Northern Territory Government

COMMONWEALTH GRANTS COMMISSION 2015 METHODOLOGY REVIEW

Northern Territory Second Submission to the Commonwealth Grants Commission – 2015 Methodology Review

February 2014

Contents

Executive Summary

While the Territory agrees with many of the Commission staff proposals, it has significant reservations and concerns with others. These concerns are detailed in the executive summary below, in addition to the Territory's views on the 2015 Review Terms of Reference priority issues.

Commonwealth Grants Commission 2015 Review Implementation and Methodological Issues Staff Discussion Paper CGC 2013-06S

Measure of Fiscal Capacity and the 'Simplified & Integrated' Framework

1. The Territory supports retaining the 2010 Review approach of equalising net financial assets per capita. The Territory does not consider that the integrated and simplified model or other holding cost based variants are simpler or more transparent than the current approach. These approaches add complexity, particularly given the level of judgement required to underpin such models, and they equalise capital over a longer period which does not necessarily align with actual capital spending by the states and what states do.

Determining average policy

2. The Territory is opposed to the proposed change to the test for determining average policy which represents a fundamental shift in how the Commission interprets the key guiding principle of what states do.
3. The Territory considers that developing an assessment for a tax that is raised by one or more states (but less than the majority) may lead to a greater ability for state policies to influence the Commission's assessments than what is possible now.
4. The proposed approach is inconsistent with 'what states do' and it is considered that the proposed change in definition of average policy would be biased towards the large states as any proposal to introduce a tax would be more likely have a material impact on the assessment than one proposed by the smaller states.
5. Further, the Territory is not convinced the proposed change will achieve any significant simplification gains, rather it will increase the complexity of the Commission's assessments by increasing the number of assessments made in the revenue categories and would increase data requirements.

Materiality thresholds

6. The Territory does not support materiality thresholds as these do not enhance equalisation outcomes and considers that there is no strong foundation or conceptual case for increasing the materiality threshold for disabilities from $10 to $30 per capita. Arbitrarily increasing materiality thresholds for disabilities would only result in removing

factors for which a conceptual case for differential assessment has already been established and deemed material and would not enhance equalisation outcomes.

7. Further, the Territory is not convinced that there would be material reductions in complexity through the proposed increase in the disability materiality threshold.

Discounting

8. The Territory does not support the continued use of discounting. The current application of discounting requires a significant level of judgement by the Commission and does not aid equalisation because its bias is one-directional. The Territory's firm view is that data improvement should be pursued, with a view to abolishing discounts in the Commission's assessments entirely.

Global revenue assessment

9. The Territory is of the view that there are significant issues in the use of global indicators for the purposes of achieving equalisation and, as such, supports the Commission staff's proposal not to adopt global revenue assessments.

10. Broad indicators do not accurately reflect states' tax bases and are better determinants of Commonwealth taxes, are subject to significant revisions and are not reliable measures of relative differences in states' fiscal capacities.

11. Further, analysis undertaken as part of the Territory's submission to the Review of GST Distribution demonstrated that the use of broad indicators to assess states' revenue raising capacities would result in the Australian Capital Territory being assessed as having the highest capacity to raise own-source revenue of all jurisdictions. This is considered illogical given that the Australian Capital Territory does not have capacity to raise mineral royalties and it has a large government sector which is exempt from payroll tax.

12. The Territory supports continuation of the current tax by tax approach as this reflects the legal incidence of the states' tax bases, and therefore how states access their tax bases.

Commonwealth Grants Commission 2015 Review Proposed Assessments Staff Discussion Paper CGC 2013-07S

Priority Issue Indigeneity (Including Socio-Economic Status)

13. Rapid growth of the Indigenous population in metropolitan areas in the 2011 Census was primarily driven by 'new' Indigenous people who have population characteristics quite unlike those of the 'old' Indigenous population captured in the 2006 Census. This has resulted in disparities in the levels of disadvantage experienced within the Indigenous population.

14. For example, analysis by the Territory showed that these 'new' Indigenous people were better educated, and that this had a material effect on educational attainment across the Indigenous population in those states that experienced the largest population growth.

15. The Territory argues that this strongly suggests that there are material differences in the socioeconomic status within the Indigenous population that justify developing a more precise approach that can capture the different levels of disadvantage within the Indigenous population.

16. For this reason, the Territory supports replacing the Socio-Economic Indexes for Areas (SEIFA) with the Indigenous Relative Socio-Economic Outcomes (IRSEO) for the Indigenous population because SEIFA was not able to accurately measure the differences within the Indigenous population due to the influence of the non-Indigenous population, especially in the capital cities where growth in the Indigenous population was particularly high.

17. IRSEO by contrast looks at the population characteristics of the Indigenous population in a region and uses those characteristics to assess each region's level of disadvantage. IRESO clearly shows that Indigenous people in the south-eastern states, particularly in metropolitan areas, are significantly less disadvantaged than Indigenous people in remote Australia.

18. The Territory supports replacing SEIFA with a non-Indigenous ABS produced SEIFA because some areas within SEIFA will be influenced by the characteristics of Indigenous populations, particularly in remote areas.

Housing

19. The Territory contends that the current cost weight of 25 per cent significantly understates the additional costs of providing social housing to Indigenous tenants. The evidence used to support the continued use of a 25 per cent cost weight does not adequately capture the additional costs attributable to Indigeneity. Specifically, costs arising from overcrowding, the requirement for intensive property and tenancy management services for first-time tenants, the high mobility of tenants and the level of disadvantage among the Indigenous population.

20. The Territory supports Western Australia's position that a strong conceptual case exists for a differential assessment of the impact of cost of living increases on states' social housing expenses, and that further investigation of this matter is warranted.

21. The Territory does not support the proposal to assess the Indigenous component of the socio-demographic composition (SDC) factor using population shares. The Territory's view is that the number of both non-Indigenous and Indigenous households should be estimated on a consistent basis, by adjusting for income and location.

22. The Territory strongly supports the proposal to assess the impact of Indigeneity, low income and location on states' capacities to raise rental revenue, however the Territory does not accept that the number of Indigenous people in a state is a positive indicator of a state's capacity to collect rent from social housing tenants, and as such, alternate data sources should be investigated.

23. The Territory supports the use of the Housing SDC factors to estimate assessed capital housing stock and depreciation expenses, however the Territory's strong view is that the Indigenous cost weight should also be applied.

24. The Territory strongly supports the Commission staff view that the National Partnership Agreement on Remote Indigenous Housing (NPARIH) should continue not to impact on the housing assessment, consistent with past treatment by exclusion, and the intent of the funding provided, which is to address unmet need.

Services to Communities

25. The Territory strongly objects to the proposal to assess Community Service Obligation payments for uniform tariffs for water and electricity on an equal per capita basis, as this would significantly understate the additional costs of providing services to large, remote centres. For example, the proposed approach assumes that water and electricity subsidies provided in Sydney are the same as those in Alice Springs.

26. The Territory's view is that uniform tariffs should be differentially assessed in recognition of the impacts of location and service delivery scale on the provision of electricity services.

27. The Territory supports the proposed treatment of water and electricity subsidies provided to uneconomic providers. In the Territory's view this approach is appropriate because it recognises that states face much higher costs of providing water and electricity in small communities in remote and very remote areas, compared with non-remote communities.

Infrastructure

28. The Territory strongly supports the continued recognition of the impact population growth has on state needs for infrastructure and financial assets. Population growth is the key determinant of capital needs and a major driver of capital expenditure such as classrooms, hospital beds, public housing etc.

29. The Territory strongly supports the use of recurrent disabilities to estimate interstate differences in infrastructure needs. While the Territory accepts that there is not a strong case for some of these disabilities, it strongly disagrees with Commission staff assumptions that there is a weak link between the socio economic status (SES) and Indigenous use and cost disabilities for schools, post-secondary and welfare/housing services and associated infrastructure needs. The Territory has provided evidence which confirms that Indigenous and low SES students require additional infrastructure, and that Indigenous housing tenants lead to a greater turnover of assets. Removing these disabilities is not supported.

30. With the exception of the above mentioned disabilities, the Territory considers that if some recurrent disabilities are removed, as proposed, there would be no requirement for the 12.5 per cent discount.

31. The Territory supports the development of a capital cost factor, however is concerned that the Rawlinsons indices would understate the cost of construction in the Territory, due to its limited coverage of government infrastructure and smaller capital cities, and evidence that there is significant inter-regional variance in the cost of construction across the Territory. Alternatively, the Territory suggests that an average cost index should be developed based on state infrastructure data.

32. The Territory strongly supports assessing the impact of the physical environment on state infrastructure costs and finds that the consultant's report provides a sound basis for developing a physical environment factor.

33. The Territory considers there is a conceptual case for recognising the additional infrastructure burden from intrastate migration, and that there are material differences between states in the impact of intrastate migration. The Territory recommends that the Commission investigate methods to capture this in the equalisation process.

Interstate Wages

34. The Territory supports the use of data from the Characteristics of Employees survey to the extent that it captures the same disabilities captured in the Survey of Education and Training (SET), with adjustments to recognise the additional influences not captured in the SET. The Territory has previously expressed concerns about the range of disabilities that are not captured by the SET, particularly differences in non-wage remuneration.

35. The Territory strongly supports a regional loading assessment for states with high regional wages but strongly opposes the Commission staff view that this should only apply to Western Australia and Queensland. 2011 Census data shows that the Territory faces the same challenges faced by these states in setting wages in regional areas.

36. Due to the data constraints of the SET, the Commission should not rely on SET data alone to determine interstate wage differentials. For example, due to its wider coverage the 2011 Census is a better measure of wage differentials than the SET.

37. The Territory's preference is for the discount currently applied to the interstate wages assessment to be removed; however, at the very least there should be no adjustment to the discount until all outstanding issues relating to the assessment have been resolved.

Interstate Non-Wage Costs

38. The Territory strongly opposes the proposal to no longer assess interstate freight costs and discontinue the interstate non-wage costs assessment. Previous reviews have clearly established the conceptual case that material differences exist in the interstate freight costs faced by states. The Territory does not consider that there have been any significant technological, labour market or pricing changes that diminish the strong conceptual case that has been accepted in the past.

39. No evidence has been presented to clearly demonstrate that the replacement of SARIA with ARIA removes the need to assess interstate freight and interstate travel costs. In the absence of such evidence, and given the importance of this assessment, the Territory strongly opposes proposals to cease the interstate non-wage costs assessment.

Regional Costs

40. The Territory is not convinced that the proposed schools gradient reflects costs in other categories.

41. In the 2010 Review, the Commission applied the simple average of the schools and police factors to other categories for which data was available, as this reflected the regional cost gradient observed for these categories. A similar relationship between the new

schools regional costs gradient and the observed gradient for other categories has not been demonstrated. Consequently, the Territory considers that the simple average of the schools and police factors should continue to be applied to the categories to which the general factor was applied in the 2010 Review.

Service Delivery Scale

42. The Territory strongly opposes the proposal to no longer assess service delivery scale (SDS) disabilities in Community health. In the 2010 Review, a conceptual case was established by the Commission that SDS impacts occur in Community and other health services. The Territory has presented data from the Australian Institute of Health and Welfare (AIHW) that supports the case that health staffing numbers are higher in the remote areas of Australia than in more accessible areas, despite the smaller service population.

43. The Territory does not support the proposal to no longer assess SDS disabilities in housing, as a conceptual case was established in the 2010 Review and there is no conclusive case to support the Commission staff proposal.

Justice Services

44. The Territory opposes the continued application of a 25 per cent discount of specialised policing because high-risk offender groups such as Indigenous males are not necessarily in custody for misdemeanours. Evidence shows that Indigenous males are significantly more likely to commit a range of serious offences including homicide and sexual assault.

45. The Territory opposes the decision to continue to assess community policing expenditure on an equal per capita basis because only a small proportion of community policing expenses are directed at the population as a whole. The Territory has provided evidence which shows that a range community policing type activities are not targeted at the general population but rather at specific population groups such as repeat offenders.

Community Health

46. The Territory supports the Commission staff proposal to develop a user profile for community health services based on Independent Hospital Pricing Authority (IHPA) data for public hospitals, with adjustments to reflect that some population groups use community health services more intensely.

47. In particular, the Territory supports combining IHPA data with data from the AIHW to better reflect the use of community health services by Indigenous people but has concerns that, even with this adjustment, Indigenous use of these health services will be underestimated. The Territory has provided evidence that shows Indigenous use of community health services, relative to non-Indigenous use, is higher than that proposed by Commission staff. The Territory urges the Commission to review this.

48. The Territory agrees that developing the age profile of community health services based on hospital data may lead to a material bias, however, due to the severe limitations of access to General Practitioner services in the Territory, particularly in remote and very remote areas, the Territory considers that data on all hospitals (including block funded hospitals) may be a better proxy for the Territory's community health service by age.

49. The Territory supports the development of an economic environment factor, however, contends that the level of substitutability implied in the proposed assessment in relation to Office of Aboriginal and Torres Strait Islander Health (OATSIH) funding is significantly overstated. The Commission staff's Discussion paper suggests a level of substitutability of around 87.5 per cent.

50. The agreements underpinning the objective of OATSIH funding clearly indicate that this funding is over and above that which is provided by the Territory to meet the needs of primary health care for Indigenous people. That is, OATSIH funding is top-up funding to increase the level of existing services and to increase the scope of existing services. As such, the Territory recommends the Commission review the current level of substitutability with a view to reducing the level to at least 50 per cent.

Population

51. The Territory still has concerns about the Commission's decision to incorporate the preliminary 2011 Census based Indigenous population estimates in the 2013 Update because it was not fit for purpose and contradicted specific ABS advice. In the Territory's view the Commission should commit to using only the latest available final Census derived population figures.

52. The Territory opposes the Commission's proposal to adopt a standardised set of age groups because age group selection should continue to be based on the needs of the service population and the assessment in question.

Administrative Scale

53. The Territory does not support the proposal to use the state and local government final consumption expenditure deflator to index the administrative scale quantum and considers that the composite index used in the 2010 Review is more appropriate. The composite index captures the influences on the cost of providing the minimum level of administration; that is, changes in wages and prices of goods and services.

Net Lending

54. The Territory considers that the Commission should include a cost of borrowing disability to recognise that smaller states have a higher cost of borrowing relative to the larger states.

55. Based on current gross general government debt of around $2.6 billion, an average age of debt of approximately 4 years and an estimated average premium of 27 basis points, this equates to an additional impost of around $7.1 million per year for the Territory or approximately $29.55 per capita.

Services to industry

56. The Territory does not support using the ABS Count of Australian Businesses to measure the size of the mining industry as it does not provide an accurate reflection of the location of operating mines. This is because a section of the data uses the firm's business address, which is often not the same state as their mining operations.

57. Further, the Territory is not convinced that the size of the mining sector itself is a reliable proxy for regulation costs borne by states as the intensity of regulation is dependent on the mineral being extracted. Instead, the Territory recommends exploring the use of Geoscience Australia's Australian Mine Atlas.

Priority Issue Mining Revenue

58. The issue as to whether the GST distribution influences each state's mining royalty rates appears to be theoretical rather than practical. The Territory's view is that while states do consider the GST implications of their mining revenue policies, it is not a material consideration. Recent decisions by some states to change their mining royalty rates despite the known GST impacts disproves the notion that equalisation influences state decision-making.

59. The Territory believes that to achieve an appropriate balance between policy neutrality and 'what states do', the number of groupings in the mining revenue assessment should be increased. This would also have the added benefit of reducing the GST share effects when a mineral moves between groups.

60. The Territory strongly rejects consideration of adopting an external standard in the mining revenue assessment. Using historical royalty rates as an external standard would not address the shortcomings of the current groupings, while an external standard based on international experience would not reflect what states do.

61. The Territory strongly opposes any proposal to discount the mining revenue assessment as this approach would not be transparent, would be unlikely to cope with changes in state circumstances and would rely too heavily on judgement.

Priority Issue National Education Reform Agreement (NERA)

62. The Territory believes that the simplest way to give effect to the 'no unwinding' clause of the NERA is to implement an assessment based on the schooling resource standard, with adjustments to include the following disabilities that are not recognised by the NERA loadings: administrative scale, interstate location costs and student transport expenses.

Priority Issue DisabilityCare Australia

63. The Territory supports the Commission staff proposals for the treatment of disability services during each phase of DisabilityCare Australia. Specifically, that Commonwealth payments and expenses associated with the trials should have no impact on state relativities; adoption of the blended approach for assessing needs during the transition phase and associated payments from the Commonwealth to states being treated as having an impact on relativities; and an actual per capita assessment of disability services from 2019-20.

Priority Issue Transport Infrastructure

64. The Territory supports using the relationship between capital cities' asset values and population as a proxy for urban transport investment need and to freeze the stock disability until the model can be re-estimated.

65. The Territory supports continuing to include by default all Commonwealth transport infrastructure payments. The Territory supports the Commission developing guidelines which set out criteria to determine whether the needs the payment is addressing are captured in the assessment and a schedule which contains information on the appropriate discount to apply given the available qualitative and quantitative information.

Priority Issue Mining Related Expenditure

66. The Territory suggests the use of an avoidable cost approach to the mining related revenue assessment, which entails identifying expenditure on government services and infrastructure that would not have been incurred in the absence of private investment in mining and energy projects and activities.

67. The Territory does not consider that there is a quantifiable cost recovery period attached to infrastructure provided to support the mining industry in the Territory, as provision of this infrastructure has associated 'public good' benefits which do not have a dollar value.

68. Attempting to assess the 'unique' policies implemented by states in response to their particular circumstances would be a complex process requiring substantial judgement. The Territory is not aware of a universally accepted way of making such an assessment.

PART 1

Introduction

This part details the Northern Territory's views on issues raised in the Commission's Position Paper CGC 2013-05 and Staff Discussion Paper CGC 2013-06S (Discussion Paper 06S).

The Territory welcomes the Commission's decision to retain the current interpretation of the principle of Horizontal Fiscal Equalisation (HFE) and the supporting principles used in the 2010 Review to guide the development of assessment methodologies for the 2015 Review. The definition to be used by the Commission is:

State governments should receive funding from the pool of goods and services tax such that, after allowing for material factors affecting revenues and expenditures, each would have the fiscal capacity to provide services and the associated infrastructure at the same standard, if each made the same effort to raise revenue from its own sources and operated at the same level of efficiency.

The current definition of HFE underpins the long standing tenet that all Australians, regardless of where they live, should have access to equivalent levels of government services.

The Intergovernmental Agreement on Federal Financial Relations (IGAFFR) sets out HFE as the only stated and agreed objective of the distribution of goods and services tax (GST) revenue between states and territories (states).

The Territory strongly supports the continuation of the current HFE system, which is designed to compensate states for unavoidable differences in their costs of delivering services, and capacities to raise revenues. This is achieved by equalising differences in population demographics, geography, natural resource endowments and economic circumstances between states in order for each state to provide the standard level of services.

The current HFE system equalises for both expenditure needs and revenue-raising capacity; this is generally known as full equalisation. This implies that all unavoidable differences in the cost of delivering services and raising revenues are fully recognised and accounted for. The Territory contends that this is not the case, and that the current HFE system only partially equalises expenditure needs and revenue-raising capacities.

