

**FEASIBILITY ASSESSMENT OF A SMARTCARD
TRIAL IN THE TORRES STRAIT ISLANDS**

FINAL REPORT FOR THE

TORRES STRAIT REGIONAL AUTHORITY

AND

**OFFICE OF INDIGENOUS POLICY
CO-ORDINATION, COMMONWEALTH
DEPARTMENT OF IMMIGRATION
MULTICULTURAL AND INDIGNEOUS AFFAIRS**

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GLOSSARY OF TERMS

ATSI – Aboriginal and Torres Strait Housing

BEC – Bamaga Enterprise Centre

BFRC – Bamaga Family Resource Centre

CDEP – Community Development Employment Program

CDMA – Code Division Multiple Access

DATSIP – Department of Aboriginal and Torres Strait Islander Policy

EFTPOS – Electronic Funds Transfer at Point of Sale

ERF – Emergency Relief Funding

IBIS – Islander Board of Industry and Service

KALA – Kaziw Asesered Le Association

LGAQ – Local Government Association Queensland

MKWS – Mura Kosker Women’s Sorority

NAB – National Australia Bank

NPA – Northern Peninsula Area

NTN – Networking the Nation

OIPC – Office of Indigenous Policy Coordination

PIN – Personal Identification Number

RTC – Remote Transaction Centres

TSRA – Torres Strait Regional Authority

1. EXECUTIVE SUMMARY

1.1 Background

In August 2004 the Board of the Torres Strait Regional Authority (comprising the elected representatives of each community in the region) endorsed in principle a proposal from Accor Services that a trial be conducted of an income management program based on a smartcard system. Six communities – Bamaga, Biogu, Hammond, Iama (Yam), Masig (Yorke) and St Pauls nominated for participation in a possible trial (participating communities).

The TSRA Board requested and received funding from the Commonwealth Government (Office of Indigenous Policy Coordination) for a feasibility assessment of the smartcard trial. The assessment is designed to assist the TSRA Board and Commonwealth Government to decide whether a trial should proceed.

The feasibility assessment has been conducted by Accor Services and Aegis Consulting Australia for the Torres Strait Regional Authority and Office of Indigenous Policy Coordination.

1.2 Methodology

A steering committee comprising the TSRA Board representatives of each participating community was established to guide and facilitate the conduct of the assessment. The assessment has relied on consultations with the councils, communities, non-government organisations, Commonwealth and Queensland government agencies and the business community in the six participating communities and Thursday Island. Thursday Island is included in the feasibility assessment because it is the administrative and business centre of the region.

The feasibility assessment has examined two key issues:

- (a) The community's capacity for the smartcard system; and
- (b) The potential cost of the trial and any permanent system.

Five threshold questions have been explored in order to address these two key issues. These threshold questions are:

- The community desire and need for smartcard and whether the smartcard system can assist to address any community issues.
- The financial literacy of the community.
- The likely volume of smartcard users and their likely expenditure via smartcard.
- The level of investment required to provide the infrastructure on which smartcard relies.
- The need for resource workers to administer an income management program via smartcard during the trial and in any permanent system.

1.3 Timing and Process of Consultations

While the original feasibility assessment proposal anticipated the need for two rounds of consultations, three were required by participating communities and conducted.

In the lead up to this report consultations with the Steering Committee and stakeholders occurred between 4 and 9 April. At this time the Steering Committee agreed to a schedule of consultations to be held with councils, communities (public meetings) and stakeholders in all of the participating communities.

From 18 April to 4 May consultations occurred with councils in five of the six participating communities, public meetings were conducted in two of the six participating communities and consultations occurred with all scheduled stakeholders.

During this period, the consultants were notified that unexpected events prevented one council and three communities from being consulted at that stage. One other council notified the consultants that a public meeting would not be needed until a trial commenced.

As a result, a third round of consultations was conducted between 30 May and 3 June with the one remaining council and two remaining communities. A public meeting in Bamaga was delayed indefinitely because of the impact on the community of a tragic aircraft incident in early May.

1.4 Operating Environment

The operating environment for a smartcard system in the Torres Strait region includes government agencies, community councils, not-for profit organisations and retailers and service providers who operate as transaction points for the community.

1.4.1 Response of Centrelink and Telstra

Centrelink supports a smartcard trial to provide an income management system and considers that there is a particular need to assist families in the region budget and dedicate their ‘children’s money’ (eg. parenting payments) to the welfare of their children.

One issue that requires further consultation prior to a trial is whether charges would be applied by CentrePay for each transfer it makes to smartcard accounts and whether such charges would be passed onto users or the smartcard provider or absorbed by government.

Telstra is willing to consider integrating its billing system with a smartcard system, subject to further examination of billing arrangements. This issue does not need to be examined prior to a trial as there are satisfactory arrangements for phone account management currently in place.

1.4.2 Response of DATSIP, ATSI Housing and Ergon Energy

The Queensland Department's of Aboriginal and Torres Strait Islander Policy (DATSIP) and Housing (ATSI Housing) support a smartcard trial in principle, but at this stage have watching briefs only.

ATSI Housing would have a greater role to play if a smartcard trial occurs on Thursday Island, where it provides housing.

Ergon Energy is the Queensland Government owned energy provider in the region. It is willing to introduce metering in the region to support a smartcard system, subject to the availability of smartcard meters and a successful smartcard trial.

1.4.3 Response of Islander Board of Industry and Service (IBIS)

IBIS is owned by the Queensland Government and responsible to the Minister for DATSIP. It is the primary, and in many cases, sole provider of groceries, consumer items and transaction services in the region, particularly in outer island communities. It has stores in 16 communities.

The communities consulted have strong concerns about the prices of groceries at IBIS stores and the \$30 transaction fee charged by IBIS for money transfers and cash deposits. The common view is that IBIS is able to apply its current pricing and transaction fees for money transfers because it is a monopoly provider of groceries and transaction services in the region.

Given the strength of these concerns, a smartcard system that can alleviate transaction fees on money transfers is likely to be significantly attractive to communities throughout the region, and likely to promote high smartcard use.

While interested in assisting the regional communities, IBIS is opposed to paying the commission on transaction volume that it would be liable for under a smartcard system. This is because it currently receives revenue from EFTPOS transactions.

Consultations have identified a range of options to address the concerns of IBIS. These include:

- A direction by the Minister for DATSIP that IBIS absorb smartcard transaction fees because these costs are outweighed by the income management benefits to the regional community associated with smartcard use.
- A community service obligation (CSO) from the Queensland Government to fund smartcard transaction fees incurred by IBIS. There is a view that this does not set a precedent for government because the regional community has no option but to use IBIS and already suffers higher than average living costs as a result of its remoteness. It could be considered that a CSO is an investment in an income management system that delivers community benefits such as improved health

and education. Arguably social policy improvements which reduce health, justice and other expenditure for State government can outweigh the cost of the CSO.

This is a fundamental issue that would require resolution before a smartcard trial could commence, particularly because IBIS is the monopoly provider of groceries throughout most of the Torres Strait region. This may be an issue that requires discussion between the Queensland and Commonwealth governments.

1.4.4 Response of Community Organisations

The three primary community organisations in the region, Mura Kosker Women's Sorority, Kaziw Asesered Le Association Inc and the Bamaga Family Resource Centre, support a smartcard trial because they consider it can:

- Assist them ensure that emergency relief funding is used by clients for the purposes it is intended.
- Help them to reinforce the needs and benefits of income management and budgeting.
- Reduce some of the causes of domestic violence by dedicating income to specific purposes.
- Assist families to budget their 'children's money' on the needs of their children.

1.4.5 Response of Business

The Torres Strait Chamber of Commerce supports a smartcard trial because of the community benefit. Its members are not significantly concerned about the transaction fees (commission on the transaction volume) that arise for them under a smartcard system.

National Australia Bank is willing to facilitate transfers between a client's NAB and smartcard account. It supports a smartcard trial because it considers there is a need to lift the level of personal savings in the region through budgeting. It would be concerned if the smartcard system reduced the use of its services and accounts.

The Bamaga Enterprise Centre operates almost all the businesses in the Bamaga area. It supports a smartcard trial and is equally unconcerned about transaction charges.

1.5 Infrastructure and Technology

The infrastructure and technology currently available and planned for implementation by Telstra and the National Telecommunications Network program in the participating communities and wider region support a smartcard system without any need for additional investment. The exception to this may be in relation to smartcard readers for stand alone fuel pumps and the speedier implementation of more extensive CDMA coverage during a smartcard trial period.

However the extent of this investment would depend on the demand for fuel wallets in smartcards for this purpose. Also, the trial and potential implementation of a disposable card system for fuel purchases by the TSRA reduces the urgency for the provision of a wider CDMA network prior to the commencement of a smartcard trial.

Remote Transaction Centres (RTCs) are being established in the participating communities by mid year and most of the region by the end of the year. The RTCs are an ideal location for the use of smartcard terminals to transfer money and conduct other purchases with smartcard wallets if retailers and service providers are linked with RTCs.

The RTCs are being located close to council offices in most communities and councils in participating communities consider that there is an opportunity to merge RTC and smartcard operations to facilitate a wide range of transactions and income management education for communities and councils.

1.6 Community Capacity for Smartcard Use

1.6.1 Community Support for Smartcard

There is sufficient acceptance of a smartcard concept in the participating communities to support a trial. All councils in participating communities support a smartcard trial.

There is a possibility that other communities in the region may be interested to participate in a trial once the TSRA Board has considered this final report.

1.6.2 Level of Family Income

Consultations indicate that average family income in the participating communities can range from a base of about \$700 to \$900 per fortnight up to about \$1000 - \$1200 per fortnight. Income is a mix of CDEP, Centrelink payments and private income.

In the participating communities about 600 people receive CDEP and 770 people may be entitled to receive Centrelink benefits. The number of Centrelink recipients in the participating communities may be higher once more accurate figures are made available by Centrelink.

Community consultations indicate a sufficient level of community interest in managing all income sources via a smartcard system to support a trial. The average level of income and estimated volume of people receiving CDEP and Centrelink payments provides a base from which to draw a sufficient number of participants to support a trial.

The use of a smartcard system by CDEP recipients alone, particularly where their participation is encouraged by councils, would be sufficient to support a trial.

1.6.3 Family Expenditure and Savings Patterns

The most significant regular costs for an average family in the participating communities are food and fuel. Consultations indicate that families with two children spend from \$400 - \$600 per fortnight on food. Larger families with 4 children, which are common in the region, can spend up to \$1000 per fortnight on food.

Fuel costs can vary between communities depending on distances required to be travelled for fishing, fuel costs (consultations indicate costs can vary from \$1.30 to over \$2 per litre), frequency of vessel usage and whether vessels are being used for commercial or recreational purposes. Fuel costs for an average family range from \$160 - \$300 per fortnight. However it is reported that fuel costs can be as high as \$800 per fortnight.

As a result, an average family's expenditure on food and fuel can range from \$560 - \$900 per fortnight. Other regular expenses for an average family include rent, energy and phone costs which can add a further \$180 per fortnight. Education expenses are another cost, particularly for families with children in secondary school away from home.

Given that the average level of income in the region can range from \$700 to \$1200 per fortnight, there is little margin for a family to save and set aside funds for planned events such as air travel or emergency contingencies.

The current level of expenditure on food and fuel alone is sufficient to support a smartcard trial. Community consultations indicate a strong preference for smartcard wallets that can host funds for food, fuel, education and savings for items such as airfares.

1.7 Social and Financial Incentives For SmartCard Use

While initial community participation in an income management program via smartcard may be strong, consultations indicate that the greatest challenge would be to maintain that participation over time. However, there are a range of social and financial incentives that have been identified during consultations that can assist to promote long term community participation. These incentives are the ability of smartcard to enable families:

- Particularly mothers, to dedicate their Centrelink payments and other income to expenditure on their children's needs.
- To manage familial obligations to share income and food, without financial hardship.
- To save for contingent and emergency expenses, which are culturally important.
- To ensure that expenditure on alcohol and gambling does not put at risk funds for food and other regular and essential payments.
- To dedicate a proportion of their income for essential expenses in the second week of the fortnight – the 'dragging week'.

- To avoid the \$30 IBIS fee on cash deposits and money transfers they need to undertake.
- To reduce the EFTPOS charges they incur because of frequent shopping in a fortnight.
- To earn interest on the funds in their smartcard accounts.
- To manage equitable and regular contributions to household expenses in an extended family situation.

The delivery of most if not all of these incentives is likely to be sufficient to support a smartcard trial.

1.8 The Financial Literacy of the Community

Based on the questions raised by communities during consultations, community suggestions for smartcard wallets and applications that suit their needs, and the current strong penetration of EFTPOS, energy and pre-paid phone card use, it is clear that the participating communities have a reasonable level of financial literacy.

The current level of general financial literacy of the participating communities appears to be sufficient to support a smartcard trial.

1.9 Resource Workers to Assist with Income Management

Despite the community capacity for a smartcard trial and reasonable level of financial literacy, the feasibility assessment has identified that there is a need for resource workers during a trial and potentially for a period in any permanent system to:

- Provide professional income management and budgeting advice;
- Establish smartcard accounts in conjunction with a user, including the allocation of income to a user's selected smartcard wallets.
- Educate users about self managing their smartcard accounts and allocation process.

Ideally, resource workers would need to be located in each participating community or at least rotate between them on a regular basis and be guided by a Project Manager.

Consultations have identified a range of government, non-government and private organisations that could provide resource workers. All are likely to require government funding to be able to provide the necessary staff and systems to manage an income management and smartcard system.

On balance it is considered that community councils in outer islands in particular are best placed to host resource workers to administer an income management and smartcard program because they:

- Are located in each community.
- Are respected by the community because their leadership is elected.

- Are not currently perceived as providing services to a specific section of the community only, such as women or ERF recipients.
- Do not have a conflict of interest in managing an income management via smartcard, unlike a bank.
- Exist to pursue the best interests of their communities.

The lack of a strong presence by community organisations in the outer islands also suggests that councils are candidates to perform the resource worker role following funding and training. A sensible link can be made between the role of the Manager of the RTC being established in each community and the resource worker function, because the transaction focus of the RTC has synergies with an income management program based on smartcard. Councils appear supportive of utilising the Manager of the RTC to also perform the resource worker function as part of smartcard trial.

In the NPA the Bamaga Family Resource Centre is able and willing to perform the resource worker function because it performs similar services currently. It would require training in the smartcard system.

1.10 Cost and Viability of a Trial and Any Permanent System

The cost and viability of a smartcard trial and any permanent system has been assessed using the technical and commercial experience of the consultants and the findings in this feasibility study regarding the levels of income and expenditure and likely smartcard use by communities in the Torres Strait.

The commercial viability of a smartcard system depends on the:

- Volume of smartcard users;
- Level of expenditure using smartcards; and
- Number of retailers and/or service providers (affiliates) where smartcards can be used to make purchases.

A system's viability increases as the number of card users grows, they spend more via their cards and there are an expanding number of affiliates where card users can make purchases. A system can be viable with a lower number of card users as long as the expenditure of each user is high. As a result, the level of expenditure is the key factor determining viability.

