



**NORTHERN TERRITORY VIEWS ON  
CGC ISSUES PAPER 2006/02  
*APPROACH TO DISAGGREGATION*  
APRIL 2006**

**COMMONWEALTH GRANTS COMMISSION  
GENERAL REVENUE GRANT RELATIVITIES  
2010 REVIEW**

## **Broad approach**

1. The continued use of a category approach is supported given that it explicitly identifies the disabilities that affect each government service and tax and makes the calculation of relativities easier to understand. The alternative presentation of the aggregate effect of each disability across all categories remains a valuable analytical tool and should be continued.
2. A key advantage of the category approach is its compatibility with Government Finance Statistics (GFS) expense data and the way states structure budgets and operations. GFS data is generally considered comparable, reliable and robust. Where there are known issues with GFS data, there is commitment by states, the Commonwealth Grants Commission (the Commission) and the Australian Bureau of Statistics (ABS), to improve data quality and comparability.
3. As noted by the Commission, revenue data can be obtained through GFS data or directly through states. Timing of GFS data tends to preclude its use in the final year of an assessment.
4. Due to timing difficulties, the use of GFS data for the final assessment year is likely to continue to be problematic across all states. However, the Commission's processes to ensure that final year numbers are robust allows for state-provided data to be used with confidence.

## **How Disaggregation Might Work in Practice**

### *Expense Categories and Assessments*

5. The Territory broadly supports the top-down approach suggested by the Commission. However, the four broad block approach appears to be too simplistic to allow for equalisation to be satisfactorily achieved.
6. As suggested by the Commission, a general approach starting with expense categories based on 2-digit General Purpose Classification (GPC) data would seem appropriate with further disaggregation, where appropriate, based on 3 and 4 digit GPC data.
7. However this approach should not preclude aggregation of lower digit data to form larger categories, where data is available. A notable example is Services to Indigenous Communities, which could comprise 4-digit GPC codes 2712, 2721, 2731, 2791, 3211, 3221 and 3241.
8. A second example covering a large service area where difference between states are likely to be material and which could be separated is Housing (GPC 2711).

9. Nor should the use of alternative data sources be precluded. The Services to Indigenous Communities example is currently based on State-provided data outside of GFS data due to inconsistency in how jurisdictions allocate expenses to GPC data.
10. Some aggregation may be possible at a 2-digit level, particularly with classifications outside of the key expenditure areas of health, education and law and order. Possible examples may include fuel and energy (GPC 29), agriculture, forestry, fishing and hunting (GPC 30) and mining and mineral resources (GPC 31).
11. A broad initial structure to reflect material differences between states could be based on 2-digit GPCs, Housing and Services to Indigenous Communities as follows:
  - Education (GPC 24);
  - Public Order and Safety (GPC 23);
  - Health (GPC 25);
  - Welfare (GPC 26);
  - Housing (GPC 2711);
  - Transport and Communications (GPC 32);
  - Services to Indigenous Communities (see above);
  - General Public Services (GPC 21); and
  - Other Services (remaining categories).
12. Disaggregation could then occur based on 3-digit and 4-digit GPC data according to the criteria outlined in paragraph 26 of the Commission's paper. However there may be significant scope for simplification where a broader category includes groups of users that are mutually exclusive but where the same or similar factors are relevant.
13. For example, all schooling categories could be aggregated into one, with determination of SDC factors for each group of students (ie pre-school, primary school, secondary schools). Aggregation in this manner would result in a single schools category which would potentially reflect the cost drivers faced by states. A broader indicator such as school enrolments or target population would, inter alia, ignore the different staffing ratios between levels of schooling (cost weight) and difference in user groups arising from switches from non-compulsory (pre-school) to compulsory (age 15) and back to non-compulsory (years 11 and 12 or equivalent).
14. A similar example arises in prisons where the juvenile detention and adult prison populations are mutually exclusive. Rather than create two categories (currently two components), cost drivers could be dealt with through relevant SDC factors rather than through a more detailed category structure. This could more easily avoid policy differences between states.