There are a large number of disability factors and expenditure items in the Commission's methodology that are either assessed on an equal per capita basis or, not fully recognised through methods such as discounting. The effect of an equal per capita assessment is the same as the expenditure or revenue being outside of the assessment, that is, it has no impact on relativities.

Under the current methodology, around 48 per cent of total state revenues and around 19 per cent of total state expenditures are assessed on an equal per capita basis. Further, the Commission does not assess a disability factor for all unavoidable differences between states for a number of reasons, including lack of data and materiality, or where it does assess a factor this may be discounted to minimise the impact of an assessment where it has concerns about the supporting data or where nationally comparable data is not available.

For example, the Commission applies a discount to interstate wage costs on the basis that there is uncertainty surrounding the data supporting the assessment despite there being no evidence to suggest that the Survey of Education and Training data overestimates the differences in wage costs between states. Further, despite a case being made, in the 2010 Review, that students with low socio-economic status cost more to deliver post-secondary services, the Commission did not make an assessment due to a lack of reliable data.

The Territory strongly supports a full and comprehensive approach to equalisation based on the principle that persons living in comparable locations should expect similar access to government services. While the amount of GST redistributed between states is relatively small in the national context, it is significant to state budgets. Partial equalisation or an equal per capita distribution of GST would pose a critical risk to small states' capacities to deliver the national average level of services and would have a crippling effect on economic growth and employment in these states.

As noted in its first submission to the 2015 Review, the Territory strongly disagrees with the argument by some states that the HFE system provides disincentives for states to pursue efficiency gains in the delivery of services. The Territory contends that equalisation is the best means of achieving equity between jurisdictions, and that efficiency is already embedded in the process.

The Commission's current use of internal standards and the determination of assessed needs provide incentives for states to pursue efficiency gains, with the more populous states able to drive efficiencies through their above average share of total national expenditure and states that deliver services below the average unit costs able to retain these benefits.

Given the truncated timeframe for the 2015 Review of the GST Distribution methodology, the Territory accepts the overarching approach the Commission staff has adopted in undertaking the Review. The approach adopted by Commission staff has been to review the 2010 Review methodology, rather than beginning with a clean slate.

1

Measure of Fiscal Capacity and the 'Simplified & Integrated' Framework

State Views, Issues and Analysis & Staff View

Staff propose to recommend the Commission:

- retain the 2010 Review approach of equalising State net financial assets per capita and recognising needs for infrastructure and net financial assets directly and immediately, rather than changing to the simplified and integrated approach or other holding cost approaches.

1.1 The Territory supports retaining the 2010 Review approach of equalising net financial assets per capita.

1.2 The Territory believes the current approach to assessing capital needs, which examines differences between states' opening and closing stock of infrastructure after taking into account population growth and stock and cost disability factors, is relatively straightforward and that recognising upfront the financial consequences of new infrastructure is simple and consistent with the principle of 'what states do'.

1.3 While on a conceptual basis the proposed simplified and integrated approach has merit, the Territory considers that this approach requires a significant level of judgement and is less contemporary than the current model.

1.4 The Territory does not consider that the integrated and simplified model or other holding cost based variants are simpler or more transparent than the current approach. These approaches add complexity, particularly given the level of judgement required to underpin such models, and they equalise capital over a longer period which does not necessarily align with actual capital spending by the states and 'what states do'.

1.5 The Territory considers that concerns about the treatment of subsidies to public non-financial corporations can be adequately addressed through the current direct approach.

2

Implementation Issues for What States Collectively Do

Revenue and Expense Standards & Determining Average Policy

Staff propose to recommend the Commission:

- simplify its approach to determining average policy for revenues, by presuming that every tax imposed by one or more States is part of average policy and affects State fiscal capacities
  - any revenue raised will be subject to differential assessment and impact GST shares where it passes the revised disability materiality test.
- where the assessment of a service, even if only provided by some States, would have a material effect on the GST distribution, the service would be treated as average policy and assessed.

2.1 For the 2015 Review, Commission staff propose to change the test for determining average policy to an approach based on the presumption that every tax raised by one or more states – provided that it is material – will be considered as average policy. The justifications for the change are that it would be a simpler test of average policy and it would reduce the potential for a state to influence whether a particular policy is average policy.

2.2 The Territory is opposed to the proposed change to the test for determining average policy. While on face value the change to the test could be considered minor, it represents a fundamental shift in how the Commission interprets the key guiding principle of 'what states do'. It is changing the approach to determining average policy, which has worked well in the past.

2.3 In addition, the change to the test is aimed at addressing an issue that occurs intermittently, that is how to treat a tax raised by one or more states in a policy neutral manner, and it is not clear whether this would be achieved under the proposed new test. On the contrary, developing an assessment for a tax that is raised by one or more states (but less than the majority) may lead to a greater ability for state policies to influence the Commission's assessments.

2.4 A key issue with the proposed approach is that the change in definition of average policy would be biased towards the large states. There are no instances where one or two small states can raise a tax and have a material impact on the assessment. Conversely, a large state could introduce the same tax and have a material impact on the assessment. For example, if New South Wales expanded its land tax base to include principal place of residence properties, and was the only state to do so, this could be material under the proposed test of average policy. On the other hand, if the Australian Capital Territory, Tasmania and the Northern Territory introduced the same tax it may not be material. As such, there would be inconsistent treatment between states, which is not a desirable outcome.

2.5 The proposed approach is inconsistent with the key principle of 'what states do'. Rather it would be an interpretation of 'what a (large) state does'. The Territory accepts that the large states have the greatest influence on determining average policies. However, the proposed change to the test would exacerbate the large states' influence beyond what is reasonable.

2.6 The proposed change to the test is intended to simplify the process for determining average policy. While this may be true, it is likely to increase the complexity of the Commission's assessments by increasing the number of assessments made in the revenue categories and would increase data requirements.

2.7 In general, the estimated revenue base for each tax is derived from state revenue office data. In instances where a state does not impose a tax that is levied by a majority of states, data is not available from the state revenue office, and therefore, the Commission is required to estimate the revenue base using a proxy measure. This is the case for assessing the Territory's capacity to raise land tax.

2.8 The proposed change to the test of average policy would increase the data requirements, and subsequently raise data availability and reliability issues. In addition, it would significantly increase the need for the Commission to apply judgement to estimate the revenue bases for the majority of jurisdictions that do not levy the tax. This would lead to increased complexity in the assessment, which is inconsistent with the Commission's guiding principle of practicality.

2.9 The proposed approach is targeted at situations where one or two states introduce a tax. However, this approach would effectively ignore how the Commission should view the 'materiality' of the majority of states that do not impose the tax.

2.10 In calculating the effective tax rate, the Commission divides the actual revenue with the total revenue base. The Commission staff discussion paper notes that under the proposed new test for average policy "all states will be considered to have the relevant tax base, with one or more States taxing it at a non-zero rate and the rest at a zero rate". As a result, the new approach would dilute the effective average tax rate and would not be representative of the actual tax rate in the states where the tax is levied.

2.11 The Territory also has significant concerns about how the proposed approach will be applied to expenditure assessments. For example, if one state decided to continue to fund its disability clients, while all other states transfer to DisabilityCare Australia, and this was considered material, should the other states be advantaged or disadvantaged due to one state's policy?

2.12 In summary, if the Commission adopted the change in the test of average policy that leads to a differential assessment of a tax that is levied in one or a minority of states, it would:

- be biased towards the large states and treat small and large states differently;
- raise data availability and quality issues and would likely significantly increase the Commission's use of judgement to estimate the revenue base for the states that do not impose the tax;
- result in the effective tax rate not being representative of the policies of any state. That is, the effective tax rate would be significantly lower than the rate applied in the jurisdiction(s) that levies the tax, while the opposite would be true for the other states;
- be inconsistent with the Commission's guiding principle of practicality, as it would increase the complexity of the assessments by increasing the number of adjustments made; and
- not necessarily reduce the ability of states to influence the average policy. On the contrary, it may lead to greater instances where a large state's own policies can directly affect its share of GST.

Equalisation of Interstate Costs on a 'Spend Gradient' Basis

Staff propose to recommend the Commission:

- not adopt a spend-gradient approach to interstate costs, because doing so is inconsistent with HFE.

2.13 This approach is consistent with that recommended in the Territory's first submission and is supported.

2.14 Following the recommendations of the GST Distribution Review, the 2015 Review Terms of Reference directed the Commission to investigate whether it is appropriate and feasible to equalise interstate costs on a spend gradient basis.

2.15 Citing research which suggested that the level of services provided by state governments in 'high cost' locations within a state is generally lower than the level of services provided in 'low cost' locations in that state, the Review Panel suggested this is evidence that state governments tend to pursue economic efficiencies through lower expenditure in high cost areas.

2.16 The Territory did not agree with that position and opposed equalising interstate costs on a spend-gradient basis as this approach is inconsistent with the principle of equity.

2.17 The Territory contended that, if high cost states do provide a lower level of services than low cost states, this would be reflected in the 'average'. As such, it would not be appropriate for a further discount to be applied through application of a spend gradient to recognise the differences already reflected in the average.

2.18 Differences in the levels of services delivered by states are already reflected in the average of 'what states do' and interstate costs should continue to be fully equalised as there are material wage differentials between states due to factors that are not influenced by state policies.

3

Implementation Issues for Policy Neutrality

Elasticity Adjustments

Staff propose to recommend the Commission:

- not reintroduce elasticity adjustments in the 2015 Review as based on the data available, no compelling evidence could be found for adjusting State revenue bases for the effect of differences in tax rates.

3.1 The Territory accepts the Commission staff's analysis that shows adopting an elasticity adjustment for the revenue assessments is not appropriate.

3.2 The Territory considers that adoption of elasticity adjustments would increase complexity and introduce the need for judgement due to data reliability/relevance and measurement issues.

3.3 Further, based on the Commission staff's analysis, the conceptual relationship (or sensitivity) between a change in tax rates and a change in the level of tax bases is not always evident (i.e. payroll tax is one of many components that may affect employee wages) or probable from a materiality perspective (i.e. a 1 per cent increase in the level of conveyance duty or motor transfer duty would need to result in a significant decrease in underlying activity before having a material impact on equalisation).

4

Implementation Issues for Practicality

Materiality Thresholds

Staff propose to recommend the Commission:

- increase materiality thresholds for disabilities to $30 per capita and for data adjustments to $10 per capita, and to remove the category structure and redistribution thresholds.

4.1 The Territory does not support materiality thresholds as these do not enhance equalisation outcomes.

4.2 The view that it is disabilities that drive the GST distribution, not how they are grouped and presented, is supported. Equalising state's fiscal capacities taking into account differences in population characteristics, natural endowments and economic circumstances is central to achieving HFE. Applying materiality thresholds to disabilities is not consistent with full equalisation of states' fiscal capacities.

4.3 Notwithstanding, the Commission currently applies a number of materiality thresholds. Commission staff are recommending a three-fold increase in disability thresholds from $10 per capita to $30 per capita and an increase from $3 to $10 in data materiality threshold, accompanied by the removal of the current category total and category redistribution thresholds.

4.4 The Territory considers that there is no strong foundation or conceptual case for increasing the materiality threshold for disabilities from $10 to $30 per capita. In its paper, Commission staff indicate that this increase has been proposed on the basis that the Commission should be seen as setting out to constrain complexity and the threshold is above a business as usual level. The Territory is not convinced that there would be material reductions in complexity through the proposed increase in the disability materiality threshold. Nor is the Territory of the view that simplicity should be pursued at the expense of achieving equalisation.

4.5 In discussions with states, Commission staff indicated that over the last ten years total state revenue has increased by 88 per cent and expenses by 90 per cent, and that increasing thresholds by a similar rate would increase the current disability threshold to $20 per capita and the data adjustment threshold to $6 per capita. Notwithstanding this, Commission staff indicated that the proposed thresholds were effectively based on taking the mid-point between the above threshold levels and those proposed by the GST

Distribution Review (disability thresholds of $40 per capita and data thresholds of $12 per capita).

4.6 Arbitrarily increasing materiality thresholds for disabilities would only result in removing factors for which a conceptual case for differential assessment has already been established and deemed material and would not enhance equalisation outcomes.

4.7 Further, while simplification may be achieved merely through the removal of a disability factor from the Commission's assessment, this is not the purpose or pursuit of simplification. If it was then there would be no need for a methodology for the distribution of GST based on equalisation. As stated above, the Territory strongly supports the current system of HFE and the underlying premise of achieving equity by providing states with the capacity to deliver services to the same standard.

4.8 The Territory supports removing the category and redistribution materiality thresholds. The Territory believes that the scope of equalisation should be as comprehensive as practically possible and include all revenue bases and general government services that states are responsible for delivering. This is consistent with 'what states do'. Maintaining these thresholds could potentially result in activities from the current scope of equalisation being removed and therefore equalisation outcomes diminished.

State views are sought on:

- whether there is an asymmetry in applying materiality thresholds to disabilities but not to Commonwealth payments
- whether a materiality threshold should apply to Commonwealth payments
- if so, at what level and how should that level be applied.

4.9 As noted above the Territory does not support the application of materiality thresholds and considers that the scope of equalisation should be as broad as possible, as such, the Territory does not support application of a materiality threshold to Commonwealth payments.

4.10 Commonwealth payments that increase states capacities to deliver services should be fully captured in the Commission's assessment methodology for determining states relativities.

Staff propose to recommend the Commission:

- report relativities to 3 decimal places because this produces GST outcomes that are not materially different to those produced by relativities rounded to 5 decimal places.

4.11 The Territory supports rounding to 3 decimal points for presentational purposes only, but does not support calculating relativities to fewer decimal points. Decreasing the number of decimal points to which relativities are calculated will not result in any significant simplification gains or enhanced views around perceived accuracy.

4.12 The Commission staff considers there will be only a small difference in GST distributions in any one year with a move to 3 decimal points, equal to $3 per capita. There are no clear beneficial gains in reducing the number of decimal points to which relativities are calculated. While the GST impact may be immaterial in the context of a large budget state, it is unlikely to be immaterial for a small budget state. Volatility in budgets, no matter how small, creates difficulties for service delivery planning. At a time when all states are operating in fiscally challenging environments this is particularly problematic.

Discounting

Staff propose to recommend the Commission:

- maintain the uniform set of discounts, but review where discounting has been used to ensure that it is still appropriate.

4.13 The Territory does not support the continued use of discounting. The current application of discounting requires a significant level of judgement by the Commission and does not aid equalisation because its bias is one-directional. The Territory's firm view is that data improvement should be pursued, with a view to abolishing discounts in the Commission's assessments entirely.

4.14 In applying a discount the Commission assumes that the data in question overestimates the impact of the disability being assessed. This is not always the case. For example, there is no evidence to suggest that the Survey of Education and Training data supporting the existing interstate wage assessment overestimates the differences in wage costs between states. Despite this lack of evidence, a discount is applied on the basis that there is uncertainty surrounding the data supporting the assessment.

4.15 The Territory's view is that if a data set is deemed the best available indicator for a particular disability or assessment category, then the data should be used to assess that disability or category. Where there are data deficiencies in the Commission's methodology, the priority should be to address data quality rather than ignore or discount conceptually sound and unavoidable disabilities because of data limitations.

4.16 Similarly, the Commission's use of arbitrarily-sized discounts is not an evidenced-based approach to achieving equalisation. If the Commission is satisfied that a disability exists, and has sourced the best available data set to measure it, the Territory does not consider that it is appropriate to discount the impact of that disability by up to 50 per cent.

4.17 While the Territory acknowledges that there can be limitations to the scope and reliability of existing data, the Territory is committed to assisting the Commission in seeking data improvements wherever possible.

4.18 Should the Commission decide to proceed with discounting, the Territory supports a review of the current use of discounting in the Commission's assessments, with the view to minimising the impact of discounts, particularly where a strong conceptual case for differential assessment has been established.

5

Implementation Issues for Contemporaneity

Backcasting

Staff propose to recommend the Commission:

- continue backcasting major changes in Commonwealth-State financial arrangements, but only if the changes can be made reliably and they are material.

5.1 The Territory supports the Commission staff's proposal to continue backcasting major changes in Commonwealth-State financial arrangements where this can be achieved reliably and data changes are material.

5.2 Backcasting major changes in Commonwealth-State financial arrangements that are agreed as part of national reforms or through changes to the IGAFFR is reasonable and would ensure the Commission's assessment remains contemporary.

Use of Non-Annual Lagged Data

Staff propose to recommend the Commission:

continue to use data which best reflect States' likely circumstances in the year of application.

5.3 The Territory supports, in principle, the use of the most up-to-date data, subject to the data being reliable and fit for purpose.

5.4 As noted in the Territory's first submission, where the use of up-to-date data highlights a deficiency in the Commission's methodology then consideration should be given to a method change, particularly where a change in data results in a material redistribution of GST in the absence of any significant change in disabilities.

6

A global Revenue Assessment

2010 Revenue Approach, State Views & Issues and Analysis

Staff propose to recommend the Commission:

- not adopt a global revenue assessment for the 2015 Review because a tax by tax approach better captures States' revenue capacities.

6.1 The Territory supports the Commission staff's proposal not to adopt global revenue assessments. Analysis provided by the Territory in its submission to the first and second interim reports of the Review of GST Distribution identified significant issues in the use of global indicators such as Household Disposable Income (HDI) and adjusted Gross State Product (GSP) for the purposes of achieving equalisation.

6.2 Firstly, broad indicators do not accurately reflect states' tax bases because measures such as HDI and GSP are measures of national income, and are better determinants of Commonwealth taxes such as capital gains, income tax and company tax.

6.3 Secondly, a comparison of states' revenue raising capacities using broad indicators with states' assessed revenue raising capacities under the Commission's current tax by tax approach showed that the Australian Capital Territory would be assessed as having the highest capacity to raise own-source revenue of all jurisdictions. This is considered nonsensical given that the Australian Capital Territory does not have capacity to raise mineral royalties and it has a large government sector which is exempt from payroll tax.

6.4 The Territory found that such indicators do not reflect 'what states do', are subject to significant revisions and are not reliable measures of relative differences in states' fiscal capacities. As such, the use of global indicators would not provide stability of states' GST revenue shares over time.

6.5 The Commission has consistently noted that a global approach would not align with 'what states do' as it would measure states' revenue raising advantages and disadvantages on a theoretical basis, rather than in the context of the practical constraints faced by the states in raising revenue and the tax instruments they used.

7 Broad Indicator Assessments

2010 Review Approach, State Views & Issues and Analysis

Staff propose to recommend the Commission:

- use the broadest possible indicator that is consistent with the legal tax base and what States collectively do.
- continue making adjustments for differences arising from progressive tax rates, exemptions and thresholds if they reflect what States collectively do and the adjustments would be material.

7.1 Currently the Commission's revenue assessments reflect a tax by tax approach, that is none of the revenue assessments are based on a broad indicator.

7.2 As noted in the Commission staff's paper, broad indicators emphasise the potential revenue base while a tax by tax approach is focussed on the taxable part of the potential revenue base.

7.3 The Territory contends that there are limited applications of broad indicators without having a deleterious impact on equalisation outcomes. Broad economic measures do not reflect how states actually access tax bases and ignore formal and practical restrictions on state taxing powers.

7.4 The Territory supports continuation of the current tax by tax approach as this reflects the legal incidence of the states' tax bases, and therefore how states access their tax bases.