The business model used in this assessment assumes that **a smartcard trial would operate for two years**. It is assumed that in its first year a trial would occur in the 6 communities participating in the feasibility and in its second year the trial would be expanded to a total of 10 communities.

The consultants have conducted a conservative assessment of the cost and commercial viability of a smartcard trial by underestimating the level of income from the smartcard system but including the full costs of developing a system to meet all the common needs of communities identified in the feasibility.

Based on these conservative parameters the assessment has identified that in trial year one the smartcard system would operate at a loss of \$1,935,489. This would be the cost to government if it chose to support a trial.

This cost to government could be minimised if:

- Government and the smartcard system provider shared in funding the costs of the system; and/or
- Government received an income stream from the smartcard system once a threshold level of profitability has been reached.

In trial year two the smartcard system would operate at a profit of \$1,769. Whilst this is a very small profit, it is a vast improvement on the loss in trial year one. It demonstrates that 2500 participants are required for the smartcard system to be viable.

1.11 Conclusions and Recommendations

In response to the threshold questions required to be addressed by this feasibility assessment, the study has identified that:

- The community capacity for smartcard use is sufficient to support a trial.
- A two year smartcard trial could be commercially viable in the second year.
- There is no need for investment in telecommunications or information technology frameworks in the region beyond existing government commitments.
- A resource worker function is required in each participating community to assist with income management and smartcard account management during a trial and potentially for a period of time during any permanent system.
- All stakeholders, with the exception of IBIS, support the notion of a smartcard trial and would be willing to participate in it.
- It is not clear whether CentrePay charges normally applying to transactions it facilitates would be applied or absorbed by government.

It is recommended that a smartcard trial be conducted in the Torres Strait for a period of two years, subject to:

- Government funding for the costs of establishing and operating a smartcard system during the trial period;
- The participation of IBIS in the smartcard system; and
- The clarification of whether CentrePay charges would be applied or absorbed by government.

2. BACKGROUND

2.1 THE TORRES STRAIT

The Torres Strait extends 150 kilometres from the tip of Cape York in North Queensland to the south west coast of Papua New Guinea (PNG). Islands within the region are scattered both west and east of Cape York.

The region includes 18 island communities and two mainland communities on the western tip of Cape York, making a total of 20 Torres Strait Islander communities. The size of communities ranges from about 55 to 1630 people. The total population of the region is about 8,300, of whom about 6,100 are Torres Strait Islander and Aboriginal people.

Within 8 kilometres of the two mainland communities there are 3 aboriginal communities (Injinoo, New Mapoon, Umajico) with whom there is a range of commercial and other interaction.

Governance of the region is subject to both Commonwealth and Queensland legislation. Of the 20 Torres Strait Islander communities, 18 are governed by councillors elected by their communities under the *Queensland Community Services (Torres Strait) Act 1984*.

The 2 other communities (Port Kennedy and Horn/Prince of Wales) are governed by members elected under Division 5 of the *Aboriginal and Torres Strait Islander Commission Act 1989*.

2.2 THE TORRES STRAIT REGIONAL AUTHORITY

The TSRA is a statutory authority created under the *Aboriginal and Torres Strait Islander Commission Act 1989*. Its mission is to develop policy and programs for the benefit of the region in consultation with communities and manage funding provided by the Commonwealth Government.

The Chairs of each of the 18 community councils and the members for Port Kennedy and Horn/Prince of Wales comprise the Board of the Torres Strait Regional Authority (TSRA), which enables communities to participate in whole of region development and issue management.

The TSRA is directed by the Commonwealth Minister for Immigration and Multicultural and Indigenous Affairs.

2.3 THE SMARTCARD PROPOSAL

In August 2004, Accor Services proposed to the TSRA Board that it consider the trial of a smartcard system in the region to provide a means to encourage individuals and communities to:

- Become more aware of the benefits and ways of budgeting family income; and
- Manage income for maximum benefit for themselves and their children.

As a whole, the TSRA Board endorsed the concept of a smartcard trial and encouraged the Chairs of individual community councils to volunteer their community's participation in a trial. Following the Board's decision, the Chairs of the following six communities expressed their interest in participating in a trial.

- Bamaga – mainland, Cape York
- Boigu – outer island, north-west region
- Hammond – inner island, central region
- Iama (Yam) – outer island, eastern region
- Masig (Yorke) – outer island, north east region
- St Pauls – inner island, central region

These communities represent a mix of outer island, inner island and mainland communities across the Torres Strait region.

2.4 FEASIBILITY ASSESSMENT OF SMARTCARD TRIAL

Given the interest of these six communities, the TSRA Board requested Commonwealth Government funding for a study to examine the feasibility of a smartcard trial in Torres Strait. The outcome of the feasibility would inform a Board and Commonwealth Government decision on an actual trial.

In March 2005, the Commonwealth Government's Office of Indigenous Policy Coordination (OIPC) agreed to fund a feasibility study in six communities conducted by TSRA, Accor Services and Aegis Consulting Australia.

The steering committee established to oversee the feasibility assessment (the TSRA's Executive Committee) agreed that the feasibility study be conducted in the six communities which had demonstrated the strongest interest in a trial (participating communities) and include retailers, service providers and government agencies on Thursday Island.

The steering committee initially considered including the communities of Horn Island, Seisia, New Mapoon, Injinoo and Umajico in the scope of the assessment. However it was subsequently considered that it was preferable to consult these additional communities if a trial occurred, particularly as they had not nominated to participate in the feasibility.

2.4.1 Threshold Issues for Assessment

The feasibility assessment examined some threshold issues that would determine the benefit, costs and viability of a smartcard trial and any permanent smartcard system over the longer term.

These issues can be grouped into two broad categories:

- Community capacity for smartcard use; and
- Potential cost of a smartcard trial and any permanent system.

2.4.1.1 Community Capacity for Smartcard Use

The issues examined were:

- The need and desire of the community to use the smartcard system to assist with family budgeting, financial management and/or to address issues contributing to community problems.
- The level of financial literacy in the community and the ability of the community to use the smartcard system.

2.4.1.2 Potential Cost of a Smartcard Trial and Any Permanent System

The issues examined were:

- The volume and nature of smartcard use that would be required for the commercial viability of a smartcard trial by the end of the trial period and of a permanent system. This would be informed by findings under issues 2.4.1.1.
- The ability of current telecommunications and information infrastructure to support the smartcard system, and what investment may be required to ensure a trial and ongoing system is operable.
- Based on the findings under 2.4.1.1 - the need to provide a resource worker function (similar to the Government's Family Income Management trials) to educate and assist the community with smartcard use, budgeting and financial management; who is best placed to provide the resource worker role (eg. local councils, government agencies, community organisations); and the likely cost of providing the resource worker function during the trial and as part of a permanent system.

Prior to the assessment it was anticipated that recommendations arising from it were likely to fall within the following three broad categories:

- A trial and permanent system can be commercially viable and deliver community benefits and therefore investment in a trial is justified. The level of investment

may vary depending on the quality of infrastructure and demand for a resource worker function based of the level of financial literacy; or

- A trial and permanent system could not be commercially viable or deliver community benefits and therefore investment in a trial is not justified; or
- A trial and permanent system could not be commercially viable, but could deliver community benefits and therefore government may wish to consider investing in a trial regardless of the commercial viability of it or a permanent system.

2.4.2 Methodology

The feasibility assessment was conducted in the six communities which had expressed interest in a smartcard trial, as well as in Thursday Island because it is the primary commercial and administrative centre for the region. The feasibility assessment relied on a comprehensive community consultation process, which had the following five integrated components.

2.4.2.1 Steering Committee

A steering committee was established to guide the assessment and review its findings. This committee comprised the members of the TSRA Executive Committee, which includes council Chairs of some communities, and the TSRA CEO. All the communities participating in the feasibility assessment were represented on the steering committee.

The committee provided advice on:

- Strategies to inform communities of the consultation process and encourage their participation in it.
- Community issues and/or problems which in their view a smartcard system could assist.
- The levels of income and savings and type of expenditure by the communities they represent.
- The degree of community consultation required by various Island communities involved in the study.
- The conduct of community consultation.

The members of the steering committee facilitated discussions between their councils, communities and the consultants conducting the feasibility assessment. It also acted as a central point for community responses to the smartcard concept.

2.4.2.2 Consultations with Community Councils

Consultations were held with councils in each of the participating communities on the smartcard concept and the proposed objectives, process and possible results of the consultation and study.

The consultations were aimed to equip councillors with sufficient knowledge of the smartcard system to promote the community consultation process within their communities, encourage participation by families and facilitate public meetings.

Advice and information from councils was sought and obtained on:

- Community issues which smartcard may assist to address.
- Financial management and budgeting practices of families in their communities.
- Income sources and expenditure demands on families in their communities.
- The use of existing card and banking systems by families in their communities.
- Their CDEP management arrangements.
- Their capacity to host a resource worker to assist with the use of smartcards in their communities.
- Any other issues relevant to the study.

2.4.2.3 Public Meetings with Communities

Councils in four of the participating communities (Hammond, Iama, Masig, St Pauls) organised public meetings to facilitate community consultations as part of the feasibility assessment.

Boigu Council indicated that it would conduct community consultations and that its support for the smartcard trial reflected its community's opinion. It suggested that if a trial commences, the consultants could conduct a public meeting to educate the community on smartcard use.

A public meeting in Bamaga could not occur within the timeframe of this assessment because of the impact on the community of the tragic aircraft incident in early May. A public meeting could be held if a trial commences.

At public meetings the consultants distributed brochures to community members, which explained the smartcard system in the simplest possible terms and stimulated feedback. Where possible, a power point presentation was also used to inform community members and stimulate discussion. A copy of the brochure used during the public consultations is attached at Appendix A.

The aims of public meetings were to:

- Educate the community about the smartcard concept.
- Confirm the views of councils and steering committee members on the issues a smartcard may assist with and the interest of the community in financial management and budgeting for regular payments.
- Identify the primary concerns and priorities of the community in relation to family income management, income and expenditure.
- Identify whether the community considered that card use is easy and accessible.
- Ask the community for any ideas about how the smartcard system might help them.

- Ask the community about the kinds of ‘smartcard wallets’ they would find beneficial for budgeting and income management.

2.4.2.4 Private Meetings with Individuals and Families

During their visit to each community the consultants were available for private meetings with individuals and families who wished to raise issues or understand the smartcard system on a one to one basis. The aims of these meetings were similar to those of the public meetings.

However, the availability of consultants for private meetings was not utilised by members of participating communities.

2.4.2.5 Consultations with Third Parties

A range of community based and regional stakeholders were consulted to explain the smartcard concept and identify their responses to it.

Meetings with these parties enabled the consultants to test whether the picture painted by community responses accord with the evidence of income and expenditure patterns and their consequences held by service providers, community workers and government agencies. These meetings also enabled the consultants to identify the responses of government agencies, retailers and services providers to the smartcard concept. These parties are likely to be stakeholders in any smartcard system.

These third parties were:

- Private retailers and service providers in each community and the commercial centres at Thursday Island and Bamaga.
- The Torres Strait Chamber of Commerce.
- The National Australia Bank, which is the only bank with a presence in the region.
- The Islander Board of Industry and Service (IBIS), which is owned by the Queensland Government and is the only supermarket chain in the region.
- The Mura Kosker Women’s Sorority, which is responsible for distributing emergency relief funding throughout the region.
- Kaziw Asesered Le Association Inc, which provides child and family support services through the region.
- The Family Resource Centre based in Bamaga, which provides child and family support and emergency relief services in the Northern Peninsula Area.
- Centrelink management for the Torres Strait region and in Cairns.

- Telstra management for the Torres Strait region.
- Ergon Energy management for the Torres Strait region.
- Torres Strait based management for the Queensland Department of Aboriginal and Torres Strait Islander (ATSI) Housing.
- Torres Strait based management for the Queensland Department of Aboriginal and Torres Strait Islander Policy (DATSIP).
- The TSRA fuel card project team.

2.4.3 Timing and Process of Consultations

The consultants were required to make three visits to the region as part of the feasibility assessment prior to the preparation of this interim report. The consultants may need to make a fourth visit the region to attend the TSRA Board meeting where this report will be considered. The original feasibility proposal anticipated that the consultants would be required to make a total of two visits to the region during the feasibility assessment.

Additional visits have been required because of the process of consulting with councils and communities.

2.4.3.1 Consultations From April 4 - 9

During this period:

- The Executive Committee of the TSRA agreed to act as the steering committee for the feasibility assessment.
- The consultants presented the feasibility methodology to the steering committee and it was agreed to.
- The consultants organised with the council Chairs of each participating community a schedule of council and community consultations to take place between April 18 and May 4.
- Consultations were held with the following stakeholders on Thursday Island – TSRA, National Australia Bank, Centrelink, Mura Kosker Women’s Sorority, the Queensland Department of Aboriginal and Torres Strait Islander Housing and the Queensland Department of Aboriginal and Torres Strait Islander Policy.
- Consultations were held with the following stakeholders in Cairns – Centrelink, Telstra, Ergon Energy and the Islander Board of Industry and Service.

2.4.3.2 Consultation from April 18 – May 4

During this period:

- Consultations were held with councils for Boigu, Bamaga, Hammond, Iama (Yam), and Masig (Yorke) communities. The scheduled meeting with St Paul's council was unable to be held in this period because of other unexpected commitments by the council Chair and council.
- Public meetings were conducted with the communities in Hammond and Masig (Yorke). Boigu council elected to postpone its scheduled public meeting until the commencement of a smartcard trial. The scheduled public meetings with communities in Bamaga, Iama (Yam) and St Pauls were unable to be held because of other unexpected commitments by council and the respective council Chairs.
- The two public meetings that were held were attended by about 20 people on each occasion with participants representing students, mothers, pensioners, CDEP workers, Centrelink payment recipients as well as community social workers such as Ministers of Religion.
- Consultations were held with individual small business grocery retailers where they presented an alternative to IBIS in communities. This occurred on Biogu, Hammond and Yorke but was not undertaken in other communities because of a lack of such retailers.
- Consultations were held on Thursday Island with the Mura Kosker Women's Sorority, Kaziw Asesered Le Association Inc, Torres Strait Chamber of Commerce, individual retailers, service providers, business operators and TSRA.
- Consultations were held in Bamaga with the Family Resource Centre and Bamaga Enterprise Centre, which operates the majority of retail and service outlets in the area.
- The consultations with St Pauls council was rescheduled for the week of 30 May to 3 June.
- The public meetings with St Pauls and Iama communities were rescheduled for the week of 30 May to 3 June.

The consultants were notified during this period with short notice of the need to reschedule some council and public meetings and thus incurred additional cost associated with altering regional flight and travel arrangements.

2.4.3.3 Consultations on 25 May

The interim report has been circulated to the steering committee and OIPC on 20 May. The consultants discussed the interim report with the committee via teleconference on 25 May.

2.4.3.4 Consultations from May 30 – 3 June

During this period:

- Public meetings were held with the communities in Iama (Yam) and St Pauls.
- Consultations occurred with St Pauls Council.

