance requirements. ATSIC will need to decide whether it includes in its equalisation model the level of revenue contribution made by communities to meet their service costs. The Australian National Audit Office (ANAO) review of ATSIC regional administration recommended that regional managers negotiate service agreements with the communities and organisations they serve, specifying 'an appropriate level of service from the Regional Office' and defining 'the obligations of the community to ATSIC' (ANAO 1992: 18-9). The OEA's audit of ATSIC's community infrastructure program defined this obligation as including a consideration of community contributions to developing and maintaining infrastructure (ATSIC 1991: 90). A suggestion being made in this paper (see also Smith 1992b: 24) is that communities themselves initiate such service models covering all service areas being delivered by all government agencies. ATSIC would, in turn, need to consider whether revenue-raising capacity should be incorporated in an equalisation model, given the variable and low levels of ATSI income.
6. In the previous financial year, ATSIC's expenditure represented 55 per cent of all Commonwealth outlays by agencies on Aboriginal and Torres Strait Islander programs (Commonwealth of Australia 1991: 20). For the most part, these data on Commonwealth expenditure are based on a combination of outlays made via specific programs for indigenous people and mainstream programs which have been adapted to contain a specific indigenous element. Expenditure on mainstream programs which are of particular relevance, but have not been specially developed to suit the needs of indigenous people, have not been included in this estimate.

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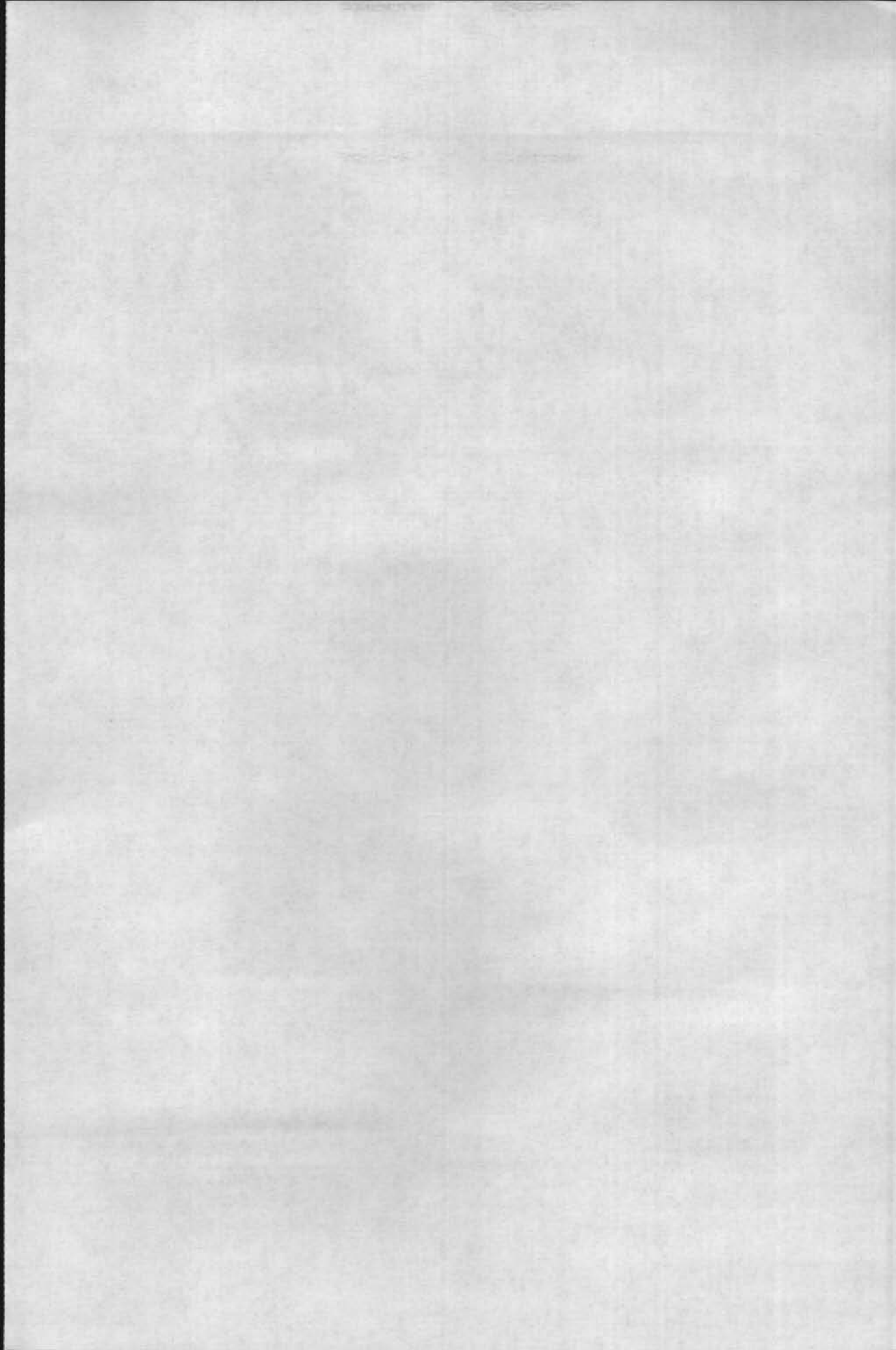
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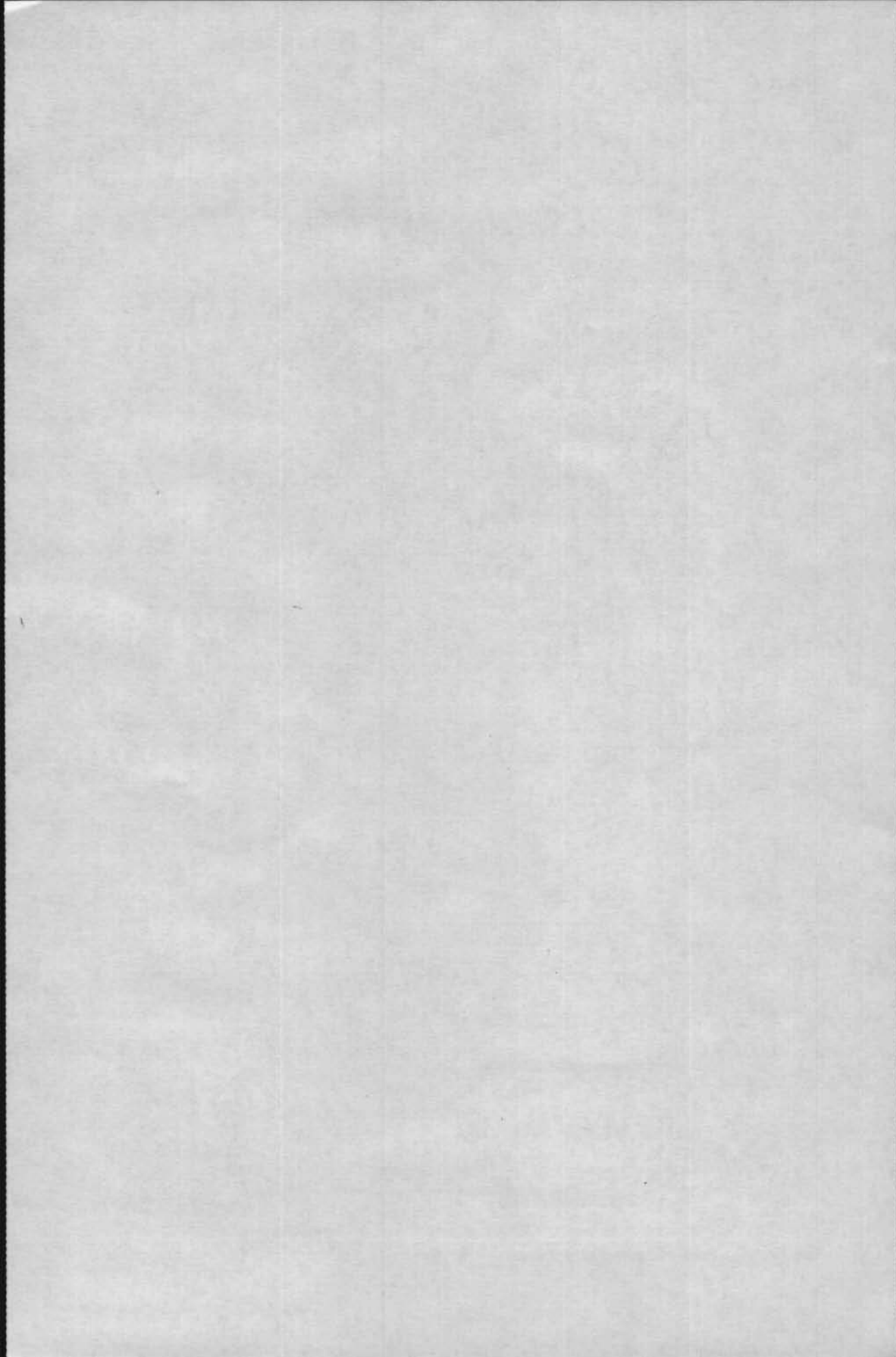
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