7.5 The Territory supports making adjustments to revenue bases to recognise the limitations in state revenue raising powers. The Commission is required to consider 'what states do' to ensure that their assessments are anchored to a relevant basis. For revenue assessments this requires the Commission to derive an average policy tax base, which includes adjustments for exemptions, thresholds and progressive rates. Excluding these adjustments would render the tax base inaccurate and misleading, as states would be assessed as being able to raise payroll tax from small businesses, raise land tax on the primary place of residence, and raise stamp duty on any transfer. These adjustments should continue to be applied given that the principle of 'what states do' is central to achieving a robust equalisation process.

8

Treatment of Commonwealth Payments

Staff propose the Commission:

- decide the treatment of all in scope payments on a case by case basis using the following guideline:
  - payments for usual State functions and for which expenditure needs have been assessed, including a deliberative equal per capita assessment, will impact on the relativities
- provide examples of the types of payments that would not impact on the relativities, such as:
  - payments specified in the Terms of Reference that they should not affect the relativities
  - payments to fund a purchase by the Australian Government
  - payments through the States to local government or other third parties where the payment does not influence State fiscal capacities
  - payments for which expenditure needs have not been able to be assessed by the Commission.

8.1 The Territory supports the Commission staff's proposed approach. Commonwealth payments that provide states with the financial support to deliver state-type services impact on states' relative fiscal capacities and as such, it is appropriate that they be treated by inclusion.

8.2 The main circumstance where a Commonwealth payment should be excluded is where the payments are designed to address unmet need. As noted by the Commission staff, such payments should be specifically identified in the Terms of Reference as not impacting relativities.

PART 2

This part details the Northern Territory's views on the issues raised in the Commonwealth Grants Commission 2015 Review Proposed Assessments Staff Discussion Paper CGC 2013-07S (Discussion Paper 07S).

1

Payroll Tax

Staff propose to recommend the Commission:

- continue the assessment method adopted in the 2010 Review, including:
  - an adjustment to exclude the earnings of employees in the general government sector
  - adjustments to exclude the earnings of employees in defence force and embassies
  - an adjustment to exclude payrolls below an average threshold.

1.1 The Territory supports the proposal to continue the payroll tax assessment method adopted in the 2010 Review, including adjustments: for the earnings of employees in the general government sector; to exclude the earnings of employees in defence force and embassies; and to exclude payrolls below an average threshold.

1.2 The Territory's view is that the current adjustments to the assessed payroll tax base reflect average state policy, are material, and can be made reliably with available data.

1.3 Discussion Paper 07S notes that New South Wales has proposed that the adjustment for the tax-free threshold for small businesses should be removed because it contravenes policy neutrality, is unnecessarily complex, and that removing the threshold would allow states' different thresholds to be reflected through the overall average tax rate in the same way differences in their tax rates are averaged.

1.4 The Territory does not support New South Wales' proposal. All states' payroll tax policies include thresholds to provide exemptions for small businesses and, as such, the adjustment for tax-free thresholds reflects average state policy and is consistent with the principle of assessing states' revenue capacities based on 'what states do'.

1.5 If the adjustment was removed, the revenue capacities of states with relatively higher numbers of small businesses would be overstated, which would not be consistent with achieving equalisation. The Territory estimates that removing the tax-free threshold would increase the Territory's revenue raising capacity in the category well above average. This is counterintuitive given the size of the Territory's labour market and substantial proportion of firms below the tax-free threshold. The Territory considers that the existing adjustment is necessary, conceptually simple, and is based on contemporary, reliable and fit-for-purpose data.

2

Land Tax

Staff propose to recommend the Commission:

- continue the assessment method adopted in the 2010 Review with one exception, that it differentially assess metropolitan improvement levies
- source its land data from SROs, unless States can provide evidence of an improvement in Valuers-general data
- make adjustments for:
  - the progressivity of tax rates
  - the ACT because it does not aggregate values by landholder
  - the Northern Territory because it does not levy land tax
  - the comparability of SRO data by applying a medium discount (25%).

2.1 The Territory generally supports the Commission's proposal to continue to assess states' land tax revenues based on the 2010 Review methodology. The current approach provides a contemporary assessment that reflects average state policy and uses the most fit-for-purpose data available.

2.2 However, the Territory does not support the proposed continued application of a 25 per cent discount to the land tax category, on the basis that there is no evidence which indicates that the error arising from the proposed assessment is biased towards an equal per capita distribution rather than a differential outcome.

2.3 Further, the Territory does not support the proposal to include revenue raised from metropolitan levies under the general land tax assessment on the basis that metropolitan levies are not average state policy.

The Source of Land Value Data

2.4 The Territory notes that there are advantages and disadvantages to using either State Valuer-General (VG) or State Revenue Office (SRO) data for the land tax assessment.

2.5 The Territory is not aware of significant improvements in VG data since the 2010 Review that would avoid the need to approximate principal place of residence and landholdings by owner. The Territory therefore considers SRO data to be most fit for purpose for this assessment as it more closely aligns with the actual land tax base and supports a progressivity adjustment.

2.6 The Territory acknowledges that the use of SRO data necessitates an estimate of the Territory's notional land tax base and accepts the use of VG data to estimate an appropriate land tax base for the Territory.

2.7 Some states are concerned that given the difficulty in providing reliable data for the value of properties below the tax-free threshold, there is a risk for perverse incentives in state compliance activity. The Territory does not accept that states deliberately avoid compliance activity for the purpose of under-reporting their revenue bases to the Commission.

2.8 The Territory does not support Western Australia's and Queensland's proposals to assess states' land tax-raising capacity based on broad indicators or a global revenue assessment because these approaches do not reflect 'what states do'. Further, analysis provided by the Territory in its submission to the first and second interim reports of the Review of GST Distribution identified significant issues in the use of global indicators such as Household Disposable Income and adjusted Gross State Product for the purposes of achieving equalisation.

Discounting

2.9 While the Territory acknowledges that there are data limitations associated with the land tax assessment, the Territory does not accept that the use of discounting lessens these limitations.

2.10 The Territory does not support discounting on the basis that there is no evidence which indicates that the error arising from the proposed assessment is biased towards an equal per capita distribution rather than a differential outcome.

Treatment of Metropolitan Levies

2.11 The Territory does not support the proposal to include revenue raised from metropolitan levies in the Land Tax category. As outlined in the Territory's response to Discussion Paper 06S, the Territory does not support the Commission staff proposal to assume that all taxes, raised by one or more states, are average policy. In view of this the Territory considers that metropolitan levies are not average state policy, as they are only imposed by two states, and including the levy would contravene the principle of 'what states do'.

2.12 Further, the proposal requires the Commission to use judgement to determine the degree of similarity of a new tax to existing taxes, and the Territory is concerned that this would increases the risk of introducing policy influence into the assessments.

3

Stamp Duty on Conveyances

States views are sought on:

- which data adjustments should be made and how they should be made
- your State's policy in relation to 'off the plan' purchases, transfers of entities that owned land, unit trusts and non-real property.

Data Adjustments

3.1 The Territory supports the use of adjustments to reflect differences in the types of property subject to duty between states, where differences are material. The Territory supports the general approach taken in the 2010 Review to harmonise states' tax bases for the assessment, which increased or decreased states' tax bases to align with average state policy.

Northern Territory Policies

3.2 Under Northern Territory Revenue Policy, 'off the plan' purchases are dutiable on the completed value of the dwelling. Similarly, transfers of entities that owned land are dutiable.

3.3 The Territory does not generally impose duty on the transfer of units in a unit trust. An exception to this is when the unit trust holds Territory land valued over $500 000 and a 50 per cent interest in the trust is acquired.

3.4 Non-real property transfers remain dutiable in the Territory, however, the Territory has indicated its intention to abolish these duties when budget circumstances allow.

Staff propose to recommend the Commission:

- continue the assessment method adopted in the 2010 Review this would include:
  - an adjustment to exclude corporate reconstructions and sales of major State assets. These would continue to be assessed equal per capita
  - an adjustment for the progressivity of tax rates
  - pending State views, adjustments for differences in the scope of transactions subject to duty.

3.5 The Territory supports the proposal to continue the assessment method adopted in the 2010 Review including: the equal per capita assessment of corporate reconstructions as the stamp duty on these transactions are usually refunded by state governments to encourage economic reform; the equal per capita assessment of the sale of major state assets as these transactions reflect differences in state policies; and an adjustment for the progressivity of tax rates which reflects the progressive imposition of stamp duty across all states.

3.6 The Territory supports the Commission adjusting state revenue bases to reflect differences in the scope of property subject to duty, consistent with the principle of 'what states do'.

3.7 As states provide the data for the value of property subject to stamp duty, the unadjusted revenue base would reflect state policy rather than average policy, therefore adjustments are required and are appropriate to ensure the revenue base is policy neutral.

4

Insurance Tax

Staff propose to recommend the Commission:

- providing it is still material, continue the assessment method adopted in the 2010 Review with one exception. It would cease the adjustment to exclude premiums relating to workers' compensation
- the revenue base would be total premiums paid to insurers on the risks insured in each State with adjustments to exclude:
  - reinsurance premiums
  - fire and emergency services levies collected by insurance companies.

4.1 The Territory supports the continuation of the 2010 Review Insurance Tax assessment, including the adjustments to exclude reinsurance premiums and fire and emergency services levies, which reflect average state policy.

4.2 The Territory does not support the proposal to amend the 2010 Review methodology to include premiums relating to workers' compensation insurance in the Insurance Tax category, instead of in the Other Revenue category, on the basis that only two states levy Insurance tax on workers' compensation insurance premiums, and therefore it is not average state policy to do so.

4.3 The principle of assessing states' revenue capacities based on average state policy is a fundamental principle of equalisation, and as such, the Territory's position is that these revenues should continue to be assessed on an equal per capita basis in the Other Revenue category.

4.4 Commission staff note that the Insurance Tax assessment could fall under the proposed materiality threshold for disabilities, if the proposed adjustments are made to the assessment. Further to the Territory's opposition to these adjustments, the Territory's position on materiality thresholds can be found in the response to Discussion Paper 06S.

Public Insurer Premiums Data

4.5 Discussion Paper 07S notes that national data on total insurance premiums paid to public insurers is no longer available. The Territory's view is that the Commission should continue to source this data from states, as occurred in the 2014 Update. The Territory notes that it will continue to provide this, and any other data required wherever possible.

5 Motor Taxes

Staff propose to recommend the Commission:

- continue the assessment method adopted in the 2010 Review.

5.1 The Territory supports the proposal to continue the assessment method for Motor Taxes adopted in the 2010 Review. The current methodology adequately captures ‘what states do’, is simple and transparent, and the size of the category is sufficient to warrant a differential assessment.

6

Priority Issue Mining Revenue

Staff seek State views on:

- how likely are States to act on the incentives that would be inherent in a mineral by mineral assessment?
- what lessons can the Commission draw from the recent decision by some States to raise their royalty rates?

6.1 Assessing each state's capacity to raise mining revenue within the Commission's guiding principles of 'what states do' and policy neutrality continues to be a major challenge. The difficulties stem from the uneven distribution of minerals across states, differences in the composition and quality of minerals in each state and different royalty rates applied to each mineral.

6.2 A mineral by mineral assessment of mining revenue is likely to best reflect 'what states do', however this approach raises concerns regarding policy neutrality because the individual policies of some states can directly affect the GST they receive.

6.3 The issue as to whether the GST distribution influences each state's mining royalty rates appears to be theoretical rather than practical. The Territory's view is that while states do consider the GST implications of their mining revenue policies, it is not a material consideration. Rather, in designing policy on royalty rates, states generally take into account the potential implications on the budgetary position, the economic environment, living standards and the domestic competitiveness of the state.

6.4 Notwithstanding the above, the Territory supports the Commission's consideration of a grouping approach for the mining revenue assessment to remove any potential for grant design inefficiencies.

6.5 The recent decisions by some states to change their mining royalty rates despite the known GST impacts disproves the notion that equalisation influences state decision-making and demonstrates that there are more pertinent considerations behind state revenue policies.

6.6 For example, in deciding to increase the royalty rate for iron ore fines, Western Australia noted that the aim was to align the royalty rate for iron ore fines with that applying to other types of iron ore and that this policy change reflected "the fact that iron ore fines account for the majority of the state's iron ore shipments and are no longer considered an inferior product in the global market."[1]

Staff seek State views on:

- the advantages or disadvantages of a grouping approach? If a grouping approach is adopted:
  - which classification of minerals should the Commission use?
  - what criteria should the Commission use to decide between grouping based on royalty rates or grouping based on types of minerals?
  - how many groups should it use and which minerals should be grouped together?
  - how could the Commission improve the policy neutrality of the assessment? Should it freeze the groups for the duration of the review?
- the advantages or disadvantages of an external standard? If an external standard is adopted:
  - whether it should be based on historical State royalty rates or on international experience?
  - how often should the external standard be updated?

6.7 In Discussion Paper 07S, Commission staff note that the main issue with the mining revenue assessment is to find an appropriate balance between fiscal capacity, what states collectively do and policy neutrality. The Territory believes that this is best achieved through a grouping approach.

6.8 The two tiered mining revenue assessment approach adopted for the 2010 Review was intended to remove state policy influences on the average royalty rates for individual minerals. However, in the Territory's view, this approach went too far and had unintended consequences.

6.9 The mineral by mineral approach and the two tiered approach represent two opposite ends of the spectrum. The mineral by mineral approach best reflects 'what states do' but raises policy neutrality concerns, while the opposite is true for the two tiered grouping approach.

6.10 The Territory believes that to achieve an appropriate balance between the guiding principles the number of groupings in the mining revenue assessment should be increased, to between three and five. This would also have the added benefit of reducing the GST share effects when a mineral moves between groups.

6.11 On face value, grouping like minerals appears sensible. However, if the average royalty rates applied to minerals within a group are vastly different this can lead to unintended results. That is, the effective rate applied to one mineral in a group could be too high compared to 'what states do' and too low for another mineral in the same group.

[1] Western Australian State Budget 2011-12, Budget Paper 3, p.74

6.12 For this reason, the appropriate approach appears to be to group minerals based on royalty rates.

6.13 The Territory strongly rejects consideration of adopting an external standard in the mining revenue assessment. Using historical royalty rates as an external standard would not address the shortcomings of the current groupings, while an external standard based on international experience would not be relevant to the mining revenue situation in Australia nor would it reflect 'what states do'.

6.14 The Territory strongly opposes any proposal to discount the mining revenue assessment. This appears to be a quick-fix solution to address concerns relating to the mining revenue assessment. However: this approach would not be transparent; would be unlikely to cope with changes in state circumstances; and would rely too heavily on the Commission's judgement to determine the appropriate size of the discount.

6.15 The Territory is mindful of the macroeconomic context in which the need for reforms to the mining revenue assessment have arisen. In recent years, concerns about the relatively large GST redistribution impacts of the mining revenue assessment have been heightened by the mining investment boom, particularly in relation to iron ore. It is important to recognise that the redistribution in the mining revenue assessment reflects the highly uneven distribution of some mineral resources between states.

6.16 As the mining investment boom has arguably passed its peak, the Territory expects that the mining revenue assessment will become less of an issue in the HFE system in future. Notwithstanding this, the Territory welcomes any efforts to improve this assessment.

7

Other Revenue

Gambling Revenue

States views are sought on:

- whether there are data or approaches that could support both a conceptual case and material assessment of gambling revenue.

7.1 The Territory would support a differential assessment of gambling revenue if a sound basis for assessment could be developed. However, given the: variance in states' gambling policies which makes a level-of-activity approach difficult; the lack of evidence linking socio-demographic composition to propensity to gamble; and the immateriality of broad indicator approaches, the Territory does not consider that a differential assessment is appropriate, in the absence of more suitable data.

Fire and Emergency Services Levies

States views are sought on:

- the basis on which States raise fire and emergency services levies
- whether these levies are user charges or taxes
- whether these levies are similar to land taxes and should be assessed with them
- whether States have data that would allow an assessment based on the capital or improved value of properties.

7.2 The Territory does not impose a fire and emergency services levy. However, as fire and emergency services levies are imposed by the majority of states, it is average policy and should be assessed differentially if possible.

7.3 The Territory considers that fire and emergency services levies should be classified as a tax, rather than a user charge. This is in view of most states imposing the levy on an ad valorem basis, on the value of land, and only some states attaching a risk premium to certain locations. This is not analogous with user charges, which only applies to service users.

7.4 The Territory is of the view that the fire and emergency services levy could be reliably assessed in the Land Tax category. This is consistent with the principle of 'what states do'. Notwithstanding that land tax is usually assessed on the unimproved value of land, while fire and emergency services levies are usually assessed on the improved value of land, there is a natural overlap between the revenue bases of the two taxes.

7.5 The Territory would support adjustments to the assessment to account for the expanded scope of property types, such as principal place of residence which is not currently included.

7.6 The Territory notes that it does not have data that would allow an assessment based on the improved value of properties in the Territory.

User Charges

States views are sought on:

- whether an assessment of user charges in total is conceptually valid and if so, whether there is evidence to support it
- how a reliable and material assessment could be constructed, including the data that would be used to measure revenue capacity.

7.7 The Territory supports the conceptual validity for an assessment of states' total user charges revenue. All states levy user charges, however the drivers of states' capacities to raise the different user charges revenues vary significantly, and as such, an appropriate indicator of states' revenue bases has not been found.

7.8 For example, the Territory does not consider that a state's capacity to recover user charges for National Parks would necessarily be similar as its capacity to recover court costs. The Territory's view, therefore, is that a differential assessment of user charges currently assessed in the Other Revenue category would not be appropriate on an aggregate level. The Territory also acknowledges that the user charges assessed in the Other Revenue category would not be material if assessed individually.

7.9 The Commission staff discussion paper examines the appropriateness of adopting Gross State Product (GSP) or Equivalised Household Income (EHI) as indicators of states' abilities to raise user charges revenue, however, neither measure has a significant correlation with states' ability to raise user charges revenue, and both data sets have significant deficiencies that make them unfit for use.

7.10 The Territory's view is that, given the significant data issues with GSP and EHI as indicators of states' abilities to raise user charges revenue, the continuation of an equal per capita assessment within the Other Revenue category is the most appropriate course of action.

Other Issues considered and settled

Staff propose to recommend the Commission:

- continue the assessment method adopted in the 2010 Review, that is, to have a residual revenue category assessed EPC
- the revenues classified to this category would be revenues for which a reliable or material assessment could not be developed.

7.11 The Territory supports the continuation of the assessment method adopted in the 2010 Review to assess residual revenue on an equal per capita basis.

7.12 At a principle level, the Territory supports efforts to establish differential assessments for components of other revenue when feasible.

8

Schools Education

Staff propose to recommend the Commission:

- use actual enrolments for all school age groups as its broad measure of use in the Schools education assessment.

8.1 In the 2010 Review, the Commission assessed school education based on three enrolment groups due to differences in state policies on the age of entering and leaving school. Based on student ages, the enrolment groups were:

- pre-compulsory enrolments – students aged 5 and under;
- compulsory enrolments in all states – students aged 6 to 14; and
- post-compulsory enrolments – students aged 15 and over.

8.2 Population aged 5 years in each state was used as a proxy to derive pre-compulsory enrolments. For the 2015 Review, Commission staff propose to use actual pre-compulsory enrolment data, on the basis that all states are moving towards a standardised school commencement age.