3. OPERATING ENVIRONMENT

The operating environment for a smartcard system in the Torres Strait region includes government agencies, community councils, not-for profit organisations and retailers and service providers who operate as transaction points for the community.

The response of such organisations is important in determining the feasibility of smartcard trial, because their co-operation and participation in the smartcard network may determine how widely smartcards can be used by the community for income management and transaction purposes. The responses of all relevant organisations are discussed in this chapter, with the exception of community councils. The views of community councils are reflected throughout the whole document in keeping with the objectives of the feasibility assessment.

The operating environment also includes the status of infrastructure and technology necessary to support a smartcard system. Infrastructure issues are discussed in this chapter.

3.1 COMMONWEALTH GOVERNMENT

3.1.1 Centrelink

3.1.1.1 Role and Coverage

Centrelink is a Commonwealth Government agency responsible for the delivery of Commonwealth Government payments to eligible recipients. Through its offices it provides assistance to families with subsidy applications and advice on payments.

A Centrelink office is located on Thursday Island which administers Centrelink operations in the Torres Strait and NPA. Most of the participating communities have at least a part time Centrelink office and a branch office is being established in Bamaga to service the NPA communities.

The main Centrelink payments claimed in the region are:

- Parenting Payment;
- Family Tax Benefit Parts A & B;
- Newstart Allowance;
- Abstudy;
- Remote Area Allowance;
- Assistance for Isolated Children;
- Age Pension; and
- Disability Support Pension

Centrelink advises that there are about 3000 people in the region receiving these payments. During consultations, Centrelink undertook to provide information on the

number of people receiving these payments in the participating communities. However it has not been made available at the time of this report.

Centrelink is also aware of the use of the Community Development Employment program (CDEP), although this is administered by the TSRA. According to the TSRA there are about 1700 people receiving CDEP in the region. The feasibility assessment has identified that about 600 people receive CDEP in the participating communities. Recipients of CDEP are not entitled to the Newstart allowance.

Centrelink advises that in partnered families the male usually receives CDEP and the woman is paid the parenting payment and FTB. CDEP and Centrelink payments, which are paid at the beginning of each fortnight, can be received in alternate weeks, thus ensuring some income each week. However this is not commonly used.

As there are no secondary schools in the outer islands, children are sent to Thursday Island or the mainland to attend school. While some stay in boarding schools, the majority stay with extended family or, in the case of Thursday Island, at the student lodge. To assist with these costs, parents receive the Assistance for Isolated Children Allowance and students are eligible for Abstudy.

3.1.1.2 Response to Smartcard Concept

Centrelink managers in Thursday Island and Cairns were consulted during the feasibility assessment.

Centrelink advises that subsidy recipients can already deduct a proportion of their income via CentrePay to fixed items such as rent, however total deductions cannot exceed 65% of a person's payments. CentrePay cannot be used to deduct income for more flexible expenses such as food.

Given these limitations with CentrePay, Centrelink officers support the income management objectives and trial of the smartcard system, especially where it can assist families set aside part of the 'children's money' (parenting payments) for food and savings. In their experience a significant proportion of this money is currently being spent on alcohol and gambling.

Centrelink officers also suggest that the information and assistance with budgeting that forms part of the smartcard system would be useful to families. Currently they assist families with some budgeting and refer others to community organisations for further help and advice, but there is no system in place to reinforce budgeting decisions.

Centrelink advises that in order for Accor Services to receive and allocate income deductions to smartcard wallets as instructed by the card account holder, Accor Services would need to apply to become an approved payee. This would allow the direct payment of Centrelink payments into a person's Smartcard account, rather than via a person's bank account, thereby avoiding the application of bank charges.

CentrePay currently charges its clients \$1.01 for each payment made to a third party (eg. landlord) as part of a deduction scheme. Under existing Family Income Management trials in Cape York this charge is borne by the Department of Family and Community Services. If one of the objectives of the smartcard system is to reduce transaction costs for communities in the Torres Strait region and increase the opportunities for savings, consideration may need to be given to how this charge would be treated during any smartcard trial. Further consultations on this issue may need to occur prior to any smartcard trial.

3.1.2 Telstra

3.1.2.1 Role and Coverage

During the feasibility assessment Telstra Countrywide in Cairns was consulted to identify the status of telecommunications infrastructure in the Torres Strait and NPA and how its billing system could be integrated into the smartcard system.

In the inner islands most Telstra customers are on a monthly or quarterly billing cycle. In the outer islands, customers are being encouraged to use prepaid home phones. This is because of the delays in receiving mail, and the lack of facilities to easily pay Telstra bills (there is limited Australia Post Pay, and telephone and internet banking). Telstra indicated that the most significant costs are the costs associated with telephone disconnection for failures to pay bills, and reconnection fees. Telstra also incurs costs associated with the physical time and expense of reconnection.

The status of Telstra infrastructure and its capacity to support a smartcard system is discussed in section 3.5.

3.1.2.2 Response to Smartcard Concept

Telstra indicated it is willing to utilise a smartcard system during a trial, subject to the impact on its billing procedures. Examination of these impacts would be more effective during or after a smartcard trial rather than prior to the commencement of a trial. This is because there appear to be satisfactory arrangements for phone account management currently in place.

Conclusion

Centrelink supports a smartcard trial to provide an income management system, particularly where it can complement the income deduction services facilitated by CentrePay. It considers that there is a particular need to assist families in the region budget and dedicate their ‘children’s money’ (eg. parenting payments) to the welfare of their children.

Currently CentrePay charges its clients \$1.01 for each payments to a third party (eg. landlord) as part of a client's expense deduction scheme. This charge is applied irrespective of the amount being transferred. Issues that would need clarification prior to any smartcard trial is whether the charge would apply to transfers to smartcard accounts and whether the charge would be borne by the client, smartcard provider or Commonwealth Government.

Telstra is willing to consider integrating its billing system with a smartcard system, subject to further examination of billing arrangements. This issue can be examined during or after a smartcard trial, rather than prior to it, as there are satisfactory arrangements for phone account management currently in place.

3.2 QUEENSLAND GOVERNMENT

3.2.1 Department of Aboriginal and Torres Strait Islander Policy

3.2.1.1 Role and Coverage

The DATSIP is responsible for developing and implementing Queensland Government policy relating to indigenous people. The DATSIP Minister is also responsible for the Islander Board of Industry and Service (IBIS), which is the primary provider of groceries, consumer goods and financial transactions in the Torres Strait region. The IBIS is discussed in section 3.2.3.

The DATSIP has an office located on Thursday Island, which oversees and implements State government policy in the Torres Strait and NPA. During the feasibility assessment consultations were held with the DATSIP Manager on Thursday Island. Consultations have also been previously held with the former DATSIP Minister, Liddy Clark, and the Manager of the Strategic Partnerships Office in DATSIP.

3.2.1.2 Response to Smartcard Concept

The DATSIP generally supports the smartcard concept, but at this stage considers that it has no active role, until the study and possible trial are further advanced. Nevertheless prior to any smartcard trial, the DATSIP would need to be engaged in relation to the role of the IBIS in the region and its response to the smartcard system.

3.2.2 Aboriginal and Torres Strait Islander Housing

3.2.1.1 Role and Coverage

This organisation is part of the Queensland Department of Housing and is responsible for providing housing on Thursday Island. It provides 260 houses on Thursday Island housing 1800 people. Around 85% of people on Thursday Island live in this

government housing stock. There is no ATSI housing provided in the participating communities or other islands communities in the region.

During the feasibility assessment consultations were held with the Manager of ATSI Housing on Thursday Island. Consultations indicate that tenants pay their rent via direct debit from Centrelink (CentrePay) or a bank account, or payment through the post office.

Nevertheless ATSI Housing has difficulties with rent arrears which could be addressed via a smartcard system. At present the ATSI Housing office has no facility to accept payments and therefore consultations would need to be held with Australia Post, which has a facility on Thursday Island.

3.2.1.2 Response to Smartcard Concept

If the smartcard system is trialled on Thursday Island, ATSI Housing would support it.

3.2.3 Islander Board of Industry and Service (IBIS)

3.2.3.1 Role and Coverage

The IBIS is a body corporate under section 52(2) of the *Community Services (Torres Strait) Act 1984 Queensland*.

The statutory intention is that IBIS operate as a not for profit organisation, with the purpose of providing the people of the region with general consumer items, including groceries, and related services at affordable prices. It has a board to oversee the management of its functions and it reports to the Queensland Minister for Aboriginal and Torres Strait Islander Policy.

The IBIS operates three stores on Thursday Island and one in each of the following communities participating in this feasibility assessment – Bamaga, Boigu, Masig (Yorke), Yam and St Pauls. It does not operate a store on Hammond Island, which is the sixth community participating in this feasibility.

The IBIS operates in 8 other communities in the region, making a total of 16 stores spread across 14 communities. It does not operate beyond the region or in the 3 aboriginal communities in the Northern Peninsula Area.

Consultations with IBIS management indicate that the Queensland Government is concerned about the high level of debt historically accrued by the organisation, and that there is a policy imperative to reduce debt and ensure that IBIS can operate commercially and without assistance from government.

3.2.3.2 Community Concerns with IBIS

In relation to the services offered by IBIS, the overwhelming and unanimous community concerns expressed during consultations are:

- That the prices charged by IBIS for grocery items are excessive and not consistent with maintaining affordability of food for communities in the region. The common view is that IBIS is able to charge high prices because it is the monopoly provider of groceries in the region; and
- That the \$30 fee charged by IBIS for money transfers and cash deposits made via IBIS stores is a significant and unfair cost for families in region where the cost of living is already higher than the average in Australia. The common view is that by charging the \$30 transaction fee, IBIS is exploiting the lack of post office, banking and other facilities in outer island communities, which leaves users no choice when managing transactions.

A common view is that current IBIS practice with respect to pricing and transaction fees is not consistent with the statutory purpose of IBIS.

In addition to these community concerns the feasibility assessment has also identified that:

- IBIS receives a 25% rebate from its bank agent on every transaction made in its stores using EFTPOS. According to management this is an important source of revenue to alleviate organisational debt.
- The highest expenditure for families in the six participating communities is food.

Accordingly, in assessing the community capacity and incentives for smartcard use the consultants were required to:

- Undertake a comparison of prices in IBIS stores within the region and with metropolitan centres on the Australian mainland. This is discussed in more detail in Chapter 4.
- Consider the potential for the smartcard system to facilitate money transfers and cash deposits for communities in the region as an alternative to the IBIS option. Money transfers using a smartcard system would not be subject to a \$30 charge.

3.2.3.3 Response to Smartcard Concept

Consultations with the IBIS Management indicate that while it is interested in assisting the communities in the region, it is concerned about the transactions fees (commission on transaction volume) which it would be liable to pay as a retailer under a smartcard system.

As it has moved to receiving revenue on each EFTPOS transaction conducted in its store (25% of the EFTPOS fee), it would not support paying transaction fees on the sale of its goods.

Consultations have identified a range of options to address the concerns of IBIS. These include:

- A direction by the Minister for DATSIP that IBIS absorb smartcard transaction fees because these costs are outweighed by the income management benefits to the regional community associated with smartcard use.
- A community service obligation (CSO) from the Queensland Government to fund smartcard transaction fees incurred by IBIS. There is a view that this does not set a precedent for government because the regional community has no option but to use IBIS and already suffers higher than average living costs as a result of its remoteness. It could be considered that a CSO is an investment in an income management system that delivers community benefits such as improved health and education. Arguably social policy improvements which reduce health, justice and other expenditure for State government can outweigh the cost of the CSO.

This is a fundamental issue that would require resolution before a smartcard trial could commence, particularly because IBIS is the monopoly provider of groceries throughout most of the Torres Strait region. This may be an issue that requires further discussion between the Queensland and Commonwealth governments.

3.2.4 Ergon Energy

3.2.4.1 Role and Coverage

Ergon Energy is a Queensland Government owned energy provider. It is the sole energy provider in the Torres Strait region and NPA.

Most electricity users in the Torres Strait and NPA use a prepaid metering system. This requires customers to buy disposable energy cards from Council Offices during working hours to insert into meters when required. This depends on money being available to purchase cards as required, otherwise power is disconnected until a new card is bought. Where a person's disposable card is used up in the evening, they can be without power until Council Offices open in the morning.

The current system also requires Ergon to physically connect and disconnect meters.

3.2.4.2 Response to Smartcard Concept

Consultations were held with the Manager for the region. Ergon is planning to upgrade meters in the region this year, although the disposable card system will be retained. The new meters will not be able to support smartcard technology.

Ergon considers that the use of smartcard metering would provide benefits for it and the community. For example, smartcard metering would enable it to connect and disconnect meters remotely and therefore reduce the cost of these tasks. Such technology would also enable consumers to ensure they were never without power. Ergon also considers that smartcards would be more robust than its cardboard disposable cards which are often destroyed by the elements.

Ergon has indicated that it is willing to consider replacing its meters in the region with smartcard capable technology, subject the availability of such meters and after a general smartcard trial in the region had been successful.

Conclusion

The Queensland Department's of Aboriginal and Torres Strait Islander Policy and Housing support in principle the notion of smartcard trial, but at this stage have watching briefs only.

ATSI Housing would have a greater role to play if a smartcard trial occurs on Thursday Island, where it provides housing. The DATSIP may have a significant role to play in resolving issues with IBIS discussed below.

Communities consulted have strong concerns about the prices of groceries at IBIS stores and the \$30 transaction fee charged by IBIS for money transfers and cash deposits. The common view is that IBIS is able to apply its current pricing and transaction fees because it is a monopoly provider of groceries and transaction services in the region.

Given the strength of these concerns, a smartcard system that can alleviate transaction fees on money transfers and cash deposits is likely to be significantly attractive to communities throughout the region, and promote high smartcard use.

While interested in assisting the regional communities, IBIS is opposed to paying transaction fees it would be liable for under a smartcard system because it currently receives revenue from EFTPOS transactions.

This is a fundamental issue that would require resolution before a smartcard trial could commence, as IBIS is the monopoly provider of groceries throughout most of the Torres Strait region. This may be an issue that requires discussion between the Queensland and Commonwealth governments.

Ergon Energy is willing to introduce metering in the region to support a smartcard system, subject to the availability of smartcard meters and a successful smartcard trial.

3.3 COMMUNITY ORGANISATIONS

3.3.1 Mura Koska Women's Sorority

3.3.1.1 Role & Coverage

The Mura Kosker Women's Sorority aims to provide support to women living in the Torres Strait region. It receives most of its funding from the TSRA. The Sorority is located on Thursday Island and does not provide services in the outer islands. It primarily administers emergency relief funding (ERF) provided by the Queensland Department of Families, delivers some budgeting advice, and assists women and children in need, especially as a result of domestic violence. It has a Board and operational staff.

During consultations the Sorority provided information and advice on the incidence of domestic violence, family and community issues in the outer islands, including problems with alcohol and gambling. Advice provided by it suggests that while alcohol is not a significant problem in some areas, gambling is prevalent among women.