15. It should be noted that paragraph 34 of the discussion paper appears inconsistent with the assessment guidelines provided by the Commission in that it states that all categories in the final category structure will have average revenues or expenses that exceed \$50 per capita. The assessment guidelines provide for a dual criteria test whereby either the \$50 per capita category standard **or** a \$30 per capita redistribution for any one state would be required for category inclusion.
16. Again Services to Indigenous Communities would not meet a \$50 per capita standard but would significantly exceed the \$30 per capita test for at least one state.

**Potential disaggregations of key blocks, together with a rationale for those suggestions**

17. The following paragraphs provide selected examples of how the Territory would envisage the first stage of disaggregation of the main blocks occurring. These are not definitive views and are provided on the understanding that these views are likely to evolve as the structure becomes clearer.
18. While the Territory supports simplification it notes that the current structure has evolved over time and should both fairly and accurately reflect the disabilities faced by states. Accordingly the Territory believes that the top-down approach will validate many of the Commission's existing assessments but acknowledges there is scope for simplification while maintaining equalisation.

***Education***

19. The education block could initially be split into three categories: schools, VET, and higher education.
20. Combining pre schools, primary schools, secondary schools and non-government primary and secondary schools into a single schools category, where the cost differentials between pre, primary and secondary are captured in the socio-demographic composition factor weightings, could be considered.
21. Inclusion of non-government schools in the category is on the basis that funding formulas are based on government school funding.
22. Vocational education and training (VET) faces different cost drivers and common factor issues than schools. A separate assessment for VET is supported.
23. Transport of rural school children is an important cost driver for the Territory however it may be better captured within SDC weightings within an aggregated schools category rather than under a separate assessment.
24. The Territory supports separate assessments for categories treated EPC. These assessments require little calculation but present the information in a more

transparent way than aggregating them with other EPC categories or into other related non-EPC categories.

### ***Health***

25. The health block could be initially split to two broad categories: acute care including mental health; and community and preventative health services.
26. Acute care including mental health would capture costs related to the provision and use of hospital type services. Community health would include components of the non-inpatient and community health and population and preventative health categories.
27. These categories should be assessed separately because of the different modes of service delivery and significantly different cost drivers that exist in these areas.

### ***Public Order and Safety***

28. The existing four categories could be aggregated into three categories with police and public safety services combined.
29. Separate assessments for administration of justice and correctives services are supported on the basis that they face significantly different cost drivers and demand pressures.
30. The existing public safety assessment could be aggregated into the police assessment in the form of a broader public order assessment. The issues affecting public safety and police have many similarities such as a focus on prevention and the provision of safety and support services.

### ***Transport and Communications***

31. This block could be split into two main categories: roads – which is a major state expense and where there are material differences between states; and transport services which would include non-urban and urban transit GPC classifications.
32. A separate assessment for roads is supported on the basis of the unique drivers faced by governments in the provision and maintenance of roads. An argument could be made for the inclusion of road safety expenses in the public order assessment advocated in paragraph 30 of this submission.
33. Urban and non-urban transport face similar types of cost drivers in terms of concessions and subsidies. These categories could be aggregated with weights applied to the relevant common factors where appropriate.

## **Revenue Categories and Assessments**

34. The Territory supports the continued use of the tax type structure. The tax type structure facilitates transparency and accords with the pillar of what states do.
35. Current and potential future tax reform at the state level will inevitably see a simplification of the assessment process through the abolition of certain state taxes.
36. There may also be some scope for simplification of the smaller revenue categories on a case-by-case basis where it enhances equalisation, for example motor vehicle related taxes.
37. However, the greatest scope for simplification of revenue assessments lies within the methodology of the assessments themselves. Offsetting this is that the use of global indicators, which has previously been shown to be flawed, and greatly diminishes equalisation.
38. Global indicators fail to accurately measure the revenue bases available to states and the Territory has concerns about the volatility in outcomes, which may result from such an approach due to the large standard errors associated with Territory data.
39. An approach based on legislated measures of a revenue base has the advantage of having the greatest volume of readily available, comparable, reliable and robust data. An approach based on factors of production, stock of assets, levels of different activities or other such global or sub-global indicators would diminish transparency and reliability.