8.3 While the Territory acknowledges that states are progressing towards standardising the commencement age for schooling, this has yet to be fully implemented. The Australian Curriculum, Assessment and Reporting Authority (ACARA) reports that in 2011, there were five different policies on the minimum age for commencing Year One across Australia. The minimum age at which a child can commence schooling ranges from six years old by 1 January (Tasmania) to six years old by 31 July (New South Wales), with varying reference dates in between for the remaining states.

8.4 While differences in state policies continue to exist, this will mean that actual pre-compulsory enrolment data is not policy neutral. Consequently, the Territory is of the view that until school commencement ages have been standardised, the Commission should continue to use the population characteristics of 5-year-olds as a proxy for pre-compulsory enrolments.

8.5 The Territory notes that the minimum school leaving age has been standardised across states, and that the National Curriculum has been agreed by all states. On this basis, the Territory considers that actual enrolment data is appropriate for assessing compulsory and post-compulsory enrolments.

Staff propose to recommend the Commission:

- use cost weights derived from My School data if cost weights based on ‘what states do’ form part of the Schools education assessment.

8.6 The Territory supports the Commission applying cost weights to recognise the higher costs of providing school education to disadvantaged students. This will become a more pertinent issue with the implementation of changes to school education funding.

8.7 Under the current National Education Reform Agreement (NERA), states are required to adopt a needs based funding model for their own funding that recognises the higher costs of disadvantaged students including but not limited to: students in remote schools; small schools; Indigenous students; students with low socio-economic status; students with limited English proficiency; and students with disability.

8.8 Data collected on the MySchool website is largely consistent between states and therefore is considered to be a suitable basis for identifying and quantifying the additional costs of providing school education to disadvantaged students. The Territory is encouraged by the work being undertaken by the Commission in this area.

Staff propose to recommend the Commission:

- continue to assess the Commonwealth payments for non-government schools under NERA so they will not affect the relativities.

8.9 In general, the Territory supports the Commission staff position to exclude Commonwealth payments to non-government schools. These payments are provided through state governments and do not impact on state budgets. However, the Territory’s position is based on the current Commonwealth policy. Once the Commonwealth’s education funding policy is finalised, the Territory may need to review its position.

State views are sought on:

- the average State policy for funding non-government schools after the introduction of NERA
- how this should be reflected in the assessment of State funding for non-government schools
- whether the ‘no unwinding’ requirement has any implications for how the Commission assesses State non-government school expenses.

8.10 The Territory is not able to provide substantive comment on this issue at this stage due to uncertainty about Commonwealth school funding policy.

Staff propose to recommend the Commission:

- use 2011 Census data to update the data used in the school transport assessment.

8.11 The Territory supports the use of 2011 Census data to update the state population data used in the school transport assessment, as this would ensure the contemporaneity of the assessment.

9

Priority Issue National Education Reform Agreement (NERA)

State views are sought on:

- whether the staff interpretation of the 'no unwinding' clause, including the extent to which the Commission should interpret this clause, is consistent with the intention of the Terms of Reference
- which of the 3 options for implementing the 'no unwinding' clause most appropriately achieves HFE and satisfies the requirement of the Terms of Reference.

9.1 The Commission staff proposals regarding the NERA are based on the NERA funding arrangements as they stood in October 2013. The Commonwealth subsequently announced that from 2015, it will implement a new schools funding model to replace the Better Schools plan under the NERA. As a result of the change in Commonwealth policy, Commission staff have advised that the proposals in Discussion Paper 07S are no longer applicable, and that further advice will be provided to states once the Commonwealth's new policy is finalised and fully understood.

9.2 The following comments reflect the Territory's position on the proposals presented in the Discussion Paper as it stood in October 2013. The Territory reserves the right to amend its position on the Commission staff proposals once issues relating to the implementation of the Commonwealth's schools funding policy have been finalised and further direction provided by the Commission.

Interpretation of the 'no unwinding' clause

9.3 In interpreting Clause 76 of the NERA (the 'no unwinding' clause), Commission staff considered that the recognition of educational disadvantage relates to the Schooling Resource Standard (SRS) loadings, not to base funding. This is consistent with the Territory's understanding of the 'no unwinding' principle and appears to accord with the Commonwealth's intended definition.

9.4 In 2012, the Commonwealth's official response to the Review of Funding for Schooling stated that the Commonwealth envisaged a schools funding model in which "schools with students who face additional challenges would be entitled to extra funding based on six categories: kids from low income families, Indigenous students, students with disability, kids with limited English skills, the size of the school, and those who attend rural and remote schools."[2]. The Territory therefore considers the proposed interpretation of the 'no unwinding' clause is consistent with the Terms of Reference.

Assessment options

9.5 Commission staff presented the following options for the treatment of NERA funding:

- Option 1 – exclusion of Commonwealth funding for loadings and the expenditure it finances;
- Option 2 – an assessment based on 'what states do'; and
- Option 3 – an assessment based on the SRS.

The Territory believes that the simplest way to give effect to the 'no unwinding' clause of the NERA is to implement Option 3, with adjustments to include disabilities not recognised by the NERA loadings; namely administrative scale, interstate location costs and student transport expenses. The Territory concedes that this option would not necessarily adhere to 'what states do', as states are not required to fund schools on the same basis as the NERA model. However, due to the complexity of the NERA loadings and existing NERA funding agreements, none of the options available would be consistent with both the 'no unwinding' clause and the 'what states do' principle.

---

[2] Department of the Prime Minister, Press release dated 3 September 2012

10

Post-Secondary Education

Staff propose to recommend the Commission:

- move all VET expenses in the Services to industry category to the Post-secondary education category.
- collect data from the States on the costs of courses provided by private RTOs and other VET providers to determine if a cost weight should be applied to private RTOs.

10.1 In recognition of the growth in vocational education and training (VET) services offered by organisations not registered as Training and Further Education (TAFE) providers, Commission staff propose to move all VET expenses in the Services to industry category to the Post-secondary education category.

10.2 In the 2010 Review, the Commission allocated expenses relating to VET services provided by non-TAFE providers to the Services to industry category due to concerns about the reliability of the government purpose classification data to which these expenses were classified. It is unclear whether the Commission still holds these concerns. However, on a conceptual basis, the allocation of non-TAFE VET expenses to a category other than Post-secondary education seems counterintuitive. The Territory therefore considers it appropriate to move these expenses to the Post-secondary education category, provided the same disabilities will continue to be assessed.

10.3 The Territory does not object to the proposal to collect data on the costs of courses provided by private registered training organisations (RTOs) if reliable data is available. In this regard, the Territory notes that the Commission did not proceed with a draft data request to states, after states indicated that they were not able to provide the required data. The Commission has since advised that data published by the National Centre for Vocational Education Research (NCVER) is able to be used to determine if a separate cost weight is appropriate for private RTOs. The Territory understands that states will be given an opportunity to provide comments if Commission staff believe that the NCVER data provides a case for a separate cost weight.

11

Public Hospitals

Staff propose to recommend the Commission:

- adopt a Public hospital services category that includes expenses on admitted patients, emergency departments and outpatient services.

11.1 Under the National Health Reform (NHR) Agreement, the Commonwealth, State and Territory Governments have joint responsibility for funding public hospitals to meet the growing demand of health services.

11.2 On the basis that the new framework for determining national health funding, in accordance with NHR, captures all the services/activities provided/delivered within public hospitals and that these services/activities relate to admitted patient, emergency department and outpatient services, the Territory considers the Commission staff's proposal to assess expenditure for these activities in a single Public Hospital Services category as reasonable.

Staff propose to recommend the Commission:

- for admitted patients
  - continue to assess these expenses by applying the same disabilities as in the current assessment, using NWAU data obtained from IHPA
  - remove the adjustment for the lack of private hospital provision in Darwin given the shift in geography from SARIA to ARIA
- for emergency departments
  - use the same assessment approach as used for the admitted patients component
  - compare data from IPHA and AIHW to determine the extent of any bias, and apply an additional adjustment if the bias is material
- for outpatient services
  - use the same assessment approach as that proposed for emergency departments
- for non-hospital based patient transport expenses
  - continue to assess these expenses separately based on data provided by States.

Use of admitted patients assessment approach applying same disabilities

11.3 The Territory supports the Commission staff's view that it seems logical for the assessment for hospital services to reflect the national whole-of-hospital funding approach and that the Commission staff employ the same expenditure methodology to assess emergency department and outpatient services as that applied to admitted patients. It is understood that this approach would result in national average costs for admitted patients, emergency department and outpatient services being calculated for population groups cross-classified by age, Indigenous status, SES and location of patient residence. It is considered that this approach will be relatively robust, comprehensive and will ensure the assessment structure for health services is contemporaneous.

11.4 The proposal to use the same assessment approach for all three services is considered an improvement on the current assessment for emergency department and outpatient services. It is anticipated that the proposed approach should be able to better capture the use of health services by population groups particularly due to the greater disaggregation of expenses across population sub-groups for emergency department and outpatient services.

11.5 Commission staff propose to assess Public Hospital Services expenses differentially by age, Indigeneity, location and SES. This is strongly supported by the Territory, and discussed in more detail below.

Use of National Weighted Activity Unit

11.6 The Territory supports replacing the use of Australian Institute of Health and Welfare (AIHW) data in assessing state expenditure in relation to admitted patients with National Weighted Activity Unit (NWAU) data determined by the Independent Hospital Pricing Authority (IHPA). This would ensure consistency of data with that provided under the NHR Agreement.

11.7 While both the IHPA and AIHW use the same specifications for hospital data, that is the National Minimum Dataset Specification, it is understood that IHPA data is further governed by the Australian Public Hospital costing standards. This results in a significant difference between the quality of the IHPA data and the AIHW data. The use of NWAU data should result in improved patient cost data particularly in terms of consistency and reliability.

11.8 The NWAU provides a way of comparing and valuing each public hospital service (admission, emergency department presentations or outpatient episode), by weighting it for its clinical complexity. The average hospital service is worth one NWAU – while the most intensive and expensive activities are worth multiple NWAUs and the simplest and least expensive are worth fractions of an NWAU. After initial weights are applied, the subsequent base NWAUs are adjusted for factors such as Indigeneity, regional and remote, paediatric, Intensive Care Unit, and private patient adjustment.

11.9 The Territory considers that Commission staff should use the adjusted NWAU data which reflects the adjustments and price weights applied to the base NWAU. This would ensure that the differential cost and use of providing services to the population subgroups is appropriately captured, consistent with the current approach to assessing admitted patient expenditure.

ARIA/SARIA adjustment

11.10 In the 2010 Review the Commission used the State based Accessibility/Remoteness Index of Australia (SARIA) geography classification to disaggregate state populations. The Territory successfully argued for an adjustment to be made in recognition that Darwin has the characteristics of a moderately accessible town rather than that of a highly accessible/major city in terms of private sector provision of admitted patient services.

11.11 If the Commission adopts the ARIA classification and in accordance with this classification Darwin is considered an Outer Regional location, the Territory would accept on this basis the removal of the current adjustment for the lack of private hospital provision in Darwin given the same result will effectively be achieved with the shift in geography from SARIA to ARIA.

Data for assessing Emergency Department and Outpatient services

11.12 The Commission staff notes, based on IHPA advice, that detailed activity and cost data for emergency department and outpatient services is currently not available for all hospitals and that the data for small hospitals is limited to total episodes. Notwithstanding this, Commission staff consider there is merit in using the partial data from IPHA (for the larger hospitals) and the option to allocate the costs for the small, block funded hospitals based on the population profile of the larger hospitals.

11.13 Commission staff indicate that this approach may underestimate the user/cost profile of the small hospitals and that it will analyse and compare the IHPA data with AIHW data to determine any extent of bias. If the bias is large/material, Commission staff may consider allocating costs based on population profiles of similar sized hospitals in similar regions.

11.14 The NHR Agreement recognises that some public hospitals cannot be appropriately funded through an activity based funding model and that these hospitals should be block funded. This approach in principle applies to small hospitals in regional and remote areas and recognises that these hospitals cannot achieve economies of scale and that costs per activity are higher compared to large hospitals.

11.15 As such, it would not be appropriate to apply the same user and cost profile of large hospitals to the small hospitals.

11.16 In 2012-13 the percentage of admitted patient separations by Aboriginal status for Royal Darwin Hospital was around 55 per cent. This compares to the percentage of admitted patient separations by Aboriginal status for the Tennant Creek Hospital (around 95 per cent) and Gove District Hospital (around 70 per cent). It is reasonable that the emergency department and outpatient services user profile would show similar results.

11.17 This is further supported in the analysis outlined in Table 11.1 below which shows that the user profile of the Territory's small hospitals is very different to that of the Territory's larger hospitals, with a significantly higher percentage of Indigenous, remote and very remote, and low SES populations using the small hospital services.

Table 11.1: Selected population characteristics of SA3s with block and large hospitals

	Indigenous	Remote and Very Remote	SEIFA (lowest quintile)
	%	%	%
NT (Block)	62.4%	100.0%	66.6%
NT (Large)	23.1%	36.20%	21.7%
Ratio	2.7	2.76	3.06
Queensland (Block)	6.0%	10.0%	25.0%
Queensland (Large)	3.2%	2.0%	18.5%
Ratio	1.86	4.93	1.35
Tasmania (Block)	5.1%	5.1%	43.3%
Tasmania (Large)	3.2%	0%	28.7%
Ratio	1.62		1.51

Source: ABS Table Builder 2011

11.18 These results are largely explained by the relatively poor health status of Indigenous people in the Territory and the higher proportion of Indigenous people living in the catchment areas of the rural and remote hospitals than in the more urbanised Greater Darwin area.

11.19 Further, the data concerns raised by Commission staff are not relevant to the Territory, which provides the same level of patient data to IHPA for Tennant Creek and Gove hospitals as provided for Royal Darwin, Katherine District and Alice Springs hospitals.

11.20 The Territory proposes that the Commission reviews this cost/activity data as a basis for determining the user and cost profile of the Territory's block funded hospitals, and requests similar data from similarly sized hospitals in regional and remote areas in other states.

11.21 If the Commission decides not to use actual data for the small hospitals then the Territory contends that an adjustment needs to be made to reflect the higher use of emergency department and outpatient services by low SES and Indigenous people, who reside primarily in remote/very remote locations.

Patient Assisted Travel

11.22 The Territory strongly agrees with Commission staff that patient transport expenses, aero-medical and patient assisted travel should continue to be separately assessed in the Public Hospital category to reflect the high proportion of expenses incurred on behalf of remote and very remote patients.

11.23 As the Commission staff note, a strong conceptual case for differentially assessing these expenses was established during the 2010 Review by Western Australia, Queensland and the Northern Territory.

11.24 In the 2010 Review the Territory demonstrated that Patient Assisted Travel Scheme (PATS) expenses for people from remote and very remote areas are incurred at nearly twice the rate that they are admitted to hospital and that total patient travel expenses are significantly higher (75 per cent) than the admitted patient rate.

11.25 These characteristics remain relevant to the 2015 Review. Remoteness is a primary challenge in the delivery of specialist health services to the Territory's population and assisted patient travel enables remote residents to access these services. Table 11.2 details patient travel costs by program for 2012-13.

11.26 Assessing these costs based on state provided data remains the most appropriate approach given issues with alternative data sources, such as AIHW data, due to a narrower scope and inconsistency in the way jurisdictions report transport expenses in this collection.

Table 11.2: Patient Travel Costs by Program – Northern Territory 2012-13

	$M
Patient Assistance Travel Scheme (PATS)	29 587
Aerial Medical Service	28 290
Royal Flying Doctor Service	3 563
St Johns Ambulance	21 669
Expenses associated with doctors accompanying patients	1 782
Total	84 891

Source: Northern Territory Department of Health

11.27 The Territory will provide relevant data as part of the Commission staff's formal data request for patient transport expenses.

Staff propose to recommend the Commission:

- maintain the SDC population groups assessed in the 2010 Review, namely Indigeneity, age, SES and remoteness
- disaggregate age into 5 groups instead of 7 groups on materiality grounds.

11.28 The Territory strongly supports the Commission staff's view that the current socio-demographic composition characteristics remain the key drivers of the cost of healthcare services across states and that disaggregating state populations by age, Indigeneity, socio-economic status and remoteness is appropriate.

11.29 The Territory's demographics create unique challenges in delivering healthcare services. The Territory has a relatively small population, with a higher proportion of people living in remote and very remote areas compared to other states. Almost 30 per cent of the Territory's population is Indigenous, with around 70 per cent of this Indigenous population living in remote and very remote areas.

11.30 In 2012-13, the Territory's Indigenous population accounted for 70 per cent of all hospital admitted patient separations. This population group experience a high burden of disease which is attributable to social determinants such as low educational attainment, high unemployment and overcrowded housing. The second Australian Burden of Disease (BOD) study prepared by AIHW reported that in 2003, the Territory had the highest BOD among all states and an age standardised rate 50 per cent higher than the Australian average. These factors impact significantly on the use and cost of providing health care services in the Territory.

11.31 Research into Health inequity[3] in the Northern Territory concluded that socioeconomic disadvantage is a shared common denominator for the leading causes of deaths and principal diagnoses of hospitalisations for the Territory population. The results of this research demonstrate a strong inverse association between SES and both mortality and morbidity rates. Mortality and morbidity rates in the low SES group were approximately twice those in the medium SES group, which were in turn 50 per cent higher than those in the high SES group. Residents in remote and very remote areas experienced higher mortality and hospital morbidity than non-remote areas. At least 25-30 percent of the gap between Indigenous and non-Indigenous health outcomes has been explained by measurable indicators of socioeconomic disadvantage.

11.32 Commission staff propose to maintain the current level of disaggregation for all but one of the population characteristics, with the age groupings reducing from 7 to 5 groups. Commission staff indicate that the current disaggregation at the low (younger age groupings) and high (older age groupings) ends of the population distribution do not meet its proposed materiality threshold and that reducing the age groupings to 5 is consistent with its proposal to have a common structure for the classification of age discussed in the Population chapter.

11.33 The Territory supports simplification of the Commission's assessment method where this does not have an adverse or contrary impact on the outcomes of HFE and refers Commission staff to the Territory's views on materiality thresholds in its response to Discussion Paper 06S. In this regard, initial analysis undertaken would seem to support the Commission staff's findings that aggregating the young/old populations does not have a material impact. However, the Territory would like to see the results of the materiality test once this aspect of the Commission's methodology has been finalised and relevant use/cost data for the Public Hospital category has been updated. Should this test show that aggregating the population groups would have a material impact in terms of HFE outcomes, the Territory considers that no change should be made to the current population groupings.

11.34 The Territory strongly supports the use of separate Indigenous and non-Indigenous indexes for measuring low SES. As noted in the Territory's response to Indigeneity, separately assessing Indigenous and non-Indigenous SES should result in a better measure of relative disadvantage within each population and is likely to have a material impact in terms of achieving improved HFE outcomes.

Staff propose to recommend the Commission:

- calculate an economic environment factor based on the number of GP-type services provided in each State and apply the factor to 60% of emergency department expenses.
- calculate an economic environment factor based on the number of specialist type services provided in each State and, as with emergency departments, apply the factor to 60% of outpatient expenses.

[3] Zhao et al. International Journal for Equity in Health 2013, 12:79.