It was the Sorority's opinion that boredom combined with easy access to cash contributed to the gambling problem, which in turn had a detrimental affect on the amount of money families had available to spend on food and other essentials.

3.3.1.2 Response to Smartcard Concept

Consultations were held with the Sorority's Manager. She supported in principle any system which had the ability to reduce access to cash and assist families to budget for food.

The Sorority advises that families in need can apply once annually for ERF (\$50) for essential items such as food and electricity. Ensuring that the money is spent appropriately is often problematic and the provision of such funding is only a temporary solution. Families often return at a later time requiring further help. Currently the Sorority gives the \$50 ERF in the form of a voucher for the IBIS supermarket. Some women are reluctant to use the vouchers as they feel it 'marks' them as needy within the community.

As a result, the Sorority is interested in using disposable cards to issue the ERF during a smartcard trial. This would allow families to feel less self conscious about using the money. It would also allow the Sorority to help families in the outer islands. The Sorority also feels it would be beneficial if these families could than be referred to a resource worker managing the smartcard system in a community for professional income management advice as this would assist to decrease the likelihood of families needing to use ERF.

3.3.2 Kaziw Asesered Le Association Inc (KALA)

3.3.2.1 Role & Coverage

The KALA provides family and child support services in the region to promote social justice and equity for families with children. The KALA receives funding through the Queensland Department of Families. The KALA has a Board and operational staff.

The KALA is located on Thursday Island and provides services in outer islands through an outreach program.

The KALA provides budgeting advice and social workers to assist families in crisis, and highlighted during consultations the need for regional communities to participate more fully in income management programs. In its view poor budgeting is a significant contributor to the difficulties faced by families in balancing their and children's needs and wants on a limited income.

3.3.2.2 Response to Smartcard Concept

Consultations were held with the Manager of the KALA. Based on its experience providing services to children, the KALA consider that a smartcard system would be beneficial if it could assist parents to budget their income for school uniforms, books, and other school supplies available from schools.

It considered that because the incidence of domestic violence is often a result of men in a family demanding cash from women, a smartcard system that set money aside for specific purposes and cannot be converted to cash would reduce the causes of domestic violence.

3.3.3 Bamaga Family Resource Centre (BFRC)

3.3.3.1 Role and Coverage

The BFRC is located in Bamaga and provides budgeting advice, emergency relief funding, social worker services and children's services for the communities in Bamaga and the NPA. Its objective is to provide assistance and advice to families as a whole, and thus its services are not targeted towards women only. This is distinct from the community organisations on Thursday Island. It receives funding the Commonwealth Government and Queensland Department of Families.

The BFRC appears to be a well resourced and developed organisation. Given its aims to provide whole of family assistance, it employs a male social worker who advises male clients on income management, personal and family matters.

3.3.3.2 Response to Smartcard Concept

Consultations were held with the Manager of the BFRC. The BFRC considers that there is a need for a system, such as smartcard, to assist it to reinforce income management goals and outcomes.

It supports a trial of the smartcard system and has indicated its interest in providing the resource worker role in the NPA that may be needed to support the income management program via smartcard.

Conclusion

The three primary community organisations in the region, Mura Kosker Women's Sorority, Kaziw Asesered Le Association Inc and the Bamaga Family Resource Centre, support a smartcard trial because they consider it can:

- Assist them ensure that emergency relief funding is used by clients for the purposes it is intended.
- Help them to reinforce the needs and benefits of income management and budgeting.
- Reduce some of the causes of domestic violence by dedicating income to specific purposes.
- Assist families to budget their 'children's money' on the needs of their children.

3.4 BUSINESS

3.4.1 Torres Strait Chamber of Commerce

3.4.1.1 Role and Coverage

The Chamber represents most businesses in the region. Consultations were held with its executive committee, President and individual retailers.

3.4.1.2 Response to Smartcard Concept

Where a smartcard system is used by communities for particular purchases only, not all retailers would benefit from associated transactions. Whilst the Chamber recognises this, it considers that a smartcard system aimed at improving income management would benefit families and communities in the region.

Retailers where smartcard transactions may be made, recognise that the smartcard system may be commercially beneficial for them. These retailers did not raise concerns about the transaction fees charged to them under a smartcard scheme, as other card systems apply similar fees.

As employers, members of the Chamber supported paying wages into an employee's smartcard and bank accounts, provided that employers did not have to separate the wages into different smartcard wallets.

3.4.2 National Australia Bank

3.4.2.1 Role and Coverage

NAB has a branch on Thursday Island and it is the only bank with a branch in the Torres Strait or NPA. Consultations were held with the Branch Manager. The NAB estimates that 90% of the population of the region has an account with them.

The NAB indicates that while many people in the region have only a basic transaction account with card access, some people have credit cards and personal loans. When setting up loans and credit cards, the NAB usually arranges an automatic direct debit from the customer's bank account and as a result the default rate was not significantly higher than other areas of Australia.

While the NAB could not provide empirical evidence, its experience is that the savings rate was very low, with most families living from pay to pay. Some of the NAB's concerns are the low level of savings and superannuation, the ability of people to support themselves in retirement, and their ability to assist younger members of their family in the future.

3.4.2.2 Response to Smartcard System

The NAB is willing to facilitate transfers of funds between a client's NAB and smartcard accounts. Its normal fees would be applied to transfers.

The NAB supports a smartcard trial if it can help to increase the savings level of the region and assist families to budget for the future. However it would be concerned if the smartcard system reduced the use of NAB accounts to a significant extent.

3.4.3 Bamaga Enterprise Centre (BEC)

3.4.3.1 Role and Coverage

The BEC is a council owned commercial enterprise, governed by a Board, but it and its Board are separate from council. In the Bamaga area the BEC operates the Bamaga Resort, BP service station, snack bar, tavern and 4WD hire. There are plans for it to establish its own supermarket.

3.4.3.2 Response to Smartcard

Consultations were held with the CEO of BEC. It is supportive of a smartcard trial because it considers there is a need for an income management system in the area.

Conclusion

The Torres Strait Chamber of Commerce supports a smartcard trial because of the community benefit. Its members are not significantly concerned about the transaction fees that arise for them under a smartcard system.

National Australia Bank is willing to facilitate transfers between a clients NAB and smartcard account. It supports a smartcard trial because it considers there is a need to lift the level of personal savings in the region through budgeting. It would be concerned if the smartcard system reduced the use of its services and accounts.

The Bamaga Enterprise Centre operates almost all the businesses in the Bamaga area. It supports a smartcard trial.

3.5 INFRASTRUCTURE & TECHNOLOGY

One of the threshold issues the feasibility assessment is required to identify is the status of infrastructure needed to support a smartcard system and the potential cost of investing in such infrastructure.

3.5.1 Infrastructure Required for a Smartcard System

A smartcard system relies on the ability of retailers, service providers and other network participants where smartcards may be used to access a stable telephone line once a day to transfer and receive data stored on smartcard readers.

The data stored on smartcard readers is the record of purchases made in stores and service outlets via a smartcard.

Unlike an EFTPOS system, the smartcard system does not require a telephone connection for each transaction that is made using a smartcard. This is because smartcards and smartcard readers operate in a closed network where the use of a smartcard to purchase an item, and the value of the purchase, is recorded on the card and reader at the point of purchase. As a result, smartcard readers do not need to remain connected to a telephone line or be 'online' during the day.

Kiosks where card users may wish check the balances in their smartcard wallets, or upload their cards with information about the transfer of funds they have made, would require a constant telephone connection.

Where smartcard users (and/or resource workers assisting users) need to access the internet to establish and manage smartcard accounts, and the transfer of money to and from them, there would need to be a sufficient internet service to support such use. This relies on a capable telephone system.

3.5.2 Existing and Planned Infrastructure in the Region

The feasibility assessment has identified that there are three kinds of existing and planned infrastructure that can support a smartcard system. These are:

- Existing landline telephone systems.
- Existing and planned CDMA telephone systems.
- Remote Transaction Centres.

3.5.2.1 Existing Landline Telephone Systems

Consultations with Telstra and councils, and system tests in the participating communities, indicate that all communities in the region have sufficient landline communications to support a smartcard system.

3.5.2.2 Existing and planned CDMA telephone systems

Consultations with Telstra, councils, and system tests in the participating communities, indicate that mobile phone coverage via CDMA is currently available in inner islands, such as Thursday Island and on mainland communities, such as Bamaga.

However CDMA coverage is not reliable in outer island communities as far as Iama (Yam) and is not present at all in outer island communities as far as Masig (Yorke) and Boigu. Telstra intends to extend CDMA coverage to the entire region, but the exact timing of this is not certain.

The absence of CDMA in some communities is an issue which can limit the smartcard system if communities wish to use smartcards to purchase fuel from outlets that are not connected to a smartcard back office via a landline system.

For example, the TSRA intends to trial on Hammond Island in July 2005 the use of stand alone fuel pumps for marine vessels and motor vehicles that are not connected to another retail outlet. It is intended that during the trial users would purchase fuel from these pumps via a disposable card system, similar to phone or energy cards. If these fuel pumps are fitted with smartcard readers to enable smartcard users to purchase fuel from them, the CDMA network would need to support the transfer of data (ie value of the purchase) from the smartcard reader in the fuel pump to the smartcard back office system.

In the absence of CDMA coverage, this kind of transaction could not occur. As a common desire in participating communities is the provision of a fuel wallet hosted by their smartcards, it would be ideal if during a smartcard trial:

- Stand alone fuel pumps included smartcard readers where possible; and

- The CDMA network was in the process of being extended or completely extended to participating communities in the smartcard trial.

However the use of a disposable card system for fuel purchases being tested by the TSRA reduces the need to achieve these two objectives prior to a smartcard trial commencing.

3.5.2.3 Remote Transaction Centres

Under the Commonwealth Government's National Telecommunications Network (NTN) program, funding has been allocated for the establishment of Remote Transaction Centres (RTCs) in about 13 communities in the region. The construction of RTCs is underway in all of the participating communities, with most expected to be complete by August/September 2005.

In tandem with the provision of RTCs, the Local Government Association Queensland (LGAQ) is conducting a project to improve the electronic connectivity within the between councils in the region in order to maximise the benefits of the RTCs.

The RTCs are designed to be central locations close to council offices where members of the community can conduct a range of transactions including internet banking and other communications. During consultations councils proposed that the RTCs could be used in tandem with a smartcard system to facilitate transactions for the community. As councils are reluctant to manage transactions made via the RTC, they view smartcard as an attractive management option.

For example, where a person needs to purchase an airline ticket remotely using funds saved on a smartcard they could physically record this transaction via a smartcard reader at the RTC, with the RTC systems being used to transmit this transaction to the smartcard back office system and airline system. Community consultations indicate that this kind of transaction process would be attractive to users if the smartcard transaction fees were less than the fees banks and IBIS normally apply to this kind of transaction.

Conclusion

The infrastructure and technology currently available and planned for implementation by Telstra and the NTN program in the participating communities and wider region support a smartcard system without any need for additional investment. The exception to this may be in relation to smartcard readers for stand alone fuel pumps and the speedier implementation of more extensive CDMA coverage during a smartcard trial period.

However the extent of this investment would depend on the demand for fuel wallets in smartcards for this purpose.

Also, the trial and potential implementation of a disposable card system for fuel purchases by the TSRA reduces the urgency for the provision of a wider CDMA network prior to the commencement of a smartcard trial.

Remote Transaction Centres (RTCs) are being established in the participating communities by mid year and most of the region by the end of the year. The RTCs are an ideal location for the use of smartcard terminals to transfer money and conduct other purchases with smartcard wallets if retailers and service providers are linked with RTCs.

The RTCs are being located close to council offices in most communities and councils in participating communities consider that there is an opportunity to merge RTC and smartcard operations to facilitate a wide range of transactions and income management education for communities and councils.

4. COMMUNITY CAPACITY FOR SMARTCARD USE

The desire and ability of the community in the Torres Strait region to accept and use a smartcard system on a voluntary basis for family budgeting is a threshold and critical issue for a smartcard trial. As a result, the feasibility assessment examined in detail the:

- Level of community interest in budgeting and income management.
- Social issues and financial incentives that would influence the choice and use of an income management program.
- Financial literacy of the community.
- Familiarity of the community with card systems.

The discussion below represents the overall findings from consultations with the participating communities, as well as retailers, service providers and government agencies on Thursday Island.

4.1 COMMUNITY INTEREST IN INCOME MANAGEMENT VIA A SMARTCARD

To accurately assess the level of community interest in a smartcard system, the consultants sought the direct views of the community about the concept; sought to understand the drivers behind those views; and independently assessed whether there are sufficient reasons for the community to maintain an interest in a smartcard system over time.

As a result the feasibility assessment examined the following fundamental issues which can influence a desire for income management via a smartcard system.

- Community support for the smartcard concept.
- The level of family income.
- Family expenditure and savings patterns, given the cost of goods and services.

4.1.1 Community Support for the Smartcard Concept

Consultations with participating communities has identified that there is widespread support for the concept of a smartcard system if its use:

- Is voluntary
- Can encourage budgeting;
- Lowers the cost of transactions such as money transfers and cash deposits needed by the community; and
- Increase accessibility to such transactions.

The councils in all participating communities support a smartcard trial.

During consultations, communities sought to clarify the use, applications and advantages of the smartcard system in order to satisfy themselves that the system could provide more benefits than current arrangements.

Questions by community members ranged from the very basic to the sophisticated and sought to identify benefits to the community as well as an individual's income management.

Conclusion

The councils in all the participating communities support a trial.

There is sufficient acceptance of a smartcard concept amongst communities to support a trial.

4.1.2 The Level of Family Income

The level of family income is an important determinant in the viability of a smartcard trial. This is because one of the key issues for viability is the potential level of expenditure by a person or family via a smartcard.

The level of income compared with rates of expenditure and savings is also a key indicator of the need for a budgeting and family income management system to improve family circumstances and financial strength.

The feasibility assessment has identified that there are three primary sources of income for families in the participating communities. Government agencies, such as Centrelink confirm that these income sources are the same for all communities in the region.

These income sources are Community Development Employment Program (CDEP) wages, family and education payments by Centrelink and private income. The feasibility assessment examined the level of this income and the ability for it to be allocated by councils, Centrelink and the National Australia Bank to a smartcard account in accordance with an account holder's request.

4.1.2.1 CDEP

The CDEP wages are paid through the TSRA to community councils and were worth about \$30 million in 2003-04. It is estimated that in the entire region about 1700 people are entitled to CDEP. Based on these figures the average CDEP cost is \$670 per fortnight, which would include the wage paid to a person as well as the administrative cost of the CDEP.

In the participating communities there are about 600 people receiving CDEP. Consultations with councils, community members and Centrelink indicate that the average level of CDEP in these communities is about \$400 per fortnight. The level of CDEP can vary depending on the amount of time a recipient works in a fortnight, and some community respondents indicated during consultations that their CDEP can be as low as about \$270 per fortnight.

Consultations with councils indicate that they are able and willing to deduct a proportion of a CDEP wage to a smartcard account if instructed by the CDEP recipient.

CDEP recipients employed by councils represent a solid base of potential smartcard users during a trial because councils support and would encourage their participation in a trial. Although 600 participants is sufficient to support a trial, ideally the results of a trial would be optimised if all CDEP recipients (1700) in the region participated in a trial.

4.1.2.2 Family and Education Payments Via Centrelink

Families are entitled to Commonwealth Government benefits paid through Centrelink such as the parenting payment, and Family Tax Benefit Parts A and B. These payments are income tested and increase with the number of children within the income test band.

Consultations with Centrelink, councils and communities indicate that the level of benefit for a family with two children can range from about \$300 - \$600 per fortnight, which includes FTB A and B and parenting payments. Consultations also indicate that a minority of families would rely on Centrelink payments as their only source of income.

Consultations with Centrelink indicate that it is willing to transfer payments to a recipient's smartcard account in accordance with the recipient's instructions.

Centrelink advises that it has about 3000 clients in the region. At the time of this report it had not provided specific statistics of the number of people in the participating communities receiving Centrelink payments, however it is expected to be able to provide this information prior to the final report.

In the meantime, Australian Electoral Commission (AEC) figures (3 May 2005) which indicate the number of adults in the region who have enrolled to vote, provide a broad view of the number of people in participating communities potentially receiving Centrelink payments. The table below indicates the proportion of enrolled voters in the participating communities.

Participating Community	Enrolled Voters (Adults)	Total Population
Bamaga	448	1000
Boigu	199	260
Hammond	126	300
Iama (Yam)	217	450
Masig (Yorke)	211	350
St Pauls	167	300
Total	1368	2660

It is clear that there are about 600 CDEP recipients in the participating communities. Assuming that they are all enrolled to vote it is estimated that in the participating communities there are about 770 people entitled to receive Centrelink payments or an average of about 130 people per community. Given the broad assumptions in this assessment these figures are likely to be revised upwards once the actual Centrelink figures are available.

Nevertheless the participation of even half of these 1368 people would be sufficient to support a trial, particularly where this involved strong participation by CDEP recipients.

Education payments are generally in the form of Abstudy, which is provided to supplement the cost to students of living away from home and paid directly to the educational institution. In five of the participating communities a total of about 300 students attend secondary school away from home in Thursday Island or Cairns, because there is no secondary education in their communities. This reflects the situation in all outer island communities in the region. Of the participating communities, only Bamaga has a secondary school which caters for its community and others in the NPA.

4.1.2.3 Private Income

The source of private income for families in the six participating communities varies from private employment to recreational or commercial fishing.

For example in Bamaga there is a high percentage of private employment because of the presence of light commercial and other industries. Bamaga Island Council itself employs 250 people of which about 80 are non-CDEP employees. On the other hand about 54% of the community on Hammond Island supplement their income through fishing.

Cray fishing in particular can be a lucrative undertaking, with participants able to earn an average of \$600 per day. However Cray fishing is practised by a small minority of the community. Income from Cray fishing can also vary between seasons depending on the Cray population and therefore cannot be relied on by families.

Private income is either taken in cash or banked. The primary bank in the region, the National Australia Bank, has indicated that it is willing and able to transfer a person's bank funds into that person's smartcard account if instructed by the account holder.

Conclusion

Consultations indicate that average family income in the participating communities can range from a base of about \$700 to \$900 per fortnight up to about \$1000 - \$1200 per fortnight. Income is a mix of CDEP, Centrelink payments and private income.

In these communities about 600 people receive CDEP and 770 people may be entitled to receive Centrelink benefits. The number of Centrelink recipients in the participating communities may be higher once more accurate figures are made available by Centrelink.

Community consultations indicate a sufficient level of community interest in managing all income sources via a smartcard system to support a trial. The average level of income and estimated volume of people receiving CDEP and Centrelink payments provides a base from which to draw a sufficient number of participants to support a trial.

Use of a smartcard system by CDEP recipients alone, particularly where their participation is encouraged by councils, would be sufficient to support a trial.

4.1.3 Family Expenditure and Savings Patterns

4.1.3.1 Overview of Expenditure

Consultations with councils and communities has identified that the primary regular expenditure items for families are food and fuel for vessels. Other regular expenditure is on rent, electricity, telephone services, education and personal loans. Irregular but significant amounts of expenditure are also required for contingencies, airfares, gifts to relatives and capital purchases. Housing loans are not a common expense as most land in the Torres Strait is under deed of grant in trust (Digit), not freehold.

It was made clear during consultations that the cultural trend in the region is for large families, with four children per family being common. The size of families drives up both regular and irregular expenses.

4.1.3.2 Food Costs

Consultations with communities and stakeholders, such as Centrelink and community organisations, is that average grocery bills for a family with two children can range

from \$400 - \$600 per fortnight, and be as high as \$800 per fortnight for a family with four children.

Groceries are the largest expenditure item for families. A common view from consultations is that the high prices of groceries at IBIS stores are a significant contributing factor to the food costs of families. As discussed in section 3.2 a general view is that IBIS prices are a result of its retail monopoly in the region.

Given the high cost of food, consultations with councils and the community demonstrate strong support for a smartcard food wallet to enable families to better budget for grocery expenses.

Communities indicate that if a smartcard system has a food wallet it would be important to ensure that in any trial all IBIS supermarkets on each island are part of the smartcard network, even if each community in the region is not participating in a trial. This is because families travel between islands and those with smartcards would need to be able to access food where ever they are in the region.

4.1.3.3 Food Pricing

Given community concerns about food pricing and the average weekly expenditure by families on groceries, the consultants undertook an analysis of IBIS prices to assess the validity of such concerns.

The feasibility assessment compared the prices of 26 common grocery items in the IBIS stores in Masig (Yorke), Boigu, Bamaga and Thursday Island with prices in Sydney and Brisbane. Masig and Boigu were chosen because their geographic position within the region is likely to increase the cost of freight to them. Thursday Island and Bamaga were chosen because they are commercial centres in the region.

The purpose of the price comparison was to assess:

- Comparative food costs within the Torres Strait region,; and
- Food costs in the Torres Strait region compared with metropolitan centres on the mainland which have higher than average costs of living.

In summary the price comparison identified that:

- On average, items sold by IBIS are \$0.99 more expensive in Masig and Biogu than Thursday Island and Bamaga. Items, such as meat, can be up to \$10 more expensive in Masig and Biogu than Thursday Island and Bamaga.
- The price of items sold by IBIS in Thursday Island is generally \$1 - \$4 higher than the price of those items in Sydney and Brisbane.

It is understood, that the cost of sea freight between Cains and Thursday Island can range between \$180 and \$200 per cubic metre. Regular and bulk customers are likely

to be charged lower range costs. Even at \$180 per cubic metre, the identified general price differential per item of food within the region, and between the mainland and the region, may appear to be at odds with freight costs.

The detailed results of this price comparison are provided in Appendix B.

4.1.3.4 Fuel Costs

In most participating communities fuel is primarily available from IBIS outlets. The cost of fuel can vary from one community to another depending on their location and freight costs. The cost for unleaded fuel can vary from about \$1.30 per litre on inner islands to \$2 and \$2.5 per litre on outer islands.

A family's expenditure on fuel is primarily generated by its use of and reliance on its marine vessel to support fishing and transport needs between islands. Across the participating communities average family expenditure on fuel appears to range from \$160 - \$300 per week. However families that fish frequently can reportedly spend about \$800 per fortnight, particularly if they need to travel long distances.

Given this level of expenditure, a common response from councils and communities is strong support for a smartcard fuel wallet to enable families to better budget their fuel expenses.

Families reliant on fishing also demonstrate a strong interest in a smartcard fuel wallet. A family operating a small fishing business or relying on fishing can use in one week at least twelve 20 litre drums leading to expenditure of about \$1600 per week. In most cases these families rely on the sale of one day's catch in order to afford the fuel for the next day's fishing trip.

Communities point out that a smartcard fuel wallet could be beneficial if it allowed them to save and budget funds for fuel in advance of the sale of their catch, thereby reducing the potential for cash flow problems and providing the certainty required to fish regularly and support business development.

Communities also identified that current fuel card systems are not inter-operable between islands which limits travel flexibility for families. The TSRA is seeking to address this issue through a trial which standardises fuel pumps and the disposable cards used to purchase fuel from them. The TSRA and communities consider that there is an opportunity to maximise the inter operability of fuel purchase systems and income management systems if smartcard systems can be integrated with new fuel pumps.

4.1.3.5 Rent Costs

Almost all families in the participating communities live in community council housing. In all these communities rent is deducted from CDEP wages. Rent owed by

Centrelink payment recipients can be deducted from such payments through the CentrePay system, where the recipient elects to do so.

In four of the participating communities, councils do not face a significant problem with rent arrears because rent deductions are made from CDEP wages and/or Centrelink payments. As a result, while councils were open to the notion of a smartcard rent wallet to dedicate some income to rent its use is likely to be of minimal benefit to these councils.

In these communities rent can vary between \$40 and \$120 per fortnight.

However in Bamaga, the council identifies that rent arrears is a significant problem for it because it owns all housing and privately employed people rarely have their rent deducted from wages. Accordingly a smartcard rent wallet is attractive to it to assist manage this issue.

Consultations in Bamaga indicate that the rent for council housing can vary from about \$70 for an older house to about \$180 per fortnight for a newer four bedroom home.

4.1.3.6 Utilities

The participating communities use pre-paid disposable cards to pay their electricity costs. This is a system employed by the Ergon Energy, which is the sole energy supplier in the region. Consultations indicate that the average cost of energy for families is about \$50 per fortnight.

During consultations a high percentage of community members expressed interest in the use of a smartcard energy wallet.

As discussed in Chapter 3, Ergon is willing to support the smartcard system by changing its meters in the region to support smartcards, subject to the availability of such metering technology and the success of a smartcard trial.

Consultations with Telstra indicate that the most significant costs communities in the region can face are the costs associated with telephone disconnection for failures to pay bills, and reconnection fees. Telstra also incurs costs associated with the physical time and expense of reconnection.

To avoid these costs and offer people an opportunity to budget and plan for their telephone expenses, Telstra encourages people in the region to use pre-paid phones. Pre-paid phones enable a user to purchase a phone account which entitles them to a certain number of calls. Users can top up this account via a pre-paid disposable card, which are available through Telstra agents in most communities in the region.

To access their account balance and use their card to top up their account, users need to use a PIN system. The costs of the pre-paid phone system are a \$45 set up fee,

phone rental of \$14.27 per month, and the value of disposable cards users may purchase to top up their accounts. Consultations indicate that the average phone cost for families is about \$30 per fortnight.

During consultations, community members expressed interest in the use of the smartcard phone wallet to pay their phone bills as an alternative to the pre-paid system. Consultations with Telstra indicate it is willing to utilise a smartcard system, subject to the impact on its billing procedures. Examination of these impacts would be more effective during or after a smartcard trial rather than prior to the commencement of a trial. This is because there appears to be satisfactory phone management arrangements in place.

4.1.3.7 Education

Consultations indicate that in the participating communities there are about 1200 children in school. Of these about 50% attend primary school, which is available in each of the participating communities. Another 50% attend secondary school on Thursday Island, Bamaga or in other mainland centres such as Cairns, Brisbane and Townsville.

School costs for parents of primary school students include uniforms, books and other items common to parents with children of this age. In four of the participating communities the primary school has a canteen. The operation of these canteens can be unreliable in some communities, however where they do operate regularly, parents utilise them to feed their children during the day.

In Bamaga the school has implemented a smartcard system to host parent funds for their children's purchases at the school tuckshop, although it is understood that there is no daily limit on expenditure via these cards.

The bulk of school costs for parents of secondary school students are generally fully covered by Abstudy and Assistance for Isolated Children. Some secondary school students would incur accommodation costs where they board at school, whereas other may live with relatives. In most cases parents send cash to their children or maintain their bank card accounts to ensure they have money to live and purchase extra items at school that are required.

The variety of education costs made it difficult to assess the actual costs to parents of sending their children to secondary school.

During consultations communities indicated a strong desire for a smartcard education wallet for the following two key purposes:

- To enable them to purchase school uniforms and supplies for their primary school children at school; and

- The enable them to ensure that the money they send their secondary school children who are living away from home can only be spent on school related items.

4.1.3.8 Airfares

Regional air travel is relied on by the community to visit relatives and children away at secondary school and other reasons. Air travel in the region is an expensive exercise. For example a return flight from Iama (Yam) to Horn Island can be \$400 return and a return flight to Cairns can be \$1000.

During consultations, communities and councils indicated a strong desire for a smartcard savings wallet that could enable people to save for their airfares in advance without needing to use funds needed for food, fuel and other purposes.

4.1.3.9 Savings

Given the levels of income and costs of goods and services in the region, the feasibility assessment identified that there is little margin for families to save their income.

The National Australia Bank on Thursday Island, which has 90% of the bank accounts in the region confirms that it generally provides 100% finance for personal loans because the level of savings is very low. It primarily loans funds to CDEP workers because CDEP is effectively permanent employment.

At the same time, the NAB indicates that the bad debt level it manages is no worse than the national average. This suggests that while savings levels are low, communities are able to manage their repayments within their level of income. It is unclear however, whether the management of repayments reduces funds for other essential items such as food, fuel, education and alike.

The NAB proposes that a smartcard system could include a loan repayments wallet to link the income management process with the use of banking facilities.

Conclusion

The most significant regular costs for an average family in the participating communities are food and fuel. Consultations indicate that families with two children spend from \$400 - \$600 per fortnight on food. Larger families with 4 children, which are common in the region, can spend up to \$1000 per fortnight on food. In addition, fuel costs for an average family range from \$160 - \$300 per fortnight.

As a result, an average family's expenditure on food and fuel can range from \$560 - \$900 per fortnight.

Other regular expenses for an average family include rent, energy and phone costs which can add a further \$180 per fortnight. Education expenses are another cost, particularly for families with children in secondary school away from home.

Given that the level of income in the region can vary from a base of \$700 - \$900 per fortnight up to about \$1000 - \$1200 per fortnight, there is little margin for a family to save and set aside funds for planned events such as air travel or emergencies. Poor income management can exacerbate this problem.

The current level of expenditure on food and fuel alone is sufficient to support a smartcard trial. Community consultations indicate a strong preference for smartcard wallets that can host funds for food, fuel, education and savings for items such as airfares.

4.2 SOCIAL AND FINANCIAL INCENTIVES FOR INCOME MANAGEMENT AND SMARTCARD USE

Beyond the assessment of the level of income of families in the participating communities and the expenditure that could be facilitated via a smartcard, it is equally important to identify the social and financial constraints and incentives that may influence families to choose income management and smartcard use.

It is also these social and financial constraints and incentives that can give a more certain picture of the likelihood that families will remain in an income management program. This is important in the feasibility assessment of a trial because it is the longevity of a person's participation in a smartcard system, as well as volume of users and level of expenditure, that would determine the success of a trial or any permanent system.