11.35 In the 2010 Review, the Commission assessed the impact of private sector provision on state provided emergency department and outpatient services by applying a subtraction model.

11.36 With the amalgamation of emergency department and outpatient services into a single category with admitted patients, Commission staff no longer view the subtraction model as appropriate. However, Commission staff still consider that the conceptual case for assessing the impact of private sector provision on those services is valid and is proposing to develop an economic environment factor based on the number of GP type services or GP throughput and specialist type services in each state.

11.37 In the 2010 Review the Territory raised concerns with the subtraction model, in particular the assumption that the funding of community and other health services by the Australian, State and Territory governments and the non-government sector are perfect substitutes and that all health needs are currently being met. The Territory argued that it is incorrect to assume that the demand for services between providers is perfectly elastic, particularly in remote areas, as the Territory's health system is relatively underdeveloped/immature and any additional resources tend to unmask previously unmet needs rather than reduce reliance on public funding.

11.38 It is not clear from the information provided by Commission staff whether the proposed economic environment factor will address these concerns. Notwithstanding this, the Territory supports differentially assessing the non-State provision effects of emergency department and outpatient services and the development of an economic environment factor.

11.39 Due to remoteness, the dispersion of the population and absence of alternative health care providers, the Territory's public hospitals fill numerous non-acute care service gaps in the community. This is particularly the case in rural and remote areas where the delivery of health services is known to be extremely difficult.

11.40 It is well documented that Territory health outcomes are considerably poorer than the rest of the nation. However, analysis of Medicare usage (Table 11.3) demonstrates lower per capita use of Medicare services for Territorians compared to the other states. This must therefore be a consequence of poorer access. One driver of poorer access is the low number of GPs in the Territory.

11.41 In 2012-13, the $ benefit per 100,000 population was lowest in the Territory, well below the second lowest (Australian Capital Territory) and only 56 per cent of the national average. This is consistent with data on the number of services per capita for total Medicare. This data supports the Territory's higher need for the provision of public emergency department and outpatient services compared to other states as a result of the low level of private provision.

Table 11.3: $ Benefit per 100,000 population and Number of Services per capital for total Medicare – July 2012 to June 2013

	Benefits ($)	Ratio	No. of Services	Ratio
NSW	88 487 023	1.10	16.1	1.09
Vic	81 933 974	1.02	15.1	1.02
Qld	79 012 615	0.98	14.6	0.99
SA	79 544 780	0.99	14.9	1.01
WA	61 802 651	0.77	11.4	0.77
Tas	72 888 524	0.91	13.8	0.93
ACT	60 239 761	0.75	11.6	0.78
NT	45 125 505	0.56	9.1	0.61
Australia	80 240 071	1.00	14.8	1.00

Source: Internal analysis of Medicare Australia data by the Territory Government's Health Gains Planning Unit

11.42 The Territory contends that the level of substitutability of emergency department services is significantly higher than the 60 per cent proposed by Commission staff and that the environment factor should be applied to a higher percentage of emergency department expenses.

11.43 Table 11.4 below demonstrates that in the Territory the percentage of GP type services, equivalent to an allocation of triage category 4 or 5, is at least 70 per cent for the two larger hospitals and even higher for the Territory's regional hospitals.

Table 11.4: Percentage of GP type presentations[1]

	2008-09	2009-10	2010-11	2011-12	2012-13
	%	%	%	%	%
Alice Springs Hospital	64.5	68.8	71.2	70.6	74.0
Royal Darwin Hospital	73.6	73.3	78.6	73.3	70.1
Total ED attends for large Hospitals	**70.2**	**71.6**	**75.8**	**72.3**	**71.5**
Gove District Hospital	84.7	90.4	86.8	87.5	87.9
Katherine Hospital	92.8	91.9	88.7	83.7	85.3
Tennant Creek Hospital	92.1	92.9	93.4	89.9	90.3
Total ED attends - Other Hospitals	**90.8**	**91.8**	**90.2**	**87.1**	**87.8**
Grand Total - All Hospitals	**76.5**	**77.4**	**80.1**	**76.7**	**76.2**

1 Emergency type visits to ED where the patient allocated triage cat 4 or 5, NT residents only
Source: Northern Territory Department of Health

12

Community Health

Staff propose to recommend the Commission:

- adopt a Community health services category that includes residual expenses on community health centres, public health activities and mental health services
- adopt a direct assessment approach instead of a subtraction model approach.

12.1 The Territory supports the continued assessment of residual community health services, primarily Community health centre services, Public health services, Mental health services and other services such as health research, administration and pharmaceuticals. These services remain a core function of all governments, with primary health care considered the major entry point to the health system. The continued assessment of these services is consistent with the principle of 'what states do'.

12.2 The Northern Territory Government manages eight community health clinics in major regional settings and 54 remote community health centres. Through these clinics/centres the Territory delivers a number of community and public health service programs including oral health, men's and women's health, remote and urban health, child/youth health, school health, nutrition, health promotion, hearing and a range of programs aimed at prevention and management of chronic conditions.

12.3 Commission staff state that due to this category now being smaller than the previous category (with the moving of emergency department and outpatient services to the proposed public hospital category), developing an assessment using the subtraction model approach in order to assess the extent of non-state provision of services is now extremely difficult. Instead Commission staff propose to use a direct assessment approach, consistent with that being developed for the public hospital category.

12.4 The Territory supports the adoption of a direct approach. As outlined in the section on Public Hospitals, data shows that the Territory has relatively low Medicare usage compared to all other jurisdictions and therefore has a higher need for the provision of public community health services compared to other states.

State views are sought on:

- the availability of reliable State data on the use and cost of community health centres and public health services by various population groups that would assist in the development of the assessment.

12.5 The Territory is able to provide reliable data on community health centres and public health services as follows:

- Community health:- Comprehensive remote primary care data, including medical services, is available from 55 remote communities managed by the Department of Health. The Territory also receives activity reports from an additional 33 Aboriginal Health Services as part of the Northern Territory Aboriginal Health Key Performance Indicators system.
- Comprehensive data is available for community health services provided by government services in the urban region. This includes a range of services provided at the health centres, including well baby clinics and childhood immunisation, wound management, palliative care, health promotion and brief interventions, hearing testing and well women's cancer screening.
- Public health services:- Many public health services are delivered by and recorded in urban and remote primary health care services, but in addition comprehensive data is available from communicable disease control services, and some data (incomplete) is available regarding hazardous and harmful drug use.
- Mental health services:- Comprehensive data is available from government sector mental health services provided in the community.

Staff propose to recommend the Commission:

- assess an SDC factor that recognises Indigeneity (2 groups), age (5 groups), SES (3 groups) and remoteness (2 groups)
- not assess gender as a component of the SDC factor unless it is material.

12.6 The Territory strongly supports assessing the same socio-demographic composition characteristics as those adopted for the public hospital category. The Territory notes that due to lack of data remoteness and age will not be disaggregated to the same extent as in the public hospital category, with the remoteness grouping consistent with the approach taken in the 2010 Review.

12.7 The Territory supports the Commission's proposed approach. The Territory has the smallest population (236,869 in 2012-13) among all states. While the Territory comprises only one per cent of the total Australian population, it covers around one sixth of the landmass of Australia. The Territory has a high proportion of Indigenous people, with the majority (70 per cent) of this population living in remote/very remote areas. The need to provide health services to a widely dispersed and remote population is a key cost driver for the Territory.

12.8 Remoteness and the high burden of disease in the Territory provide a significant challenge in the delivery of community health services. In addition to providing the normal level of community health services provided in an urban setting, the Territory's remote health centres provide a greater range of health services, including primary and acute care, in recognition of the large distances to the nearest hospital and support services. The median distance from a remote Indigenous community to the nearest hospital is 275 kilometres (kms), ranging from 87 to 700 kms.

12.9 Indigenous people have significantly poorer health outcomes that non-Indigenous people, leading to greater need for health services. This is exacerbated due to the level of burden of disease increasing with remoteness.

12.10 Table 12.1 clearly demonstrates that the episode of primary health care for Indigenous persons increases with remoteness and that episodes per person for remote and very remote areas is significantly higher than that for the other remoteness categories.

Table 12.1: Indigenous episodes of primary healthcare, by remoteness

	Major cities	Inner regional	Outer regional	Remote	Very remote	Total
	No.	No.	No.	No.	No.	No.
Episodes	399 003	413 332	495 653	532 361	657 718	2 498 067
Population	188 547	121 067	118 483	39 755	77 473	545 325
Episodes per person	2.1	3.4	4.2	13.4	8.5	4.6

Source: Report on Government Services 2013, Productivity Commission

12.11 The Territory accepts the Commission staff's proposal not to disaggregate by gender should the updated data for this Review show this to be immaterial.

Staff propose to recommend the Commission:

- combine data obtained from the AIHW Expenditure on health for Aboriginal and Torres Strait Islander people with the data from IHPA on total hospital costs, to develop a user profile of State provided community health services
- include the age profile of GP services for a more accurate measure of use of services by age only if it is materially different from the age profile of hospital service use.

12.12 The Commission staff propose to develop a user profile based on IHPA data for public hospital costs, with a number of adjustments on the basis that the population groups that use hospital services more intensely will also use community health services more intensively, but not necessarily at the same rate.

12.13 The first proposed adjustment, to combine the data from IHPA with data from AIHW, aims to better reflect the higher use of community health services by the Indigenous population.

12.14 While the Territory supports this adjustment, it has concerns that the use of Community health services by certain population sub-groups, in particular the Indigenous population and remote population, will still be underestimated. The Territory urges the Commission to review this.

12.15 Table 12-2 in the Commission staff's Discussion paper indicates that Indigenous use of community health services, relative to non-Indigenous use, is twice that of their public hospital use. However analysis[4] published by BioMed Central Health Services Research, based on data for 52 739 Indigenous residents from 54 remote communities in the Territory between 1 July 2007 and 30 June 2011, demonstrates that the average number of primary health care visits was 6.1 per person-year compared to the average number of hospitalisations of 1.0 per person-year. This research demonstrates that the adjustment proposed by the Commission staff may not adequately compensate for the differential use between hospital and community health services by the Indigenous population.

12.16 The Territory agrees that developing the age profile of community health services based on hospital data may lead to a material bias, particularly towards the very young and very old populations. The use of the hospital data in particular may not appropriately reflect the user profile of community health services in the Territory given these services are generally used by a wider range of ages and the distribution of the Territory's age profile shows it has a higher proportion of working aged people.

12.17 However, due to the severe limitations of access to General Practitioner (GP) services in the Territory, particularly in remote and very remote areas, the Territory considers that determining the age profile based in GP services will be unreliable. For the Indigenous population of the Territory [of which over 70 per cent live in remote/very remote areas] Medicare Benefit Scheme per capita payments are less than 50 per cent of their non-Indigenous peers. This reduced primary health care access coincides with a hospitalisation rate 7.7 times that of other Australians[5]. As such, data on all hospitals (including block funded hospitals) may be a better proxy for the Territory's community health service by age.

Staff propose to recommend the Commission:

- calculate an economic environment factor based on the number of GP type services or a measure of GP throughput in each State but discount it by 12.5% to recognise that some services may not be fully substitutable
- calculate an economic environment factor based on actual OATSIH grants to each State but discounted by 12.5% to recognise that not all of those services are fully substitutable.

[4] Zhao Y, Wright J, Guthridge SL, Lawton P: *The relationship between number of primary health care visits and hospitalisations: evidence from linked clinic and hospital data for remote Indigenous Australians,* BioMed Central Health Services Research 2013, 13:466, page 3.

[5] Zhao Y, Wright J, Guthridge SL, Lawton P: *The relationship between number of primary health care visits and hospitalisations: evidence from linked clinic and hospital data for remote Indigenous Australians,* BioMed Central Health Services Research 2013, 13:466, page 2.

12.18 The Commission staff propose to continue to assess the impact of non-state provision of community health services by applying an economic environment factor rather than using the subtraction model. Similar to the 2010 Review, the Commission staff do not consider that all community health services are substitutable and propose to apply a 12.5 per cent discount to the economic environment factors.

12.19 The Territory supports the development of an economic environment factor as a means of recognising the different levels of funding from the State, Commonwealth and non-government sector.

12.20 The Territory agrees with the Commission staff that assessing this impact will be better achieved through an economic environment factor rather than maintaining the subtraction model due to the proposed changes in the category assessment structure and difficulties in identifying/isolating the relevant non-state community health services that would be considered substitutable.

12.21 However, the Territory has concerns around the level of substitutability implied in the proposed assessment. While Commission staff propose discounting the economic environment factors by 12.5 per cent in recognition that not all services provided by way of GPs or OATSIH funding are fully substitutable, the Territory considers that this discount is too low, particularly in relation to OATSIH funding.

12.22 Primary health care services in both urban and remote settings are provided by the Northern Territory Government, Aboriginal community controlled health services (funded by both the Australian and Northern Territory Governments) and private sector GPs.

12.23 There is a small allied health sector in the Territory, which is predominantly based in Darwin. Allied health professionals work alongside doctors and nurses and include physiotherapists, occupational therapists and psychologists. As a result of the small allied health sector and difficulties in access, many clients are required to access public sector services for care.

12.24 In the Territory, access to GP services is low, particularly in remote Indigenous communities where, despite high levels of health need, there are few GPs. The remote area of the Territory has approximately 40 medical practitioners providing primary health care to the Indigenous residents. In remote communities, community health care services are frequently provided by remote area nurses and Aboriginal health workers, whose services are not covered by Medicare[6].

12.25 The Territory contends that OATSIH funding does not necessarily reduce the level of expenditure states need to spend on primary health care services for Indigenous people living in remote communities and considers that a higher discount, than the 12.5 per cent proposed, be applied to the economic factor for OATSIH funding.

12.26 The objective of OATSIH funding in the Territory is a contribution to sustainable and equitable health outcomes for Indigenous people living in remote communities in the Territory. This is to be achieved by increasing their access to high quality, culturally appropriate and comprehensive primary health care services.

[6] Zhao Y, *Health Gains Planning – Fact Sheet: Medicare and PBS Usage, 2003-2012*, Department of Health.

12.27 The agreements underpinning the above objectives specify[7] that it is the intention of the Commonwealth that the funds provided will:

- Contribute to provision of comprehensive primary health care services for the Aboriginal and Torres Strait Islander people of the Northern Territory over and above that which is currently provided by the Territory.

12.28 OATSIH funding is essentially top-up funding to increase the level of existing services and to increase the scope of services. In the Territory's view there is a minimal, if any, substitutability when it comes to OATSIH funding, the net effect of which would be a reduction in current service levels. As such, the Territory recommends the Commission applies the high range discount, of 50 per cent, to the economic environment factor for OATSIH funding.

12.29 More generally, in 2007 a working group, represented by the Commonwealth, Territory and Aboriginal Medical Alliance Northern Territory, examined the range and cost of providing primary health care services to the remote Indigenous population. The working group's findings, contained in the Indigenous Access to Core PHC Services in the Northern Territory 2007 Report , highlighted that an increase in investment in primary health care services would not result in a decrease in expenditure from other sectors, but would potentially reduce the level of unmet need.

[7] Department of Health

13 Welfare

Staff propose to recommend the Commission:

- Assess Western Australia's aged care service expenses and Commonwealth payments EPC because a differential assessment would not material.
- To backcast the change to the provision of aged care services.

13.1 All states, with the exception of Western Australia, have signed the aged care and disability services part of the NHR Agreement which results in the Commonwealth assuming full policy responsibility for aged care services.

13.2 The Territory supports an equal per capita assessment of Western Australia's aged care services expenses and Commonwealth payments in accordance with the 2015 Terms of Reference which direct the Commission to continue to assess the needs of those states that have not transferred responsibility to the Commonwealth.

13.3 The Territory notes Commission staff advise that the redistribution effects for Western Australia using this approach will not be materially different compared to the results of the current assessment approach which sees $20.1 million redistributed away from Western Australia.

Staff propose to recommend the Commission:

- Retain the current disability services assessment but adjust it to remove the impact of users aged 65 and over (over 50 for Indigenous people) because aged care is now a Commonwealth responsibility.
- Continue to treat the National Disability SPP funding as having an impact on the relativities.

13.4 The Territory supports removing those components of the disability services assessment that have been directly transferred to the Commonwealth. However the Territory is concerned that removing the whole of the disability services assessment relating to aged persons would not allow for the fact that states are still providing disability services to aged persons. For example, the Territory provides therapy, allied health and equipment and mobility support to disabled individuals of all ages.

13.5 The Territory supports continued treatment of National Disability SPP funding as having an impact on the relativities because the payments are intended to provide untied general budget support for disability services.

Staff propose to recommend the Commission:

- Use the AIHW's child protection unit record system to derive a location breakdown of service users and link this to ABS SEIFA data to obtain a proxy SES breakdown of family and child service use
- Test the materiality of a location socio-demographic disability.

13.6 The Territory supports using AIHW child protection records to better capture the additional costs and higher use of child protection services in remote Indigenous communities. The use of unit record data is also likely to be more representative than the data adopted in the 2010 Review which was derived from Victorian and South Australia data.

Staff propose to recommend the Commission:

- Make an assessment of concessions based on concession card holder numbers and a broad assessment of the balance of general welfare services expenses based on the relative proportion of people in the bottom quintile of the ABS's SEIFI.

13.7 Commission staff's proposal to use the number of Commonwealth concession card holders as a proxy for concession use seems appropriate given that most states use Commonwealth concession cards as a basis for their decision to provide concessions. In some limited cases, states might have concession schemes that provide assistance to individuals using other criteria but in the Territory's view the individuals accessing these schemes are very likely to be concession card holders themselves.

13.8 Commission staff propose to use the proportion of the population in the lowest quintile of the ABS's SEIFI as a proxy for demand for general welfare expenses. Commission staff argues that its usual approach of using SEIFA is not appropriate because there is insufficient information about the users of welfare services to make disaggregation below the state level meaningful. The Territory accepts the Commission staff's proposal because it is not aware of any data set which could better inform the Commission about the users of general welfare services.

Staff propose to recommend the Commission:

- Not pursue this issue further unless reliable data can be provided linking high cost of living to greater provision of welfare services.

13.9 Western Australia has argued for a cost of living disability, although Commission staff note evidence cited is chiefly in relation to housing services.

13.10 The Territory considers there is a conceptual case for a cost of living adjustment, but to be practical it would need a reliable and comparable measure of relevant prices not only between capital cities but also regions. The Territory is not aware of any such measures. The Commission would also need to determine the effects of prices on the demand for welfare and housing services. The Territory would support this proposal if reliable evidence could be found.

14 Priority Issue DisabilityCare Australia

Staff propose to recommend the Commission:

- treat the Commonwealth payments and expenses associated with the DisabilityCare trials as having no impact on the relativities.

14.1 The Territory agrees that Commonwealth payments and expenses associated with the trials should have no impact on state relativities on the basis that these payments are unlikely to result in any significant change to states fiscal capacities.

Staff propose to recommend the Commission:

- maintain 2 disability services assessments for the transition period — one for DisabilityCare (assessed using State shares of the total number of people ultimately to be covered) and one for other State expenses associated with disability services (assessed as proposed in Chapter 13)
- treat any associated Commonwealth payments, including State draw-downs of the Medicare Levy from the DisabilityCare Australia Fund, as having an impact on the relativities.