4.2.1 Social and Financial Constraints on Income Management

4.2.1.1 The Tendency of Families to Spend Rather Than Save Income

Some of the groups consulted, such as Bamaga Family Resource Centre and Kaziw Asesered Le Association, suggest that the majority of individuals and families are not focused on budgeting or saving their income for future purposes, but rather tend to spend income as they receive it, with limited attention to the financial consequences this may create.

These groups suggest that many families would respond positively to an income management program because they would recognise its benefit, and probably choose to participate. However a significant challenge would be to maintain the interest and participation of families beyond the first week as spending pressures and trends applied themselves. These pressures would be exacerbated by the marginal income families have to save or budget after the high costs of living and associated

expenditure on regular and irregular items is taken into account. The relationship between income and expenses is discussed in section 4. 1.

Given these realities, it is considered that an income management program using smartcard that is promoted primarily as a budgeting exercise in the first instance is unlikely to be successful in delivering any tangible benefits to the community desired by community leaders, government and the community themselves.

It is considered that to be successful, an income management program using smartcard needs to leverage and harness a range of social and financial incentives that securely encourages long term participation by families. These social and financial incentives are discussed below.

4.2.2 Social Incentives for Income Management

4.2.2.1 The Concept of Children's Money

Consultations with councils, communities, Centrelink and social workers indicates that mothers have a particular capacity to recognise and appreciate that at the very least their Centrelink payments should be budgeted and used for the benefit of their children.

It appears that in the main, women are the recipients of Centrelink payments, while men tend to receive CDEP wages. Consultations indicate that men tend to retain their wages for their own purposes, while there is an expectation in most families that mothers will run a household budget from Centrelink payments. Circumstances arise where men demand Centrelink payments from their spouses in order to fund their own pursuits, in which case the family is left without funds for essential expenditure on food, energy and alike.

Consultations have demonstrated a strong and common view that a smartcard system with wallets for essential items that are not currently deducted via the CentrePay system would be of significant assistance to mothers to budget their income for the household expenses and their children, and prevent the use of this income by men for their own purposes. This would provide income security for families to fund regular and essential expenditure.

There is a strong view amongst community leadership that this outcome is essential for the future prosperity and progress of the communities in the region.

Centrelink advises that the CentrePay system is limited because it is not permitted to deduct more than 65% of a person's Centrelink payments, and in any event, the system is more practical for fixed deductions, such as rent to nominated third parties (landlords), rather than for expenditure on groceries, fuel and education. Accordingly it views a smartcard system as an appropriate option to cater for those deductions that CentrePay is not geared to manage.

4.2.2.2 The Familial Obligations to Share Income

Consultations demonstrate that because of the strength of extended families in the communities, there is a strong obligation on family members to share income with relatives when it is demanded. It appears to be common that members of families who work are often required to share their income with relatives who do not work.

Consultations indicate two schools of thought about the impact of this familial obligation in the participating communities.

On one hand there is a common view held by most respondents that the obligation to share income is less a burden and more a feature of family strength. Community members with this view consider that a smartcard system that can enable them to transfer funds between relatives without incurring the \$30 IBIS transaction fee or bank charges would be of significant benefit and extremely attractive to families.

An alternative view raised by some social workers is that many families are seeking some legitimate mechanism to avoid the obligation to share income without risking familial unity. In this context, their view is that a smartcard system would be ideal to enable family members to lock away income for designated purposes, giving them a legitimate reason to be unable to share income when it is demanded.

In either scenario it would appear that a smartcard system has the ability to gel with community needs in keeping with familial expectations and harmony.

Another form of familial obligation that can create hardship for families is the demand by extended families for food. A common view expressed by councils and communities is that when families are required to host visiting relatives, often with little or no notice, a family's food budget is used up more quickly than normal often leaving that family with little or no food until their following CDEP and/or Centrelink payment.

It is considered by councils and communities that a smartcard system would be of significant assistance and appeal because it can enable families to budget food expenses to manage the expectations of visiting relatives and secure funds for food for the whole fortnight.

4.2.2.3 Saving to Fund Culturally Important Contingencies

A common response during consultations with councils and communities is that a smartcard system would be of value if it could enable families to generally save and therefore be able to fund the costs of contingencies and emergencies that they are culturally obliged to respond to.

General savings that could be used for these purposes would minimise the adverse impact of sudden expenses that families currently often experience.

For example, funerals are an extremely important social and family event and are generally conducted in very expensive terms over a long period of time. There is a strong expectation that all family members, no matter how distant, will contribute to funeral expenses and attend funerals.

This expectation can place significant and sudden financial burdens on families both in terms of their contributions to funeral expenses and the cost of air travel to attend funerals. This burden can disrupt family expenditure on other regular and essential items, such as food, fuel, energy and education, particularly because income levels and the cost of living leaves families with little margin for sudden and large expenses.

4.2.2.4 Alcohol and Gambling

Alcohol

Consultations demonstrated two different views on social problems caused by alcohol consumption. Some stakeholders, including Centrelink, considered that alcohol is a problem, particularly on Thursday Island. The NAB indicated that because children as young as fourteen have access to bank cards when at secondary school away from home, there can be problems with underage drinking.

Alternatively, councils and communities generally considered that alcohol is not a significant issue. All the participating communities, with the exception of Bamaga, are 'dry' and do not have taverns or liquor outlets.

On Iama (Yam) Island community members require permission from the council to bring alcohol into the community and restrictions apply on the type and amount of alcohol. Bamaga is subject to the Queensland Government's Alcohol Management Plans (AMPs) which impose a range of restrictions on alcohol consumption and possession.

Nevertheless, councils and communities consulted considered that it is an important benefit that funds on a smartcard could not be used to purchase alcohol.

Gambling

Centrelink, and social workers suggest that gambling is a particular problem in some of the participating communities, particularly amongst women. On Thursday Island three of the four taverns have poker machines and this appears to stimulate gambling.

Councils and communities acknowledged that gambling occurs and can cause family hardship, but did not indicate that they considered gambling to be a widespread problem.

Nevertheless, councils and communities consulted considered that it is an important benefit that the smartcard system can ensure that funds on a smartcard could not be used to promote gambling.

4.2.3 Financial Incentives for Income Management

4.2.3.1 Saving for the ‘Dragging’ Week

A common view of community members and councils is that income management via a smartcard system, would be ideal to empower families to save funds for regular and essential expenditure in the second week of a fortnight, referred to in the region as the ‘dragging week’.

Most commonly, CDEP wages and Centrelink payments are paid at the beginning of the fortnight, although Centrelink advises that recipients can choose to stagger their Centrelink payments across a fortnight.

Given the tendency of individuals and families to spend their income as they receive it, rather than save, respondents consider there is a need for a system that can enable families to securely store funds dedicated to food, fuel, energy and other expenses in the second week of the fortnight.

Communities and councils consulted suggest that a smartcard system would assist to relieve family hardship that can arise where funds are not saved for the ‘dragging week’, and that this outcome would be very attractive to families.

4.2.3.2 Saving the \$30 IBIS Fee and Bank Charges on Money Transfers

As discussed in Chapter 3, in the participating communities and most communities in the region (with the exception of Thursday Island), families do not have access to banking, post office or other mainland facilities used for financial transactions, such as money transfers and cash deposits.

As a result, communities primarily rely on IBIS grocery outlets to transfer funds to family members, to purchase airline tickets, pay fines and conduct other money transfers. Families operating fishing businesses are generally paid in cash for their produce and rely on IBIS stores to deposit their cash income in their bank accounts.

Currently, IBIS charges \$30 for each money transfer, cash deposit or similar transaction irrespective of the amount being transferred. As indicated by the discussion in Chapter 3, this charge is a significant burden to families and communities are seeking an alternative. The Remote Transaction Centres being established in most communities may assist to provide this alternative, although it is likely that money transfers from one bank account to another would attract bank charges, albeit much less than the current IBIS fee.

Consultations demonstrate a common view that widespread community use of a smartcard system for income management would be guaranteed if the system could facilitate money transfers between individual smartcard accounts and/or between a smartcard and bank account, without the level of fees charged by IBIS and/or banks.

4.2.3.3 Saving EFTPOS Charges

The feasibility assessment has identified that on average families tend to visit the community's grocery outlet (usually an IBIS) to purchase items at least 5 times per day (50 – 70 times a fortnight). This is particularly common on outer islands where there are no other forms of entertainment and the grocery outlet serves as a social meeting point. Families do not appear to be fully aware of the transaction costs they currently incur by shopping in this way.

Consultations with retailers confirm that community members use their EFTPOS cards frequently each day to make purchases and check their account balances both prior to and after making purchases. This frequent level of EFTPOS card use incurs high levels of transaction fees which card users are paying to their bank.

It is considered that the use of a smartcard system to facilitate this frequency of purchasing (in conjunction with income management education) can save families high transaction fees, because a smartcard system does not charge the card user for the transactions they make. Presenting families with a simple equation of the cost of using an EFTPOS card to purchase food compared to the savings they can make by using a smartcard instead is likely to generate strong community participation in an income management program based on the smartcard system.

4.2.3.4 Receiving Interest on Smartcard Account Funds

One of the most common questions raised during consultations with councils and communities is whether smartcard users can receive interest on their funds held in smartcard accounts. It is clear that if a smartcard system can deliver this outcome, there would be strong community participation in an income management program based on smartcard.

Funds held in smartcard accounts would be banked by a smartcard provider. The level of interest earned on those funds would depend on the volume of funds banked, and the type of accounts in which those funds are banked.

4.2.3.5 The Availability of Individual and Family Smartcards

Consultations with councils and communities indicate that there is a strong preference for both individual smartcards and family smartcards. There is a common view amongst participating communities that a family smartcard would be useful because most households generally consist of a number of family units living as an extended family.

Within households, each family unit takes responsibility for certain expenditure that has a common benefit such as food or energy or rent. In most circumstances this can leave some families worse off than others in the same household,

For example, a family unit with responsibility for food expenditure has a much higher level of fortnightly expenditure than the family unit responsible for energy or rent. In other situations unemployed parents have the responsibility to fund regular and essential payments for both young and older children in the household, even where the latter may be working. These patterns can exacerbate the hardship generated by the low margin for saving by families.

The strong view from consultations with councils, communities and social workers is that a smartcard system provides extended families with a platform to organise and manage the equitable contribution of household income to common regular expenses. They consider that this would be an appealing incentive for participation in an income management program via smartcard.

Conclusion

While initial community participation in an income management program via smartcard may be strong, the greatest challenge would be to maintain that participation over time. However, there are a range of social and financial incentives that have been identified during consultations that can assist to promote long term community participation. These incentives are the ability of smartcard to enable families:

- Particularly mothers, to dedicate their Centrelink payments and other income to expenditure on their children's needs.
- To manage familial obligations to share income and food, without financial hardship.
- To save for contingent and emergency expenses, which are culturally important.
- To ensure that expenditure on alcohol and gambling does not put at risk funds for food and other regular and essential payments.
- To dedicate a proportion of their income for essential expenses in the second week of the fortnight – the 'dragging week'.
- To avoid the \$30 IBIS fee on money transfers and cash deposits they need to undertake
- To reduce the EFTPOS charges they incur because of frequent shopping in a fortnight.
- To earn interest on the funds in their smartcard accounts.
- To manage equitable and regular contributions to household expenses in an extended family situation.

The delivery of most if not all of these incentives is likely to be sufficient to support a smartcard trial.

4.3 THE FINANCIAL LITERACY OF THE COMMUNITY

The feasibility study has identified that the financial literacy of communities in the region can vary from one community to another and is not a homogenous issue. However some common issues arose during most consultations with councils and communities, which demonstrate a reasonable level of average financial literacy in the communities participating in the feasibility assessment.

These common issues are:

- The kind of smartcard wallets and applications desired by the community.
- Community desire for interest, and low fees and charges on smartcard accounts.
- Communities use and familiarity with other card systems.

4.3.1 Smartcard Wallets and Applications Desired by the Community

During consultations councils and communities expressed an interest in a variety of smartcard wallets such as food, fuel, education, savings, funerals, phone expenses, energy expenses, and loan repayments. The smartcard wallets in which there is the most common interest are food, fuel, education and savings.

The communities indicated a common desire for the following smartcard applications:

- The physical use of the card to make purchases at a point of sale in the region and in Cairns; and
- The use of smartcard to facilitate remote transactions, such as the on-line purchase of food from Cairns, purchase of air tickets, purchase of other capital items and money transfers between families.

Common questions from communities concerned the:

- Physical robustness of the smartcard.
- Number of wallets it could host.
- Process for obtaining replacement cards.
- Potential to transfer bank funds to the smartcard and vice versa.
- Ability to withdraw cash using the smartcard.
- Speed with which funds can be transferred from CDEP wages and Centrelink into the smartcard.
- Ownership and use of family cards.

There was strong interest in the inclusion of photo ID on individual smartcards.

Consultations with communities and councils indicate that it is understood that a smartcard system does not replace a banking system, but rather serves to complement

it for income management purposes. Communities understand that a smartcard system cannot affiliate every retailer or service provider a person may wish to use within and outside the region. Communities indicate a desire to retain their bank accounts for non-smartcard purchases and do not appear to want a complete alternative to banking.

4.3.2 Community Desire for Interest and Low Fees and Charges on Smartcard Accounts

Communities consulted are keenly aware of their current transaction costs imposed by IBIS system, and have a strong desire to lower these costs where possible. A strong driver of community interest in a smartcard system is its ability to facilitate transactions at less cost. Nevertheless communities appear to be less aware of the transaction costs associated with EFTPOS use and banking generally.

Communities demonstrate a strong common desire to earn interest on the funds in their smartcard accounts.

4.3.3 Communities Use and Familiarity with Other Card Systems

Communities consulted appear to be very familiar with and high users of other card systems. The NAB reports that there is a very high penetration of EFTPOS card use through the region and this is confirmed by councils, communities and stakeholders in the participating communities. Credit card use is not high.

The NAB reports that communities do not have difficulties operating cards with PIN requirements or ATMs.

All households in the participating communities and wider region use the Ergon Energy disposable card system to purchase energy.

Telstra suggests that the use of pre-paid phone cards in the region as part of the pre-paid phone system is widespread. This is confirmed by consultations with communities and councils.

Conclusion

Based on the questions raised by communities during consultations, community suggestions for smartcard wallets and applications that suit their needs, and the current strong penetration of EFTPOS, energy and pre-paid phone card use, it is clear that the participating communities have a reasonable level of financial literacy.

The current level of general financial literacy of the participating communities appears to be sufficient to support a smartcard trial.

5. RESOURCE WORKERS TO ASSIST WITH NCOME MANAGEMENT

One of the threshold questions to be addressed by the feasibility assessment is whether there is a need for resource workers to be located in communities to assist with establishing and managing an income management program via smartcard. Under the methodology, the need for resource workers and the extent of their role depends on the community capacity for smartcard and the financial literacy of the community.

5.1 THE NEED AND ROLE FOR RESOURCE WORKERS

The feasibility assessment has identified that the participating communities have a desire for an income management system that can reduce their current transaction costs, offer wider transaction options, and assist in managing family expenditure obligations.

However, while there is a perception in the communities that income management has benefits, the actual process of budgeting for future expenditure is something communities find difficult to practice because of the tendency to spend income upon receipt. The extent to which budgeting is practised varies from one community to another. These issues are discussed in detail in Chapter 4.

Councils consider that there is a need for an income management program to be made available to their communities to assist families to budget and manage everyday transaction cost issues. Councils consider that there is a need for a resource worker to perform this function over the short - medium term.

The feasibility assessment has also identified that the participating communities generally have a reasonable level of financial literacy and are familiar with general card use. Nevertheless the smartcard is a new system that would need to be explained to users. Consultations with councils demonstrate a common view that there is a need for resource workers to explain a smartcard system and its interaction with the banking system, and assist users manage it for a period of time.

Given these findings, it is considered that there is a need for resource workers during a smartcard trial and potentially for a period of time after any permanent system is operational. The need for resource workers as part of any permanent system would depend on the number of users joining the system during the trial period and how quickly users become self sufficient in managing their smartcard accounts during a trial period or under any permanent system.

It is considered that resource workers would need to undertake the following functions as part of a smartcard system.

- Provide professional income management and budgeting advice.

- Establish smartcard accounts in conjunction with a user, including choosing the regular allocation of income to a user's selected smartcard wallets.
- Educate users about self managing their smartcard accounts and income allocation process.

Given the nature of the region it is important that resource workers have a presence in each of the participating communities. This could be achieved by locating a resource worker permanently in each community or rotating a number of workers throughout communities on a regular basis. Rotation of workers is likely to be more acceptable to communities after a period of time when users have become self sufficient in the management of smartcard accounts.

It is considered that resource workers should report to a Project Manager who has overall responsibility for administering the income management and smartcard systems and liaising with communities to ensure their needs are met. This Project Manager could be located in Thursday Island and travel regularly to ensure the effective management of the system.

In a trial period the Project Manager would lead the income management education and establishment of smartcard accounts in each participating community. This is likely to require rotational travel between participating communities on a regular basis for a period of time. The Project Manager would need to be a skilled person with:

- A knowledge and understanding of the participating communities.
- The ability to communicate simply and effectively when explaining the smartcard system and income management concepts.
- Professional expertise in income management and budgeting.

Depending on the number of participating communities, a deputy Project Manager may also be required to meet the workload.

Ideally over time community members would be trained to perform the resource worker role so that participating communities can own the income management and smartcard system and the program can contribute to local employment and skills transfer.

5.2 WHO SHOULD PERFORM THE RESOURCE WORKER ROLE?

The feasibility assessment identified the following local organisations which could potentially provide resource workers for the income management program via smartcard. A discussion of the suitability of each organisation to perform the resource worker role is provided below.

5.2.1 Centrelink

The primary Centrelink Office in the region is located on Thursday Island and it has agents in each of the participating communities and throughout the wider region. Advice from communities and councils is that the Centrelink agents in the participating communities are only available on a part time basis.

Centrelink advises that while it would be willing to refer clients in need of income management assistance to the resource workers, it does not have the expertise to provide income management and budgeting assistance to families, nor the time and capacity to assist families establish and manage smartcard accounts.

The use of Centrelink staff may dissuade the participation of community members who do not receive Centrelink payments. Consultations with councils and communities indicate that CDEP or other employees are unlikely to want to seek income management and smartcard advice from a Centrelink agent because they consider Centrelink as an agency for the welfare dependent only.

5.2.2 Councils

Consultations indicate that councils are generally respected by their communities and therefore there is unlikely to be any negative perceptions attaching to an income management and smartcard program being managed by council.

Councils in the participating communities commonly advise that their staff do not have current expertise to provide income management or smartcard advice. Also Councils do not currently have the capacity to meet the client demands that would arise when managing an income management system via smartcard.

However councils would be willing to perform the resource worker role if the appropriate training and funding was provided to support that function, which could create employment in the community. Councils are particularly interested in combining the resource worker role with that of the Manager of their Remote Transaction Centre (RTC).

As discussed earlier in this paper, RTCs are being established in the participating communities and throughout the region. These centres will have a manager who will have a high level of computer literacy and basic ability to assist users with transactions. The manager could also be required to be able to provide income management and transaction management advice to support the smartcard system.

In outer islands in particular, Councils appear best placed to perform the resource worker role because community organisations located on Thursday Island and Bamaga have little presence in these islands.

5.2.3 Mura Kosker Women's Sorority

The MKWS advises that rather than performing a resource worker function, it would prefer to refer its clients elsewhere for income management advice.

Consultations demonstrate that it does not have the capacity to provide staff for a resource worker role and would need significant funding support to employ appropriate people and implement new systems and processes required to professionally manage an income management and smartcard system.

The MKWS is primarily responsible for managing emergency relief funding (ERF) that is provided by the Queensland Department of Families to assist families in crisis. While the MKWS is tasked with managing ERF for the entire region, its role is confined to Thursday Island, where it is located.

The narrow role of the MKWS is potentially a significant limitation if it performed the resource worker role. As it exists to provide ERF to families in crisis, other families are unlikely to want to use it for general income management purposes. At the same time, it advises that its clients would only use the services of a resource worker for income management advice if the general community is also using that same service, as this avoids any embarrassment or stigma for its clients.

5.2.4 Kaziw Asesered Le Association

The KALA is a family and child support organisation whose programs are funded by the Queensland Department of Communities. It provides a range of advice to families including budgeting. It suggests that its budgeting advice is basic and not of a professional nature that may be expected under a formal income management program. Nevertheless it has a base from which a resource worker function could be developed on Thursday Island and possibly in outer islands.

The KALA Office is located on Thursday Island, however it operates an outreach service to deliver its programs and assistance to other communities in the region. The operation of this outreach service could be combined with the permanent or rotational placement of resource workers in each community. The KALA would require additional funding and staff to combine its current functions with a resource worker role.

A limitation on the use of the KALA to perform the resource worker role is that it primarily provides services to women and is perceived as an agency for women. As a result, men may be reluctant to approach it for advice on income management and smartcard use. While women are likely to be early participants in an income management program via smartcard, the intention of the program would be to make it as widely attractive as possible.

5.2.5 Bamaga Family Resource Centre

The BFRC is also a family and child support agency funded by the Queensland and Commonwealth governments servicing Bamaga and the NPA. It currently provides budgeting advice to families. Consultations indicate that it is approached by between 50 to 60 families each year for income management advice and about 15 clients per year are referred to it by child protection agencies for this purpose. The BRFC also employs a male social worker to provide assistance to male clients.

The BRFC manages a limited ERF program and requires third time recipients of ERF to undertake courses on budgeting. The BRFC is potentially a strong base from which to develop an income management program via smartcard in Bamaga and the NPA generally.

The BRFC has indicated its willingness to perform the resource worker role in Bamaga and the NPA because it considers an income management system based on smartcard can reinforce its existing programs to educate the community about budgeting.

5.2.6 National Australia Bank

The NAB advises that it currently provides a range of income management advice to its clients and identifies that are synergies between this function and performing a resource worker role as part of an income management and smartcard program. This is particularly if there are links between NAB and smartcard accounts to facilitate a client's transfer of funds.

The NAB could provide this function with funding support or perhaps deliver it as part of a corporate social responsibility program.

On the other hand consultations in the participating communities identified a reasonable level of dissatisfaction with the services and fees of NAB and this may create barriers to income management and smartcard participation. Another limitation may be that NAB has no physical presence in the outer islands or in Bamaga.

There may also be a conflict of interest for NAB if communities choose to use a smartcard system at the expense of keeping funds in NAB accounts.

Conclusion

Despite the community capacity for a smartcard trial and reasonable level of financial literacy, the feasibility assessment has identified that there is a need for resource workers during a trial and potentially for a period in any permanent system to:

- Provide professional income management and budgeting advice.

- Establish smartcard accounts in conjunction with a user, including the allocation of income to a user's selected smartcard wallets.
- Educate users about self managing their smartcard accounts and allocation process.

Ideally, resource workers would need to be located in each participating community or at least rotate between them on a regular basis and be guided by a Project Manager.

Consultations have identified a range of government, non-government and private organisations that could provide resource workers. All are likely to require government funding to be able to provide the necessary staff and systems to manage an income management and smartcard system.

On balance it is considered that community councils are best placed to host resource workers to administer an income management and smartcard program because they:

- Are located in each community.
- Are respected by the community because their leadership is elected.
- Are not currently perceived as providing services to a specific section of the community only, such as women or ERF recipients.
- Do not have a conflict of interest in managing an income management via smartcard, unlike a bank.
- Exist to pursue the best interests of their communities.

The lack of a strong presence by community organisations in the outer islands also suggests that councils are primary candidates to perform the resource worker role following funding and training.

A sensible link can be made between the role of the Manager of the RTC being established in each community and the resource worker function because the transaction focus of the RTC has synergies with an income management program based on smartcard. Councils are supportive of utilising the Manager of the RTC to also perform the resource worker function as part of smartcard trial.

In the NPA the Bamaga Family Resource Centre is able and willing to perform the resource worker function because it performs similar services currently. It would require training in the smartcard system.

6. COST AND VIABILITY OF TRIAL AND ANY PERMANENT SYSTEM

The cost and viability of a smartcard trial and any permanent system has been assessed using the:

- Significant general technical and commercial experience of Accor Services, which is an international leader in the design, management and implementation of smartcard systems for payment and income management.
- The combined experience of Accor Services and AegisConsulting Australia gained from their joint assessment in 2003/4 of the feasibility of using a smartcard system to support the Commonwealth Government's Family Income Management trials in Cape York.
- The findings in this assessment regarding the levels of income and expenditure and likely smartcard use by communities in the Torres Strait.

6.1 COMMERCIAL VIABILITY

The commercial viability of a smartcard system depends on the:

- Volume of smartcard users;
- Level of expenditure using smartcards; and
- Number of retailers and/or service providers (affiliates) where smartcards can be used to make purchases.

A system's viability increases as the number of card users grows, they spend more via their cards and there are an expanding number of affiliates where card users can make purchases. A system can be viable with a lower number of card users as long as the expenditure of each user is high. As a result, the level of expenditure is the key factor determining viability.

To assess the potential cost and viability of a smartcard trial and any permanent system, the consultants have constructed a business model on a set of conservative assumptions. These assumptions are derived from:

- The findings of the feasibility assessment regarding average family income and expenditure in the communities.
- The kind of smartcard wallets preferred by the community and the likely weekly expenditure via these wallets.
- The estimated market based smartcard fees for users (card fee) and retailers (network fee).

- The estimated market based costs of software customisation and hardware investment.
- The estimated market based costs of smartcard system establishment and operation, including staff and customer service costs.
- The estimated market based costs of equipment maintenance and support services.

The business model also assumes that **a smartcard trial would operate for two years**. It is assumed that in its first year a trial would occur in the 6 communities participating in the feasibility and in its second year the trial would be expanded to a total of 10 communities.

6.1.1 Volume of Users

This feasibility assessment has identified that in the participating communities there are about 600 CDEP recipients and 770 recipients of Centrelink payments.

Based on the level of support for the smartcard concept demonstrated by councils and communities consulted during the feasibility, the business model conservatively estimates that a trial may attract 500 participants in its first year across 6 communities.

Based on the estimated average level of expenditure participants may generate via their smartcards (described below) and costs of establishing and operating a smartcard trial (described below) it is estimated that a smartcard system would require 2500 participants before it would be commercially viable. This required volume of participants may decrease if the level of expenditure by trial participants is higher than estimated.

There are a total of 1700 CDEP recipients and 3000 recipients of Centrelink payments in the entire Torres Strait region. This provides a solid base of potential participants to achieve the volume of card users necessary to ensure the commercial viability of a smartcard system.

Given the scope for growth, the business model assumes that a trial would expand to include 2500 participants across 10 communities in its second year. Based on the findings in the feasibility assessment, the capacity of a smartcard system to attract this volume of users would depend on:

- The ability of smartcards to be used to facilitate money transfers as an alternative to the current reliance communities have on IBIS stores. In the opinion of Accor Services this is technically possible and is not a risk to the business model. However this may be a risk if IBIS abolishes or lowers its current \$30 charge per transaction.

- The ability of the trial Project Manager and resource workers to promote the advantages of the smartcard system in relation to transaction cost savings and income management benefits. This would rely on the expertise of chosen staff and therefore is a risk.
- The desire and ability of community organisations dealing with families in crisis to recommend the use of the smartcard system to assist their client's income management practices. The feasibility assessment has identified the willingness of community organisations to do this, and therefore it would not appear to be a risk to the business model.

6.1.2 Level of Expenditure Using Smartcards

The feasibility assessment has identified that communities commonly desire food, fuel, education and savings wallets for their smartcards.

The feasibility assessment has identified that on average families can spend between \$560 and \$900 per fortnight on food and fuel expenses alone. Other expenses such as rent and utilities can add a further \$180 per fortnight.

The feasibility assessment has not been able to identify an average expenditure on education or average savings. However it is clear that savings rates are very low because of the small margins between family income and expenditure, and as a result of expenditure patterns, such as the frequency of grocery shopping and the tendency to spend income on receipt.

As a result the business model assumes expenditure by card users via food and fuel wallets in a smartcard system, but does not include expenditure via other potential wallets. This minimises the risk to the business model that the system may deliver less revenue than estimated.

In relation to assumed expenditure it is estimated that a card user would spend \$400 per fortnight via their food wallet and \$200 per fortnight via their fuel wallet. This is at the lower range of expenditure on these items identified by the feasibility assessment and therefore minimises risk to the business model.

To further minimise commercial risk, it is also assumed that this spending does not increase across the two year trial period.

6.1.3 Number of Affiliates

The business model assumes that in the 6 communities in the first year of the trial there would be 25 affiliates where smartcards could be used. In the second year of the trial it is assumed that there would be 50 affiliates across 10 communities. These affiliates include councils, food, fuel, education, travel and other service providers in keeping with the kinds of transactions desired by communities.

There is a risk to the business model if IBIS does not participate in the smartcard system. This is because:

- It is the monopoly provider of grocery and consumer items in fourteen communities, including all of those likely to participate in the first year of a trial; and
- The feasibility assessment has identified that communities want to use their smartcards in any IBIS store across the region. As a result, the participation of IBIS has the potential to make the smartcard system visible to communities not participating in a trial. This can assist to grow regional participation in the smartcard system.

6.2 INCOME FROM A SMARTCARD SYSTEM

The revenue from a smartcard system generally arises from:

- The commission charged to affiliates on the total volume of transactions made via smartcard (network fee).
- The annual fee charged to card users (card fee).
- The monthly rent of smartcard readers by affiliates (terminal rent).

The business model assumes that the network fee is 3% of transaction volume. This is higher than credit card fees, but is standard for smartcard systems. It is unlikely that any smartcard system provider would charge more than this rate of commission.

It is also assumed that card users would be charged an annual fee of \$25. This figure is based on the assumed capacity of participants to pay, given current levels of family income and expenditure in the Torres Strait region.