14.2 The Territory agrees that during the transition towards full implementation of the National Disability Insurance Scheme, 'what states' do will change. While states will continue to fund disability services, this funding will go towards two service delivery mechanisms: existing state based disability services and the national based disability service.

14.3 The Commission staff notes that agreement has not yet been reached in terms of the number of participants in each state and the pace at which those participants are phased in from current state based disability services to the National Disability Insurance Scheme. In recognition of this, Commission staff suggests that there are two options for assessing disability services during the transition period: a blended assessment approach and a switch approach.

14.4 While the Territory's first submission recommended the Commission adopt a switch approach, the Territory accepts that in principle the blended approach is policy neutral and will better reflect a gradual transition towards the national scheme. While it is possible that some states could transition fully to the national scheme in the first year, in practice this is considered unlikely. Experience to date in launch states indicates the processes around determining eligibility and client assessment plans is taking much longer than anticipated.

14.5 The Territory agrees that during the transition phase any associated payments to states from the Commonwealth, including state draw-downs of the Medicare Levy, should be treated as having an impact on the relativities, as such payments will increase states' capacities to fund disability services.

Staff propose to recommend the Commission:

- assess State needs for their DisabilityCare contributions, APC from 2019-20 onwards
- treat any Commonwealth payments for disability and community care services, if they continue, and drawdowns of the Medicare Levy from DisabilityCare Australia Fund, as impacting on the relativities
- ignore Commonwealth contributions to the DisabilityCare Fund and ensure any purchases by the fund of State services has no effect on the relativities
- consider the treatment of any residual service delivery once DisabilityCare is fully implemented or if the assessment became immaterial.

14.6 Once fully operational, it is expected that states will contribute the same amount per capita toward DisabilityCare Australia up until 2023 when states' contributions will be reallocated based on Census data and states' shares of the total national population. State contributions will be subsequently reallocated every five years thereafter.

14.7 Up until the first review of state contributions in 2023, states' per capita contributions will be unchanged between Commission reviews and will become out of sync with actual population change. The Territory agrees with the Commission staff's proposal to assess state contributions on an actual per capita basis to ensure changes in states' populations are recognised appropriately in the GST distribution between reviews.

14.8 The Territory agrees that any associated payments to states from the Commonwealth, including state draw-downs of the Medicare Levy, should be treated as having an impact on the relativities on the basis such payments provide states with fiscal capacity to meet their contributions toward DisabilityCare Australia.

14.9 The Territory agrees that any Commonwealth contributions to the DisabiltiyCare Australia Fund and purchases by the fund of state services have no impact on state relativities.

14.10 The Territory agrees that it is appropriate to delay consideration of how to assess any residual disability service delivery expenditure until such time as DisabiltyCare Australia is fully operational, and that this consideration should have regard to the materiality of any such residual expenditure.

Staff propose to recommend the Commission:

- if feasible, backcast the blended disability services arrangements to reflect the policies in operation in the application year, unless the Terms of Reference direct us otherwise.

14.11 The Territory considers DisabilityCare Australia represents a significant change in Commonwealth-State financial arrangements and therefore supports backcasting the blended disability services arrangements where feasible.

15 Housing

For reasons of transparency and to assist in understanding the assessment of the various components of housing services, staff propose to recommend the Commission:

- Assess housing services as a separate category comprising gross expenses, revenues and FHOS
- Assess housing investment and depreciation in the investment and depreciation categories as for other services. This will ensure they are assessed in the same way.

15.1 The Territory supports the Commission's decision to expand the scope of the housing category to capture services provided through Public Non-Financial Corporations (PNFCs). The Territory shares the Commission's view that housing services have very few commercial features and as such, should be assessed on a basis consistent with housing provided by general government agencies.

15.2 The Territory supports the proposal to separate the assessment of gross housing expenses and revenues. The proposed approach recognises that different factors affect states' housing expenditure than those affecting states' capacities to collect rent from public housing tenants. For example, the fact that it costs more to deliver housing services in remote areas does not mean that more revenue can be raised from social housing tenants in remote areas; rather, the opposite is true.

15.3 Further, the net approach adopted in the 2010 Review diluted the impact of expenditure disabilities on states' assessed housing costs, and was less transparent than the proposed approach.

15.4 The Territory also supports the proposal to assess housing investment and depreciation in the investment and depreciation category to ensure consistent treatment of all investment and depreciation expenses.

Staff propose to recommend the Commission:

- Include the following drivers in the SDC assessment for gross housing expenditure:
  - Low income
  - Indigeneity (use and cost)

– Location

- Make no assessment of the impact of cost of living on the demand for housing services, unless States can provide direct evidence that States are providing more social housing as a result of high cost of living.
- Any evidence States have relating to differences in unit cost by location is sought.

Socio-Demographic Composition

15.5 The Territory agrees with the Commission staff view that Indigeneity, location and low income are key drivers of differences in states' costs of providing social housing services. The Territory strongly supports the proposal to include location and Indigeneity in the socio-demographic composition (SDC) factor, in addition to income status, because there is strong evidence to suggest that these population groups are more intensive users of social housing services, leading to increased service delivery costs.

Indigeneity

15.6 The Territory contends that the current cost weight of 25 per cent significantly understates the additional costs of providing social housing to Indigenous tenants. The evidence used to support the continued use of a 25 per cent cost weight does not fully capture additional costs attributable to Indigeneity.

15.7 The factors contributing to the higher cost of providing housing services to Indigenous people include overcrowding, the requirement for intensive property and tenancy management services for first-time tenants, the high mobility of tenants and the level of disadvantage among the Indigenous population. Each of these factors increases the rate of deterioration of public housing and significantly increases service delivery and repairs and maintenance costs compared with providing housing for non-Indigenous tenants.

15.8 A major contributing factor to the rapid deterioration of the Territory's public housing stock is overcrowding, whereby increased use of the housing stock leads to faster deterioration, and increased need for repairs and maintenance.

15.9 Table 15.1 compares rates of overcrowding in Indigenous social housing across the states. It shows that the Territory has 3.6 times the national average rate of overcrowding in Indigenous social housing, based on the number of people per dwelling being eight or higher.

Table 15.1 - Indigenous Social Housing – Rates of Overcrowding

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
Indigenous households with eight or more residents	380	48	1025	613	143	12	10	1 636	3867
Total Indigenous households	16 990	3 699	13 738	7 864	3 959	1 504	671	6 419	54 844
% of overcrowded Indigenous households	2.24	1.30	7.46	7.80	3.61	0.80	1.49	25.49	7.05
Overcrowding factor	0.32	0.18	1.06	1.11	0.51	0.11	0.21	3.61	1.00

Source: 2011 Census

15.10 While the Territory is committed to increasing its stock of social housing to address overcrowding, the Northern Territory Department of Housing advises that, despite plans to complete 1456 new houses by 2018, of which more than a third will be replacing existing dwellings that are beyond economic repair, the Northern Territory will still face overcrowding in remote communities. Approximately 1000 additional bedrooms will be required to address current levels of overcrowding, excluding any consideration of population growth.

15.11 A factor contributing to the Territory's increased service delivery costs is the provision of property and tenancy support services, which are essential to the sustainability of tenancies in remote Indigenous communities in the Territory. These services support tenants to understand their obligations as public housing tenants, and what they can expect from the landlord. The Territory provides three levels of tenant support: induction (living skills), early intervention and intensive case management. In 2011-12, the Territory's property and tenancy management costs for remote social housing were $48.9 million, equating to about $9 849 per remote dwelling, excluding corporate and personnel costs.

15.12 There are significant corporate and staffing costs associated with the delivery of property and tenancy management services, particularly due to travel time, accommodation and allowance costs associated with travel to remote Indigenous communities. These costs can be exacerbated by unforeseen circumstances, including cultural, seasonal and technical factors that necessitate longer, or additional visits. In 2011-12 the Territory's corporate and personnel costs, excluding program costs for remote Indigenous property and tenancy management were $12 million, equating to $2 417 per remote Indigenous dwelling.

15.13 The Territory also contends that the number of Indigenous tenants in the Territory is administratively understated because of the high mobility of the Territory's Indigenous population, whereby people utilising social housing, but are not registered as tenants, contribute to overcrowding and the rapid deterioration of housing stock. Further, these users of public housing do not contribute rents, further increasing net costs to the Territory. The impact of mobility is therefore twofold – the number of Indigenous users of Territory public housing is understated, and costs are underestimated.

Location

15.14 The Territory strongly supports the Commission's proposal to include a location assessment in the SDC factor of the Housing Category. The repairs and maintenance costs to the Territory of servicing the remote housing stock are significantly inflated due to location. For example, when employing private contractors, such as electricians to conduct repairs and maintenance, the Territory faces significant loadings on top of the fee for service, including travel time loadings, accommodation and travel allowance, mobilisation fees and in some cases, a general remoteness premium.

15.15 In virtually all cases, contractors need to travel from the nearest major town, due to the lack of equipment, tools and skilled tradespeople in remote communities. An example is the replacement of a toilet, service of a cistern and replacement of a pump of a second toilet at Docker River School, located 670 kilometres southwest of Alice Springs, at a total cost of $6 019.20. The materials for this maintenance task were quoted at $287.00, and labour costs of $1 700.00, however the majority of the maintenance costs related to remoteness, with travel time costs of $3 365.00.

15.16 A further example of the impact of location on the Territory's repairs and maintenance costs is the replacement of a light switch in a remote Indigenous community, which required a tradesperson to travel 97 kilometres, at a cost of $423.21 for a half-hour job. This compares to the urban scheduled rate of $42.00. The additional costs were attributed to travel time, travel allowances, and a remoteness premium.

15.17 Additional evidence of the cost gradient for Northern Territory public housing repairs and maintenance expenses are provided in Tables 15.2 and 15.3 below, which show that costs increase with distance from major centres.

Table 15.2 – Examples of actual Northern Territory Public Housing Repairs and Maintenance Expenses, 2012-13, $

	Major Centre	Remote[1]	Highly Inaccessible[2]
Darwin Region			
Plumbing - Installed new trio and tempering valve	130.00	450.00	2194.90
Electrical - Replaced old stove with new	689.00	1453.00	1798.01
Carpentry - Tightened entrance set adjusted door jamb and resecured hinge	90.00	232.27	409.34
Katherine Region			
Plumbing - Replace garden tap	57.01	140.86	311.80
Plumbing - Replace toilet bowl	263.46	356.12	643.23
Electrical - Replace smoke detector	148.00	436.72	559.71
Electrical - Replace GPO	35.00	451.27	602.50
Alice Springs Region			
Plumbing - Replace breach	361.78	1068.40	1644.73
Electrical - Install new stove	971.03	1100.50	1149.35
Electrical - Install circuit breaker	209.51	490.02	806.48

1. Remote centres are classified as those that require return travel of 100 kilometres and over from the nearest major centre.
2. Highly Inaccessible areas are classified as those requiring return travel of over 500 kilometres from a major centre, and/or air travel access.

Source: Northern Territory Department of Housing

Table 15.3 –Cost gradient for Northern Territory Public Housing Expenses

	Major Centre	Remote[1]	Highly Inaccessible[2]
Darwin Region			
Plumbing - Installed new trio and tempering valve	1.00	3.46	16.88
Electrical - Replaced old stove with new	1.00	1.63	2.02
Carpentry - Tightened entrance set adjusted door jamb and resecured hinge	1.00	2.58	4.55
Katherine Region			
Plumbing - Replace garden tap	1.00	2.47	5.47
Plumbing - Replace toilet bowl	1.00	1.35	2.44
Electrical - Replace smoke detector	1.00	2.95	3.78
Electrical - Replace GPO	1.00	12.89	17.21
Alice Springs Region			
Plumbing - Replace breach	1.00	2.95	4.55
Electrical - Install new stove	1.00	2.11	2.61
Electrical - Install circuit breaker	1.00	2.34	3.85

1. Remote centres are classified as those that require return travel of 100 kilometres and over from the nearest major centre.
2. Highly Inaccessible areas are classified as those requiring return travel of over 500 kilometres from a major centre, and/or air travel access.

Source: Northern Territory Department of Housing

15.18 The Territory's view is that the Commission's proposed use of Census data is the most appropriate means of assessing a location cost weight in the Housing category, because it is disaggregated by remoteness category, and is available for all states.

Cost of living

15.19 The Territory supports Western Australia's position that a strong conceptual case exists for a differential assessment of the impact of cost of living increases on states' social housing expenses, and that further investigation of this matter is warranted.

15.20 Increases in the cost of living leads to increased demand for social housing services. As the costs of living relative to wages and/or pension payments increase, households have reduced capacities to pay private-sector rents, making housing increasingly unaffordable.

15.21 As noted in Discussion Paper 07S, states respond to increased demand for public housing by tightening income eligibility criteria for public housing. This further increases the subsidy provided to public housing tenants as rental revenue, which is generally based on household income, is reduced in real terms as private rental prices rise.

15.22 A further impact on states' costs is that increases in the cost of living are passed on by the private sector, and builders and contractors increase fees-for-service, leading to increased repairs and maintenance costs, and reducing states' real capacities to respond to increased demand through increasing the supply of social housing dwellings.

15.23 The Territory also contends that increases in the cost of living lead to increased use of other services, and overcrowding of existing public housing, as people on the waiting list for housing unofficially cohabitate with existing public housing tenants.

15.24 Low income households in states with higher costs of living are worse-off than low income earners in relatively cheaper states. This can lead to situations where households on a given wage in one state can afford to rent privately, whereas in states with higher costs of living, they would be forced to apply for public housing assistance.

15.25 This crowding-out of the private rental market has led states to respond through the provision of affordable housing schemes, such as the Territory's Real Housing for Growth scheme, which provides subsidised rents to workers in growth sectors of the Territory economy.

15.26 The Territory's view is that there is sufficient evidence to warrant further investigation of the impact of increases in the cost of living on states' social housing expenses.

Other cost influences

15.27 The Territory strongly agrees with the suggestion that costs of managing and maintaining social housing in different areas of the states should be recognised in this assessment.

15.28 While the direct costs associated with the capital works are assessed in the infrastructure assessment, the additional labour and transport costs associated with remote infrastructure works are not adequately assessed. The Territory proposes that the Commission investigate a means of measuring the additional recurrent costs associated with providing housing services in remote locations.

15.29 As discussed above, the additional location-type costs associated with providing housing services in remote locations include travel and accommodation costs associated with providing tenancy management services, including the additional time taken to travel to remote areas, and the additional costs of responding to the unique needs of remote housing tenants, particularly Indigenous tenants, that require education and support regarding housing maintenance practices, including learning about tenancy responsibilities.

States' evidence relating to differences in unit cost by location

15.30 In addition to the examples provided above relating to the impact of location on the Territory's remote housing costs, the Territory has sought cost data by location, however is unable to provide it at present, but will endeavour to provide it to the Commission as soon as possible.

Staff propose to recommend the Commission:

- Use Census data for assessing housing expenses

15.31 The Territory supports the proposed use of Census data to assess housing-related expenses, given the limitations of alternate data sources.

To make the assessment as simple as possible, staff propose to recommend the Commission:

- Recognise the impact of income and location on the use of social housing by non-Indigenous people in the SDC assessment for gross housing expenses

- Recognise Indigenous population shares in the SDC assessment for Indigenous people because this is not materially different recognising differences in use patterns by income and location; this should be reviewed following the next Census.
- A 25% cost weight for Indigenous dwellings be assessed, subject to any change in the percentage of cost recovery.

Indigenous and non-Indigenous use rates

15.32 The Territory does not support the proposal to assess the Indigenous component of the SDC component using population shares. The Territory's view is that the number of both non-Indigenous and Indigenous households should be estimated through adjusting for income and location.

15.33 The Territory does not agree that assessing use of social housing by Indigenous and non-Indigenous populations on different bases makes the Housing assessment simpler. The Territory's view is that it would add a layer of complexity, because there would be two different methods for estimating Indigenous and non-Indigenous population shares.

Application of the 25 per cent cost weight

15.34 The Territory's firm view is that the Indigenous cost weight should apply to all social housing service delivery expenses, regardless of changes in the rate of cost recovery, because of the proposal to assess states' social housing expenses and states' capacities to raise social housing rental revenue separately.

15.35 As discussed above, the Territory's view is that the 25 per cent cost weight for Indigenous dwellings currently used by the Commission is too low, due to overcrowding, the requirement of intensive property and tenancy management services for first-time tenants, the high mobility of tenants and the level of disadvantage among the Indigenous population, and therefore, the Indigenous cost weight should be increased.

15.36 Further, the rate of cost recovery should not impact the Commission's estimation of the Indigenous cost weight, because states' capacities to recover rental revenue are being assessed separately, under the changes to the housing assessment proposed by Commission staff.

Staff propose to recommend the Commission:

- assess housing revenue on the basis of assessed numbers of households adjusted to recognise difference in rents paid by Indigeneity, income and location
- assessing housing on a gross expense and revenue basis rather than net.

15.37 The Territory contends that Table 15-10 in Discussion Paper 07S is based on an overly simplistic analysis, and is misleading. The Territory does not accept that the number of Indigenous people in a state is a positive indicator of a state's capacity to collect rent from social housing tenants.

15.38 The Territory strongly supports the Commission's decision to acknowledge that there are material differences in the rent recoverable by Indigenous status, income and location and that this has a material impact on the capacity of states to deliver social housing. However, the Commission staff analysis is not representative of the impact of Indigeneity and remoteness on states' capacities to raise rents from social housing tenants.

15.39 The Territory notes that the counter-intuitive result that Indigenous tenants pay more rent than non-Indigenous tenants across most remoteness categories could be due to the lack of analysis on state by state public housing rents. The Territory's view is that a state-by-state analysis would lead to a more sensible result because the national average would be based on the distribution of Indigenous and non-Indigenous social housing tenants across varying remoteness regions of states.

15.40 Territory data on rent collected from remote Indigenous tenants in 2011-12 indicates that the average weekly rent per remote Indigenous dwelling collected was $51.13 per week. The Territory notes that given the rate of overcrowding in remote Indigenous households in the Northern Territory, a highly conservative estimate[8] of the average rent collected per remote and very remote Indigenous tenant in the Territory is less than $9.70 per week.

15.41 Further, the data in the staff discussion paper is presented for households, and does not take into account dwelling type, or size. The Territory contends that the data is therefore subject to significant policy influence of the largest states, and does not take into account the differential costs of providing housing across states, or differences in states' policies on rental charges.

15.42 The Territory strongly urges the Commission to source data on social housing rents from states, due to the significant data issues associated with the Census data used by the Commission.

15.43 The Territory has significant concerns with Census data on social housing rental recovery rates, which include several years where data is not available for some states, and significant instances where rental collection rates are greater than 100 per cent. The Territory's concerns that the data are not comparable, and are misleading are corroborated by the Productivity Commission in its Report on Government Services, which states:

"Data may not be comparable across jurisdictions and over time and comparisons could be misleading. Due to rounding the national total for total rent collected from tenants and total rent charged to tenants may not equal the sum of jurisdictions' data items."

Source: Report of Government Services 2014, Volume G, Table 17A.30

[8] Average public housing occupancy of remote and very remote regions of the Territory from the 2011 Census, and assuming that households classed as 'eight or more persons' contain eight people only.