It is considered that the requirement for affiliates to rent smartcard readers in addition to the network fee may discourage their participation in the smartcard system. This is because they may consider that smartcard system costs could reduce their margins.

On the other hand, where income management via smartcard use increases family expenditure on food, services and consumables, revenue for affiliates may increase. Affiliates would need to make a commercial judgement about the pros and cons of participating in a smartcard system.

Nevertheless, to minimise the risk of non-participation by retailers during the trial period, the business model assumes that retailers would not be charged rent for smartcard readers.

Based on the respective volume of card users and expenditure via cards it is calculated that total revenue in trial year one would be \$246 000 and in trial year two \$1,235,000.

6.2.1 Income Stream to Government

In a business model for a smartcard system there is an opportunity for the smartcard system provider and government to share revenue from the system once a certain threshold of profitability has been achieved. Prior to this threshold the smartcard provider would normally retain 100% of revenue.

This option is consistent with treating the smartcard trial as a form of public private partnership where government and a smartcard system provider share both the costs and revenue associated with the system. Sharing the costs and revenue complements the level of co-operation needed between government and a smartcard system provider to deliver income management and social policy benefits for the community and commercial viability of the smartcard system.

This concept would normally be negotiated between government and a smartcard system provider as part of the terms and conditions of a smartcard trial.

6.3 COSTS OF A SMARTCARD SYSTEM

The costs of a smartcard system are described below. The expenditure required to conduct a smartcard system trial are based on Accor Services' understanding and experience of the market based costs of designing, implementing and managing a smartcard system.

6.3.1 Information Technology Development

There are three fundamental components of information technology development costs needed to establish and operate a smartcard trial. These are discussed below.

6.3.1.1 Software License – Core Product

An experienced smartcard system provider would normally have a core product which could be adapted to suit the particular needs of the Torres Strait communities participating in a trial.

It would be reasonable for that provider to not charge for the cost of its core product as part of the IT development for a smartcard trial. Accordingly, the business model assumes that there is no cost to a smartcard trial of the core IT product. This substantially reduces the cost of a smartcard trial.

6.3.1.2 Customisation of Core Product to Suit Community Needs

The cost of customising a core IT product would depend on the number of smartcard wallets and applications desired by the community. In order to maximise the opportunities for a successful trial it would be reasonable to expect that a core product would be customised to satisfy as many community needs and wants as technologically possible.

To respond to community needs identified by the feasibility study a core product would need to be customised to:

- Provide smartcard wallets for expenditure on food, fuel, education, and airfares prior to the trial commencing.
- Facilitate the transfer of money between families and for payments prior the trial commencing
- Create a platform for smartcard wallets for potential expenditure on rent and utilities during a trial and in any permanent system.

Costs associated with this customisation include investment in hardware, smartcard readers, connectivity with remote transaction centres, internet hosting for smartcard account management, and connectivity with CentrePay, NAB, councils, and retailers.

The bulk of the customisation cost would arise in the first year of the trial as platforms are created. The business model estimates that the cost of customisation is \$ 983 000 in the first year of the trial and \$ 69 863 in the second year of the trial.

This cost represents core product customisation for the development of a platform that includes income management and expenditure applications and outcomes that would be generally beneficial for any indigenous and non-indigenous community in Australia. As such it could be regarded as a long term investment in a system that can assist to deliver a range of income management programs consistent with government policy.

6.3.1.3 Roll Out of Systems to Communities

There is a cost associated with implementing a smartcard system in each community. An experienced smartcard system provider would recognise that this cost is reduced if standard platforms have been created in response to the bulk of individual community needs as part of core product customisation.

As the business model has assumed the creation of comprehensive platforms during core product customisation, it includes a minimal implementation cost for each community. This cost is estimated to be \$20 000 per community.

Where investment in core product customisation has created a platform for use in any distinct indigenous or non-indigenous community, it is likely that the cost of rolling out a smartcard system in those communities would also be minimal.

6.3.2 Management and Staff Resources

The business model assumes that costs of management and staff during a trial and any permanent system would be the market rate for an experienced project manager, resource workers in each community, call centre and customer service staff and

financial management and accounting support. Both salaries and on costs have been included in this assessment.

In the first year of the trial it is also assumed that costs would be incurred for legal and other advisers required to support the negotiation of agreements with government, councils, affiliates and other parties necessary for the operation of a smartcard trial. T

Accordingly total management and staff costs are estimated to be \$890 000 in the first trial year and \$748 600 in the second trial year. While the costs of legal and other advisers would not be present in the second trial year, expenditure on resource workers and customer support staff would increase because it is assumed that a trial would have expanded to 4 additional locations.

6.3.2.1 Cost of Resource Workers

As discussed in chapter 5, the resource worker would ideally be conducted by councils as part of the Remote Transaction Centre being established in most communities across the region. It is considered that the manager of each RTC could perform the resource worker function in combination with their other duties. Councils consulted during the feasibility are supportive of this.

If this occurs it would be reasonable to expect that the cost the RTC manager would be shared between councils, government and the smartcard system provider. The business model assumes a cost for the resource worker function that is equivalent to the time an RTC manager would need to spend on income and account management as part of the smartcard system. This cost is estimated at \$35 000 per RTC manager including wages and on costs.

6.3.3 Operational Costs

Operational costs in the business model are based on the market rates for office accommodation, travel and other general commercial costs. As the number of trial sites expands it is expected that operational costs would increase.

The business model estimates that operational costs would be \$122 800 in the first trial year and \$192 000 in the second trial year. This does not include possible CentrePay charges as it is not known at this stage whether these would be applied or absorbed by government.

6.3.4 Logistic Costs

Logistic costs include the material cost of sales, equipment maintenance, IT support, telecommunications, reporting documents, promotional documents and other costs. As the number of trial sites expands it is expected that logistic costs would increase.

The business model estimates that logistic costs would be \$66 189 in the first trial year and \$142 768 in the second trial year.

6.4 CONCLUSION

The consultants have conducted a conservative assessment of the cost and commercial viability of a smartcard trial. To achieve this they have:

- Assumed that income from a smartcard system during a trial would only arise from the use of smartcard wallets to purchase food and fuel. However, the feasibility assessment identified that more smartcard wallets are desired and likely to be used by the communities for other kinds of expenditure.
- Assumed that each card user would spend a total of \$600 per fortnight on food and fuel. However the feasibility assessment identified that on average families spend between \$560 and \$900 per fortnight on food and fuel.
- Assumed that during a 2 year trial period the number of card users would expand over time to a total of 2500 people. However the feasibility assessment identified that there are a possible 4700 people in the region who could participate in the smartcard system.
- Assumed that during a 2 year trial a total of 10 communities would participate in the smartcard system. Of these 6 communities are those which indicated an interest in a trial from the outset and have participated in the feasibility assessment. There are a total of 18 communities in the region.
- Assumed full costs of establishing and operating a smartcard system during the trial period to deliver the complete range of smartcard wallets and transaction applications most commonly desired by the community.

Based on the parameters discussed in this chapter, the assessment has identified that in trial year one the smartcard system would operate at a loss of \$1,935,489. This would be the cost to government if it chose to support a trial.

This cost to government could be minimised if:

- Government and the smartcard system provider shared in funding the costs of the system; and/or
- Government received an income stream from the smartcard system once a threshold level of profitability has been reached.

In trial year two the smartcard system would operate at a profit of \$1,769. Whilst this is a very small profit, it is a vast improvement on the loss in trial year one. It demonstrates that 2500 participants are required for the smartcard system to be viable.

The income, costs and viability of a two year smartcard trial is summarised in the table below.

Smart Card Trial Income, Costs and Viability

All numbers in \$AUD

		Year 1	Year 2	
Number of Sites		6	10	
Number of Card holders		500	2,500	
Grocery account \$200 per week	200	10,400	10,400	
Fuel account \$100 per week	100	5,200	5,200	
Volume of transactions		7,800,000	39,000,000	
Number of Affiliates		25	50	
Network fee	3.00%	234,000	1,170,000	Affiliate cost
Fee per card in \$ (valid 1 year)	25	12,500	65,000	Client cost
Terminal Rental (\$ per month)	0	0	0	Affiliate cost
Total Income		246,500	1,235,000	
IT Development				
Software License - Core Product		0	0	Smart card Provider
Customisation, hardware investment, new terminals, hosting set up costs, etc		983,000	69,863	Proprietary System
Rollout (new sites) @ 20,000 per site		120,000	80,000	
Sub Total		1,103,000	149,863	
Management/Staff Resources				
Development/Operations, Customer Service Team		540,000	748,600	
Advisers, legal		350,000	0	
Sub Total		890,000	748,600	
Operational Costs				
Office Costs, travel, etc		122,800	192,000	
Sub Total		122,800	192,000	
Logistic Costs				
Material Cost of Sales		18,000	87,360	
Equipment maintenance, IT support, Telephone, connection costs, hosting		48,189	55,408	
Sub Total		66,189	142,768	
Total Costs		2,181,989	1,233,231	
		28.0%	3.2%	
Profit or (Loss)		(1,935,489)	1,769	
		-24.8%	0.0%	

7. CONCLUSIONS AND RECOMMENDATIONS

7.1 CONCLUSIONS

In response to the threshold questions required to be addressed by this feasibility assessment, the study has identified the following.

- The community capacity for smartcard use is sufficient to support a trial. This is because there is:
 - A sufficient community desire and incentives for income management education and assistance and the introduction of a system that can reduce their transaction costs; and
 - The communities have a reasonable level of financial literacy.
- Based on a conservative estimate of the volume of users and expenditure via a smartcard system, (but full estimate of system costs), a two year smartcard trial could be commercially viable in the second year.
- Investment in telecommunications or information technology frameworks in the region to support a smartcard trial is not required beyond what Telstra and government have already committed under the NTN and other programs.
- A resource worker function is required in each participating community to assist with income management and smartcard account management during a trial and potentially for a period of time during any permanent system.
 - The effectiveness of the resource worker function would be optimised if it was performed by the managers of each Remote Transaction Centre being established in most communities across the region (including the 6 communities participating in the feasibility study).
 - The cost of the resource worker function could be shared between councils (who would already be employing RTC managers), government and the smartcard system provider and therefore minimise the cost for all parties.
- With the exception of IBIS, all councils, Commonwealth and Queensland government agencies, community organisations, and businesses consulted during the feasibility support the notion of a smartcard trial and would be willing to participate in it. Their willingness to participate is motivated by a common recognition that the smartcard system can improve family income management and lower transaction costs for communities. The support of these organisations is important because they form the operating framework for a smartcard system.

- The reluctance of IBIS to participate in a smartcard system arises because it would have to pay commission on the volume of transactions via smartcard in its stores. Currently IBIS receives revenue from EFTPOS and other card transactions made in its stores. Its concerns about transactions fees are not shared by other smaller retailers and the Torres Strait Chamber of Commerce. The participation of IBIS is likely to be critical to the smartcard system because it is the monopoly provider of groceries in the region.
- An issue that remains would need to be clarified before a smartcard trial could commence is whether the charge CentrePay applies to each transaction it facilitates would be applied to the smartcard system or absorbed by government.

7.2 RECOMMENDATIONS

It is recommended that a smartcard trial be conducted in the Torres Strait for a period of two years, subject to:

- Government funding for the costs of establishing and operating a smartcard system during the trial period;
- The participation of IBIS in the smartcard system; and
- The clarification of whether CentrePay charges would be applied or absorbed by government.

APPENDIX A

BROCHURE USED BY CONSULTANTS DURING COMMUNITY CONSULTATIONS TO EXPLAIN THE SMARTCARD SYSTEM

APPENDIX B

COMPARISON OF THE PRICE OF TWENTY-SIX COMMON GROCERY ITEMS:

- **WITHIN THE TORRES STRAIT REGION; AND**
- **BETWEEN THE REGION AND MAINLAND**

This table compares the prices of 26 common grocery items between IBIS stores in Yorke (Masig), Biogu, Thursday Island and Bamaga communities and other supermarket chains in Sydney and Brisbane. It was undertaken to assess the concerns of participating communities about their cost of living.

This table demonstrates that in relation to identical items sold in IBIS stores:

- Prices in Thursday Island and Bamaga tend to be similar.
- Prices in Masig and Biogu tend to be similar.
- Prices in Masig and Biogu tend to be higher than prices in Thursday Island and Bamaga.
- On average the price of items sold in Masig/Biogu is \$0.99 higher than their cost in Thursday Island.
- Some items, such as meat, can be up to \$10 more expensive in Masig/Biogu than Thursday Island.
- Prices in Thursday Island are generally \$1 - \$4 higher than selected supermarkets in Sydney/Brisbane.

Item	IBIS Thursday Is	IBIS Bamaga	IBIS Masig	IBIS Biogu	IGA Glebe Sydney	Coles Cannon Hill Brisbane
	\$	\$	\$	\$	\$	\$
Milo 750gm	9.99	9.99	10.88	10.88	8.41	7.51
Sugar 2kg	3.81	3.86	4.13	3.29	1.99	2.41
Milk 1 litre	2.09	2.32	2.25	2.49	1.65	1.55
Cocopops 785 gm	9.31	9.31	10.12	10.12	7.43	5.98
Cornflakes 525gm	4.62	4.62	5.02	5.02	3.78	3.33
Bushells Tea 50 bags	3.26	3.26	3.54	3.54	2.99	2.09
Coffee Nescafe Blend 100gm	6.54	6.54	7.12	7.12	3.99	4.83
Frozen vegetables 500gm	2.50	3.50	3.50	3.50	2.28	2.50
BBQ lamb chops 1kg	9.90	13.69	13.00	18.99	8.99	8.99
Beef sausages 1kg	8.99	9.99	10.09	NA	4.00	3.98

Rump steak 1kg	15.99	16.99	17.00	16.99	15.00	14.95
Meadowlea margarine 500gm	3.87	3.87	4.27	4.27	1.99	2.53
Coon cheese 250gm	4.66	4.00	5.00	NA	4.86	3.13
Apples 1kg	5.25	5.00	5.55	6.55	3.99	2.98
Tomatoes 1kg	4.99	4.19	3.95	4.75	4.99	3.98
Rice 2kg	5.18	5.18	5.60	NA	4.00	3.78
Flour White Wings 1kg	3.05	3.27	3.50	3.53	2.74	1.99
Bath soap Palmolive Gold 2pack	2.41	NA	2.58	NA	1.60	1.50
Toothpaste Colgate Regular 140gms	3.61	3.44	3.90	NA	2.73	2.69
Peanut paste Kraft 375gm	4.14	4.03	4.47	4.47	3.26	2.99
Toilet paper Wondersoft 6pack	4.83	4.89	5.20	5.20	5.50	3.48
Laundry Powder FAB 1kg	5.20	5.58	6.00	5.99	3.00	3.00
Bread	NA	NA	2.10	3.75	1.40	1.30
Snow peas 1kg	18.99	18.29	NA	NA	13.00	12.99
Sugar snap peas 1kg	20.99	NA	NA	NA	15.99	16.00
Carrots 1kg	3.19	3.19	NA	NA	2.49	1.98