Staff propose to recommend the Commission

- Use the SDC factor to estimate assessed capital housing stocks and depreciation expenses.
- Exclude the Indigenous cost weight unless States can provide evidence that houses aimed at Indigenous tenants are built to a higher standard or replace more frequently.
- Apply the same location cost disabilities to housing investment and depreciation expenses as those applied to other expenses included in the investment and depreciation categories unless there is evidence these are inappropriate.

15.44 The Territory supports the use of the Housing SDC factors to estimate assessed capital housing stock and depreciation expenses, however the Territory's strong view is that the Indigenous cost weight should also be applied. The Territory's views on an Indigenous cost weight for capital housing stock and depreciation expenses is provided in the Territory's response to Chapter 24 – Infrastructure.

States views are sought on:

- Whether the Remote Indigenous housing NPP should have an impact on the housing assessment.

15.45 The Territory strongly supports the Commission staff view that the National Partnership Agreement on Remote Indigenous Housing (NPARIH) should continue not to impact on the housing assessment.

15.46 Further to the Commission's rationale that it is not average state policy to transfer ownership of houses provided through NPARIH to state housing authorities, the Territory's view that the NPARIH should continue to be excluded is also based on: the prescribed treatment of programs which have now been subsumed into NPARIH under previous Terms of Reference; the Commission's previous treatment by exclusion on the basis that the NPARIH constitutes a purchase of services by the Commonwealth; and the principle that Commonwealth payments to states that are intended to address unmet need should not affect states' relativities.

15.47 NPARIH is a continuation of funding programs originally agreed under the National Partnership Agreement on Remote Indigenous Housing (RIH). The 2009 Update Terms of Reference directed the Commission to exclude payments to the Territory under RIH, and subsequent Terms of Reference have directed the Commission to continue to exclude payments where it has previously been directed to do so.

15.48 The Territory acknowledges that the Commission may vary its treatment of payments specifically excluded in previous Terms of Reference on receipt of additional information. However, the Territory's firm view is that where a specific direction to exclude a payment has been made in a previous Terms of Reference, this should continue until the specific elements of program for which the payment is made ceases, rather than the end of the initial Commonwealth funding agreement.

15.49 Specific elements may continue over time through a number of Commonwealth funding agreements, with the original intent of these elements remaining. For example, many Northern Territory Emergency Response initiatives were carried over into the new Stronger Futures in the Northern Territory National Partnership Agreement.

15.50 Further, consistent with the guidelines for treatment of Commonwealth payments, and the Commission' historic treatment of NPARIH payments, funding received constitutes a purchase of services by the Commonwealth, and as such should not affect states' relativities.

15.51 The Territory's firm view is that where payments are made explicitly to respond to historical backlogs or unmet need, they should not affect the relativities. The NPARIH is designed to raise infrastructure and services to a point whereby a state would provide these services in normal operations.

15.52 This is particularly important for services where needs are not adequately assessed such as remote Indigenous housing. The Territory considers payments specifically designed to address longstanding need and backlog issues that are not addressed through equalisation should be excluded. Inclusion would result in the intent of the payment being diluted.

Staff propose to recommend the Commission

- Assess all State expenses on first home type grants using the States' actual number of first home buyers.
- Seek from States the numbers of first home buyers.
- Seek from States the amounts of the tax expenditure on the exemptions and concessions, add them back to the States' stamp duty revenues, and asses the tax expenditure combined with all other first home grant expenses.
- Test the materiality of the proposed assessment and implement it, with a possible discount, if it is material. Otherwise an EPC assessment would be implemented.

15.53 The Territory supports the proposed assessment of costs associated with First Home Owner Scheme, and is able to provide data on the number of first home buyers in the Territory.

16

Services to Communities

Water and sanitation subsidies

Staff propose to recommend the Commission:

- Assesses state subsidies due to uniform tariff policies and special projects EPC.
- Assess needs for the remaining subsidies to uneconomic providers using the population living in communities with population from 50 to 1000 in remote and very remote areas.
- No longer recognise that water availability and quality have an impact on water subsidies.

Uniform Tariffs

16.1 For the 2015 Review, Commission staff has proposed to split the assessment of water subsidies into two. The first assessment would capture Community Service Obligation (CSO) payments, which Commission staff believe are paid to all residents, to be assessed on an equal per capita basis. The second assessment would capture payments made to smaller communities, to be differently assessed based on the proportion of the population living in remote and very remote communities with a population of 50 to 1000 people.

16.2 Costs of water provision vary between remote areas and between remote and urban areas. In the absence of policy to the contrary, prices would vary depending on the cost of providing services. States have long sought to ensure that these often substantial differences in prices between locations do not affect communities' access to water.

16.3 To achieve this, states set uniform water tariffs which ensure consistent water pricing across the state. In areas where the uniform tariff is set at or above cost, this has negligible effect. In areas where the uniform tariff is set at levels below cost price, state governments provide uniform tariff subsidies to providers. The size of these subsidies is based on the difference between the uniform tariff price and the cost of providing the service.

16.4 Uniform tariff subsidies are not evenly distributed across state populations. Rather, they are provided to remote communities which have high overheads because of their isolation, which limits external supply and forces suppliers to provide expensive stand-alone water infrastructure (e.g. bores and storage, filtration and sewerage facilities).

16.5 For example, the cost of providing water to Darwin is lower than elsewhere in the Territory due to economies of scale, with the cost of infrastructure spread across Darwin's larger population. These scale advantages are not available to regional centres which have much lower populations in absolute terms than even the smallest capital and correspondingly much higher costs of production.

16.6 The Territory provides uniform tariff subsidies, in the form of a CSO, for regional centres directly to the Power and Water Corporation (PWC) which is the primary provider of water services in the Territory. Separate provision is made for Indigenous communities which receive services from Indigenous Essential Services Pty Ltd (IES), a wholly owned not for-profit-subsidiary of PWC.

16.7 The Territory strongly objects to the Commission staff's proposal to assess CSO payments for state uniform tariff policies on an equal per capita basis. In the Territory's view the level of water subsidy provided is dependent on the size of the state's remote population, however, the proposed equal per capita assessment for towns of more than 10 000 population assumes that the level of subsidy provided in Alice Springs is the same as that in Sydney.

16.8 Table 16.1 shows that state subsidies for water are highest in those states with a higher share of their population living in remote and very remote areas.

Table 16.1: State water subsidies per capita and the proportion of people living in remote/very remote areas, 2011-12

	Water Subsidies	Remote and Very remote
	$ per capita	%
NSW	0.46	0.5
Vic	0.8	0.1
Qld	19.3	3.0
WA	147.1	6.8
SA	78.1	3.6
Tas	12.9	2.1
ACT	0	0
NT	242.3	43.9

Source: CGC calculations, Department of Treasury and Finance calculations

16.9 In the Territory's case the increased cost of providing water in remote locations is exacerbated by reliance on groundwater, which is more expensive to extract than surface water. In part this is due to low rainfall in some areas, for example Alice Springs, although Katherine, which has annual rainfall well in excess of that experienced in the southern capitals also requires supplementation of its main water source, the Katherine River, from bore water taken from the Tindall Aquifer.

16.10 Table 16.2 shows that states with the largest share of people living in remote areas are more likely to rely on groundwater than those states without.

Table 16.2: Groundwater (i.e. bore water) extraction as a proportion of total water supplied

	Groundwater	Total water supplied	
	ML	ML	%
NSW	48 676	5 358 657	0.9
Vic	97 464	2 775 951	3.5
Qld	77 436	1 911 183	4.1
WA	179 754	608 497	29.5
SA	13 322	368 469	0.4
Tas	294	127 710	0.2
ACT	0	40 658	0
NT	20 267	59 601	34.0
Australia	437 213	11 250 727	3.9

Source: ABS Water Account, Australia, 2011-12

16.11 The Territory proposes that the assessment of uniform tariff subsidies for water should be based on the proportion of population living in remote and very remote areas. In the Territory's view this would capture the higher costs associated with servicing these populations which is the key driver of need to provide uniform tariff subsidies in a policy neutral way.

Uneconomic Providers

16.12 The Territory supports the proposed treatment of water subsidies provided to uneconomic providers. In the Territory's view this approach is appropriate because it recognises that states face much higher costs of providing water in small communities in remote and very remote areas, compared with non-remote communities.

16.13 In the Territory's view this is due to the same effects which hamper the efficient provision of water services in larger communities including diseconomies of small scale, remoteness, isolation and the reliance on groundwater extraction. These factors are further exacerbated by the much smaller size of the populations available to spread these costs over.

Water Availability and Quality

16.14 The Territory supports Commission staff's proposal to cease to assess water availability and quality in the assessment because there is little evidence to support the case that water availability and quality are key determinants of differences in the costs of providing water services.

16.15 In the 2010 Review, the Commission assessed water subsidies based on the proportion of the population living in areas of poor water quality outside highly accessible areas in communities of 200 to 1000 people. Communities between 1000 and 10 000 people were excluded because the Commission could not derive a cost weighting.

16.16 While the Territory supported the Commission's use of remoteness as a proxy it was concerned that the use of water quality and availability was not appropriate. In particular, the Territory was concerned that the Commission's use of average rainfall as a proxy of water availability was inappropriate because it did not take into account the relative scarcity of water for much of the year in monsoonal areas of the Far North.

16.17 The Territory's view is that water quality and availability are not the key determinants of costs of providing water services, given that almost all areas of Australia are considered to have poor or inadequate water supplies, however the level of subsidies provided across states differs significantly. The Territory strongly supports the proposed approach, based on states' population shares of people living in communities of 200 to 1000 people because it better reflects differences in the costs of providing water services in remote areas across states.

Electricity subsidies

Staff propose to recommend the Commission:

- Assess subsidies to metropolitan regions and to maintain uniform tariffs EPC
- Assess subsidies to uneconomic providers using the proportion of the population living in communities with a population between 50 and 1000 in remote and very remote regions as this is likely to provide the best policy neutral measure of the population not on the grid.

Uniform Tariffs

16.18 In the 2010 Review the Commission decided to use state population shares living in remote and very remote areas as a proxy for the need to provide electricity subsidies. The Commission believed that electricity subsidies were provided by states in cases where costs could not be recovered due to diseconomies of scale and weak economic environments.

16.19 For the 2015 Review, Commission staff propose to disaggregate electricity subsidies into two categories. The first would cover uniform tariff subsidies made to 'metropolitan centres' and would be assessed on an equal per capita basis. The second would capture payments made to small communities and be assessed based on the proportion of the population living in communities with a population between 50 and 1000 in remote and very remote areas.

16.20 The Territory strongly objects to an equal per capita assessment of the uniform tariff component of electricity subsidies expenditure. The Territory's view is that uniform tariff subsidies are provided across states, including to larger communities in remote areas where it is feasible to provide 'mainstream' electricity services but cost recovery is still not possible. In the Territory these communities include Katherine, Tenant Creek and Alice Springs, which are not metropolitan centres but rather regional centres.

16.21 In the Territory electricity services to these regional centres are provided by PWC, which is the primary provider of electricity services in the Territory. The uniform tariff subsidies provided to regional centres in the Territory are CSO payments paid directly to PWC to cover the cost of providing below cost electricity services.

16.22 A major cause of the Territory's high uniform tariff subsidies for electricity is diseconomies of small scale. The Territory is unable to cost-recover its electricity generation costs because of its small, and highly dispersed population. Economies of scale in energy provision are achieved through two ways. First, through spreading the high capital costs associated with electricity infrastructure over a larger population base. To achieve this, electricity generation and distribution infrastructure is connected together into large networks.

16.23 For example, the National Energy Market (NEM) which covers 6 states captures about 90 per cent of Australia's population and a similar amount of Australia's economic activity. The size of the NEM allows for significant scale gains to be realised. In the Territory's case, the electricity market is fragmented into three main grids: Darwin/Katherine, Tenant Creek and Alice Springs – which are too small to realise scale efficiencies.

16.24 Secondly, large scale electricity markets attract competition. The NEM has a significant number of firms competing across all aspects of the electricity market. The small size of the Territory's markets means that it is significantly more difficult to attract firms willing to enter the market, and as such, the electricity market in the Territory is monopolised by one provider, which receives significant subsidies to ensure that remote regions of the Territory have access to electricity.

16.25 The lack of integration into the NEM also stops Territory customers accessing lower cost alternatives to gas such as coal. Gas is more expensive than coal and is the predominant fuel source used for the generation of energy in the Territory.

16.26 Given these factors, the Territory's view is that applying an EPC assessment is not appropriate and that uniform tariffs should be differentially assessed in recognition of the impacts of location and service delivery scale on the provision of electricity services.

16.27 Table 16.3 shows that those states with less than 1 per cent of their population living in remote and very remote areas (New South Wales, Victoria and the Australian Capital Territory) provided low or zero electricity subsidies. This is due to the ability of larger states, with small shares of their population residing in remote and very remote areas, to better absorb costs due to their size. Further, it demonstrates that subsidies are primarily provided to remote and very remote communities.

Table 16.3: State electricity subsidies per capita and the proportion of people living in remote/very remote areas, 2011-12

	Electricity Subsidies	Remote and Very remote
	$ per capita	%
NSW	0	0.5
Vic	0.1	0.1
Qld	92.0	3.0
WA	230.8	6.8
SA	9.7	3.6
Tas	16.0	2.1
ACT	0	0
NT	553.6	43.9

Source: CGC calculations, Department of Treasury and Finance calculations

Uneconomic Providers

16.28 The Territory supports the proposal to assess electricity subsidies to uneconomic providers based on the proportion of the population living in remote and very remote communities of between 50 and 1000 people.

16.29 In the Territory's view this corresponds well with state policy, which is to ensure that all communities have access to electricity. In some cases it is not practical to connect these communities to the main grid due to factors such as remoteness and population size. Instead governments provide stand-alone generators to service community needs which add costs to the provision of electricity for these communities.

16.30 In smaller remote communities which have much higher overhead costs, the Northern Territory Government provides grant funding to Indigenous Essential Services (IES), which specialises in providing services to remote communities. IES services 72 communities across the Territory and operates 52 diesel-fired power stations and over 1 000 km of power distribution lines.

16.31 While Diesel generators are reliable and easy to maintain, they are more expensive to operate due to: the high cost of diesel relative to gas and coal; the logistical cost of providing fuel over long distances; and the need to maintain sizeable reserves due to long lead times and risks such as road failure due to flooding. In 2012, 29.63 million litres of diesel fuel was transported to remote Territory power stations.

16.32 Given these factors, the Territory supports Commission staff's proposal for the assessment of subsidies to uneconomic providers because it recognises that it is intrinsically more expensive to provide services to small remote communities.

Simplification

Staff propose to recommend the Commission:

- Combine the water and electricity subsidies assessments into one assessment with two parts because they have the same assessment methods
- Rename the assessment utilities subsidies assessment.

16.33 The Territory supports merging the water and electricity subsidies into a single assessment as it will enhance simplification.

Staff propose to recommend the Commission:

- Reallocate State concession expenses on water and electricity subsidies to the Welfare category.

16.34 The Territory supports this proposal because concessions for water and electricity are a welfare-type expense.

Staff propose to recommend the Commission:

- Note that the definition of discrete Indigenous community needs to be revised to reflect the new census information and the discontinuation of CHINS. This will be done for the 2014 Update.

16.35 The Territory supports discussing this issue in the 2014 Update.

Staff propose to recommend the Commission:

- Examine the practicality and materiality of making an assessment of State recurrent spending on mining related expenses included in this category.

16.36 The Territory supports this proposal provided the data is fit for purpose and the assessment material. Further discussion of this issue can be found in the Territory's response to Chapter 22 –Mining Related Expenditure.

17 Justice Services

Staff propose to recommend the Commission:

- Assess 50% of police expenses on the basis of state population (community policing) and 50% on the basis of population influences linked to the increase occurrence of crime (specialised policing) due to the lack of nationally consistent data on police activity resourcing.

17.1 The Commission proposes to continue to split police expenditure into community policing, which is assessed on an equal per capita basis, and specialised policing which is differentially assessed. The Territory has long opposed the splitting of police expenditure because the majority of community policing expenses are influenced by the same population drivers as specialised policing.

17.2 Crime prevention strategies which are a key component of community policing are targeted at groups most likely to commit crimes. For example, the West Australian Crime Prevention Strategy 2011-14 recognises the significant role played in committing offences by "priority groups who are disproportionately represented in criminal justice statistics including: young people, Aboriginal people, Prolific and Priority offenders" and supports focusing on these key offender groups to help prevent crime.

17.3 A key role of community policing is to monitor repeat offenders. For example, the Northern Territory's Crime Reduction Strategy notes the role of repeat offenders in property crimes stressing that they "commit a disproportionate amount of crime" and that "drugs are often a motivation" with "drug dependent offenders… likely to be involved". As a result, the strategy recommends "targeting of active criminals who are responsible for repeat offending. This includes monitoring of bail conditions or court orders as an effective deterrent to the Commission of further offences."

17.4 Similarly, Western Australia's Family and Domestic Violence Strategy 2009-2011 stresses the need to identify and monitor repeat offenders and their victims because repeat offenders are a major driver of the incidence of family and domestic violence. Monitoring helps to disrupt the 'cycle of violence' by managing the risk of recidivism and encouraging victims to report crimes. The strategy also stresses the need to engage with Indigenous communities to 'raise awareness that family and domestic violence is both unacceptable and criminal'.

17.5 Road safety initiatives which are a major community policing issue are not developed for the population as a whole. The majority of road safety expenses are directed at those components of the population who are most likely to commit offences. For example, the Victoria Police Child and Youth Strategy 2009 – 2013 notes that "young people, up to the age of 24 years… are consistently over-represented in our state's crime and road crash statistics". The strategy identifies five key areas to help reduce youth interactions with the criminal justice system. This includes road trauma with "activities against these priorities… incorporated in annual action plans" with Regional police commands responsible for developing "targeted evidence based initiatives" to address this issue.

17.6 The National Indigenous Law and Justice Framework aims to "eliminate Indigenous disadvantage in law and justice" but recognises that that a narrow criminal justice approach is inadequate to deal with the complex issues associated with Indigenous offending. Rather, the framework recommends a multi-pronged approach that incorporates the use of community policing strategies which aim to reduce the need for Indigenous interactions with the criminal justice system.

17.7 Alcohol related violence is the most serious community policing issue in the Territory. The Territory's Alcohol Policing Strategy stresses that alcohol related violence "makes our job of effectively policing our community more difficult". The strategy focuses on measures aimed at targeting offender hotspots "in and around licensed premises, public places and at major events" where a significant amount of alcohol related violence occurs and notes the need to target policing resources at at-risk groups such as youth and people living in remote communities.

17.8 The Territory's view is that only a small proportion of community policing expenses are directed at the population as a whole and that in general the majority of community policing is targeted at selected populations. In the Territory's view this strongly suggests that all police expenditure should be differentially assessed based on socio-demographic characteristics.

Staff propose to recommend the Commission:

- Examine the upcoming AIC police custody survey data to determine whether the current data can be updated and whether a 25% discount of specialised police use rates is still warranted.

17.9 In the 2010 Review, the Commission indicated that the 25 per cent discount of specialised policing was applied on the basis of differences in the complexity of police investigations, concerns about custody data and because some policing activity does not include taking people into custody. These issues were raised with particular reference to Indigenous users of police services.

17.10 The Territory argues these concerns are not a valid rationale for the level of discounting applied by the Commission, noting that there is evidence that population groups with high custody rates, such as Indigenous males, are not necessarily in custody for simple misdemeanours.

17.11 Table 17.1 shows Indigenous offenders also commit serious crimes requiring complex police involvement at rates well in excess of the non-Indigenous population. In the Territory's view this constitutes strong evidence that the 25 per cent discount applied to specialist policing is not merited.

Table 17.1: Selected finalised offences in higher courts by Indigenous and non-Indigenous status, 2011-12

	Indigenous		Non-Indigenous		
	No.	Rate per 100 000	No.	Rate per 100 000	Ratio
Homicide and related offences	9	1.3	39	0.2	7.5
Acts intended to cause injury	285	42.5	590	2.7	15.6
Sexual assault and related offences	101	15.1	539	2.5	6.1
Illicit drug offences	38	5.7	38	2.9	2.0

Source: ABS, Criminal Courts 2011-12

Staff propose to recommend the Commission:

- Investigate whether data derived from the AIC survey can be used as a basis for introducing a discount and/or cost weight for criminal court data.

17.12 The Territory supports further investigation of this issue pending the upcoming release of the Australian Institute of Criminology survey of criminal courts.

Staff propose to recommend the Commission:

- Investigate whether data derived from the new AIC survey can be used as a basis for introducing Indigenous cost weights.

17.13 In the 2004 Review, the Commission applied an Indigenous cost weight to the assessment categories that correspond to the current justice assessment (i.e. Police, Administration of Justice and Corrective Services).

17.14 The Territory does not believe there has been any decrease in the costs of providing justice services to Indigenous people and that since the 2004 Review period there has been an increase in the complexity of cases that have resulted in additional time and cost for courts.

17.15 As noted in the 2010 Review, the increased costs for the Indigenous population are driven by the increased complexity of delivering a mainstream service and by additional programs and services because mainstream services are not responsive to the needs of Indigenous people.

17.16 Investigating child abuse is more difficult in the Territory owing to the high proportion of Indigenous victims and perpetrators. The Child Abuse Taskforce is designed to overcome the language, cultural and other barriers which inhibit the successful criminal prosecution of perpetrators of child abuse and the removal of these offenders from the family and community and therefore incurs additional costs in relation to the Indigenous population.

17.17 The English language skills of the Indigenous population in the Territory are low. To address this issue, the Territory has the Aboriginal Interpreter Service (AIS) which employs 400 registered interpreters and is one of the largest employers of Indigenous people in Australia. The AIS provides translation services in the approximately 100 Indigenous languages and dialects of the Northern Territory. Translation services are provided in a significant number of criminal justice matters involving Indigenous people.

17.18 The need to provide support services for Indigenous people with poor English language skills extends to the need to provide technical legal assistance. For example, the Northern Territory Parole Board has entered into a formal agreement with the North Australian Aboriginal Justice Association (NAAJA) to operate a Prison Support Officer Project. Under this agreement, the Parole Board is required to send to NAAJA's Prison Support Officer the parole boards correspondences with the prisoner. The Prison Support Officer then explains the correspondences to the prisoner and helps them to navigate the criminal justice system.

17.19 The Territory often has to provide programs specifically tailored to Indigenous needs, especially in cases where mainstream programs would not be appropriate. For example, the Northern Territory Department of Correctional Services operates the Elders Visiting Program which seeks to re-connect Indigenous offenders with their community and culture while in the corrections system. This helps prisoners return and reintegrate into their communities which can reduce the likelihood of reoffending.

17.20 In the Territory repeat Indigenous traffic offenders make up a significant share of offenders in prison. The Traffic Offender Intervention Program (TIOP) is intended to provide targeted interventions for Indigenous offenders convicted of traffic offences. The TOIP is a driver education program that provides prisoners with the information and skills necessary to drive responsibly and keep them out of prison.

17.21 In the Territory's view the need to provide English language services and culturally appropriate services and programs constitutes a strong argument for introducing an Indigenous cost weight.

18 Roads

State views are sought on:

- whether the consultant's report provides a suitable basis for assessing any additional effects of the physical environment on road maintenance costs.
- the use of UCLs to determine urban/rural boundaries and the urban and rural road length disabilities, despite SMVU data (used in the road use factors) being based upon Statistical Districts and Greater Capital City Statistical Areas.

Consultant's report

18.1 The Territory has previously stated that the physical environment has a material impact on the cost of constructing and maintaining state infrastructure. In the 2010 Review, the Territory expressed its support for the development of a physical environment assessment but acknowledged the scarcity of comprehensive and robust data to support such an assessment.

18.2 The Commission has also previously found that there is a link between the physical environment and road maintenance costs. In the 2004 Review, the Commission cited results of its own research for the 1999 Review which showed that, on average, about 62 per cent of road maintenance costs were attributable to the physical environment. The impact was particularly significant for rural roads, where the physical environment was found to be responsible for 85 per cent of maintenance costs.[9]

18.3 While it is clear that a case does exist for the assessment of the impact of the physical environment, the issue that has impeded the development of an assessment in the past has been the lack of robust supporting data.

18.4 The Territory considers that the consultant's report represents the most comprehensive work available for the Commission's purposes aimed at measuring the impact of the physical environment on the cost of maintaining roads and other state infrastructure. Through a consideration of three 'asset classes' (urban and rural state roads, public schools and public housing), the consultant's report demonstrates the link between topography, rainfall, temperature, wind, shrink/swell of soil and acid sulphate in soil and the cost of constructing and maintaining state infrastructure.

18.5 The Territory notes that the consultant has recommended that:

[9] Commonwealth Grants Commission Discussion Paper 2002/34 – *The Roads assessment*, August 2002

- further work be done to test the assumptions and cost uplift factors derived in the consultant's report; and
- the Commission seek more comprehensive data on construction and maintenance costs for each asset class, to provide more detail on the impact of each physical environment characteristic examined in the consultant's report.

18.6 While there remains some work to be done, the Territory believes that the consultant's report provides a sound basis for the development of a physical environment assessment.

UCLs

18.7 In the 2010 Review, the Roads assessment recognised the following disabilities:

- urban roads;
- rural roads;
- local roads managed by states;
- bridges;
- other services (including corporate services, driver licensing and vehicle registration); and
- interstate location.

18.8 The urban and rural roads disabilities were measured using composite factors comprising road length and road use disabilities, which were measured on the basis of the Australian Bureau of Statistics' (ABS) Statistical Districts and Greater Capital City Statistical Areas data. For the 2015 Review, Commission staff propose to use the ABS's Urban Centre Localities (UCLs) for the road length disability, as UCLs capture less of the surrounding hinterland of urban areas. However, due to lack of comparable data, the same approach cannot be taken for the road use disability. Consequently, adoption of UCLs would create an inconsistency between the assessment of road length and road use.

18.9 The Territory accepts the conceptual case for adopting UCLs; namely that they provide a more focused classification of urban areas. This appears to be an appropriate way of determining urban boundaries. Further, as UCLs are part of the Australian Statistical Geography Standard adopted by the ABS in the 2011 Census to replace the Australian Standard Geographical Classification, the use of UCLs will support the contemporaneity of the Roads assessment. However, due to the inconsistency that would arise in the assessment of road length and road use, the Territory considers that more information on the anticipated impact of the adoption of UCLs should be provided.

Staff propose to recommend the Commission:

- not pursue the data request for State roads spatial data.

18.10 In 2013, Commission staff sent a questionnaire to states regarding the availability and format of spatial data for roads, with a view to subsequently sending a data request to inform potential changes to the synthetic road network used in the Roads assessment. While the Territory responded to the questionnaire, Commission staff consider that there is insufficient time in the 2015 Review to pursue a related data request. Further, the Territory notes the Commission staff's finding that the potential changes to the synthetic road network would not be material for any state. On this basis, the Territory supports the proposal to not pursue the data request for state roads spatial data in this review.

Staff propose to recommend the Commission:

- continue the assessment method adopted in the 2010 Review, with changes limited to some technical changes to the urban/rural boundaries.

18.11 The assessment method adopted in the 2010 Review is based on sound principles and largely captures the relevant roads disabilities. The Territory supports the proposal to continue this assessment method, with changes limited to some technical changes to the urban/rural boundaries.

19 Transport

Staff propose to recommend the Commission:

- Assess, for urban transport, consolidated net operating expenses of the general government and PNFC sector, and subsidies to private providers.
- Assess, for non-urban transport, subsidies to service providers.
- Assess urban transport investment and depreciation in the investment and depreciation categories as for other services to ensure these expenditures are assessed in the same way.

19.1 Commission staff propose to expand the scope of equalisation to capture transport services provided through PNFCs. While supportive in principle of capturing transport PNFCs, the Territory is unsure of how this would be handled given that state treatment of metropolitan rail and tram networks varies considerably. For example some states such as New South Wales have maintained control of the operational side of their metropolitan rail and tram networks through the establishment of specialist PNFCs while others such as Victoria have leased operations to private consortiums. These private consortiums are for-profit enterprises. The Territory requests that Commission staff provide further information on how it proposes to treat transport PNFCs.

19.2 The Territory supports assessing non-urban transportation subsidies to service providers to recognise that smaller inter-regional bus lines typically receive government subsidies to provide services in often poorly serviced remote areas.

19.3 The Territory's Department of Transport provides funding to support the provision of bus services to remote and regional communities. As part of the Northern Territory Integrated Regional Transport Strategy this has been significantly expanded to cover additional communities including Borroloola, Nhulunbuy and Yirrkala while existing networks in Alice Springs and Katherine have also been expanded.

19.4 Owing to the distance between the communities, their small size and the high costs of providing the service the Territory Government has been providing subsidies to a range of private operators to ensure the commercial viability of the routes.

19.5 The Territory supports the Commission staff's proposal to adopt a consistent approach to the treatment of investment and depreciation for urban transport investment.

Staff propose to recommend the Commission:

- Retain the simple model for the purposes of this assessment.

19.6 The Territory supports retaining the current model due to its simplicity and transparency.

State views are sought on:

- A possible assessment of relative distance between urban areas.

19.7 The Territory supports Western Australia's proposal to recognise the additional cost of providing transportation services for widely dispersed urban populations.

19.8 The Commission staff proposal to use the rural road length factor as a proxy seems appropriate given that the additional cost of providing these services; for example maintenance, fuel usage and wages, are largely a function of the distance between urban centres.

19.9 Regional differences would have an impact on the provision of services but the Territory is doubtful that these would capture the full cost of providing public transport services between urban areas.

20

Priority Issue Transport Infrastructure

Staff propose to recommend the Commission:

- Assess urban transport investment using the relationship between capital city asset values and population, subject to obtaining asset value data for Sydney, Brisbane and Darwin and testing whether the 2 relationships are materially different
- Apply the assessment to capital cities and their main satellites only
- Freeze the stock disabilities until the regression model can be re-estimated
- Assess depreciation expenses using the net operating expenses relationship.

20.1 The 2015 Review Terms of Reference directs the Commission to have regard to the recommendations of the GST Distribution Review to develop a new transport infrastructure assessment.

20.2 To this end, Commission staff consider that including the investment and depreciation of urban transport PFNCs in the adjusted budget is the best way of ensuring that capital needs of states relating to roads and subsidised urban transport services can be assessed. Commission staff consider the current roads infrastructure assessment should be continued and a new urban transport investment and depreciation assessments be developed.

20.3 The urban transport investment assessment will assess the three disabilities. Population growth and cost disabilities will be assessed consistent with the investment assessment, this is considered appropriate. The quantity of stock disabilities is to reflect transport infrastructure specific use disabilities.

20.4 The Territory supports Commission staff's proposal to use the relationship between capital city asset values and population as a proxy for urban transport investment need. The Territory notes that data on asset values is being sought as part of the 2015 Review Transport data request.

20.5 The Territory supports limiting the scope of the assessment to capital cities and their associated satellites because of the extent to which state infrastructure assets are concentrated in the capital cities.

20.6 Commission staff's proposal to freeze the transport stock disabilities until the model can be re-estimated seems reasonable given the difficulties associated with sourcing annual capital city asset data.

20.7 The Territory supports Commission staff's proposal to continue to assess depreciation expenses using the net operating expenses approach because it is simpler, requires less judgement and the alternative approach proposed by the Commission, which involves removing depreciation expenses from operating expenses, is unlikely to be able to be done reliably.

Staff views are sought on:

- Is the current approach for determining the treatment of Commonwealth payments – whether needs are assessed –sufficient to ensure the achievement of HFE and consistency in the treatment of transport and roads infrastructure payments?
- Is the Commission failing to assess needs relating to infrastructure projects, including in the proposed new urban transport infrastructure assessment?
- How would the Commission ensure that that infrastructure needs are not funded twice – through the GST and through direct Commonwealth payments?
- Is it practical for the Commission to develop a framework to decide payments of national significance? If so, how would this be done?
  - How could spill over effects be measured?
  - What other approach might the Commission adopt to decide the proportion of any payment of national significance for which needs should be assessed? Could governments agree on payments which should not impact on the relativities and include instructions on this in Commission Terms of Reference?

20.8 Commission staff's proposal to continue including by default all Commonwealth transport infrastructure payments is appropriate given that the transport infrastructure assessment captures the key drivers of transport infrastructure demand.

20.9 Excluding Commonwealth transport infrastructure payments or applying a uniform discount would undermine HFE outcomes because it would result in material differences arising in the capacity of states to provide the average level of services.

20.10 The Commission has, in some limited circumstances, excluded parts of transport infrastructure payments such as the National Network Roads payment because in the Commission's view the assessment could not capture all the non-policy influences on state expenditure.

20.11 Some states have claimed that the Commission has been inconsistent in its treatment of Commonwealth transport infrastructure payments, particularly those payments relating to the construction of rail infrastructure projects of national significance.

20.12 The Territory accepts that the Commission's approach may have been inconsistent but believes this is largely the result of a lack of clear guidelines to inform the Commission's treatment of Commonwealth transport infrastructure rather than a flaw in the Commission's approach to treating infrastructure payments on a case by case basis.

20.13 For this reason, the Territory believes the Commission should develop guidelines that should at minimum include: a set of criteria which would be used to determine whether the needs that the payment is addressing are captured in the assessment; and a schedule which contains information on the appropriate level of discounting given both quantitative (e.g. spill-over effects for national productivity) and qualitative inputs (e.g. Commonwealth 'need' for projects).

20.14 The Territory is not aware of any material differences in the treatment of transport infrastructure which the Commission is not capturing under its proposed assessment.

20.15 The Territory believes that the Commission's current assessment is more than capable of ensuring that states' infrastructure needs are not funded twice.

20.16 The Territory supports Commission staff developing a consistent set of guidelines which set out how transport related infrastructure payments should be treated. The Territory favours this approach over one that would involve state input because it is more likely to result in policy neutral outcomes.

21
Services to Industry

Staff propose to recommend the Commission:

- make a separate assessment of mining regulation expenses only if the Commission identifies other mining related expenditure assessments that would in total satisfy the Commission's material threshold for a disability.

21.1 The Territory supports a separate assessment of mining regulation expenses provided it is material. The Territory believes the mining industry imposes unique costs on state governments which should be recognised in the equalisation process.

21.2 However, the Territory questions the suitably of using the ABS Count of Australian Businesses to measure the size of the mining sector. The 'non-profiled' section of the ABS' data uses firms listed Australian Business Register addresses to infer location. This is problematic because mining firms are often registered in Perth regardless of where their operations are located. For example, the ABS records the Territory as having no businesses engaged in iron ore mining despite the presence of three operating iron ore mines at Roper Bar, Roper River and Frances' Creek.

21.3 The Territory has similar concerns about the suitability of the ABS Count of Australian Businesses employment data in cases where it accurately captures at least some mining activity. For example, three firms are recorded as being involved in bauxite mining in the Territory. However, these are all listed as being 'non-employing' (i.e. self-employed tradesmen) despite the presence of a large bauxite mine at Gove. Given these issues, the Territory does not believe that the Commission staff's proposed data set is fit for purpose.

21.4 The Territory is not aware of an alternative data source which directly captures mining related employment. However an alternative could be to use Geoscience Australia's Australian Mine Atlas which provides information on the number of operating mines by type in Australia adjusted to reflect average employment figures for each major mine type with the data derived from publically available sources. In the Territory's view this would likely result in a more accurate measure of mining related employment.

Staff propose to recommend the Commission:

- continue to use the 2010 Review State survey results as the basis for determining expense and disability weights and continue to apply a low level discount (12.5%) to the weights.

21.5 The Commission proposes to continue to apply a 12.5 per cent discount to its assessment of regulatory expenses because some business development expenses (e.g. the provision of geological information and services) might be captured in the assessment. While the Territory agrees that there might be some overlap between regulatory expenses these are not likely to be large enough to justify the application of a discount.

Staff propose to recommend the Commission:

- continue to assess business development expenses on an EPC basis.

21.6 In the absence of a viable alternative, the Territory supports an EPC assessment of business development expenses.

Staff propose to recommend the Commission:

- net off mining regulation user charges from mining industry regulation expenses.

21.7 The Territory supports this proposal because it is average state policy to try and recoup the costs of providing regulatory services.

Staff propose to recommend the Commission:

- move all VET expenses from the Services to industry category to Post-secondary education.

21.8 The Territory supports the proposal to move all VET expenses from the Services to Industry category to the Post-Secondary Education category because VET services are more synonymous with education type services than industry related services.

Staff propose to recommend the Commission:

- apply the general regional cost disability to regulation expenses.

21.9 To enforce state regulatory regimes, states conduct on-site inspections of businesses, including those in regional areas. This adds considerably to the cost of states with large regional areas through increased transport and wage related costs.

21.10 In cases where there is sufficient demand for regulatory services or where there is need for ongoing supervision, states establish regional offices which are more expensive due to additional costs associated with wages, housing and transportation in regional areas.

22

Priority Issue Mining Related Expenditure

State views are sought on:

- the practicality of identifying mining related expenses in GFS
- an appropriate indicator or driver for assessing these expenses.

22.1 Commission staff consider that mining related expenditure should be limited to the expenditure directly associated with the development and management of mining activities. As expenses in the ABS's Government Finance Statistics (GFS) are aggregated into broad categories, it would be difficult to identify the mining-related components of these expenses. To use GFS data, the Commission would need to either apply judgement as to the proportion of GFS expenses that relate to mining, or request further data from states. Such an approach may not yield reliable or comparable results.

22.2 As the Territory has previously suggested, an alternative approach could be to use an avoidable cost approach, which identifies expenditure on government services and infrastructure that would not have been incurred in the absence of private investment in mining and energy projects and activities. Given the significance of a mining related expenditure assessment, the Territory considers that any data requests sent to states in this regard would need to be very narrowly defined to ensure that comparable and relevant data is obtained.

States are asked to provide:

- data on the number and socio-demographic characteristics of FIFO workers and empirical evidence that FIFO workers use State services more intensively than non-FIFO workers
- evidence of how duplication costs arise in practice and their scale.

22.3 The ABS reports employment of fly-in/fly-out (FIFO) workers in the state where they usually reside rather than where they are employed. This is significant to the Territory, which hosts a substantial share of the national FIFO workforce relative to its share of the population. Despite accounting for 1 per cent of the national population, the Territory is the place of work for about 4 per cent of all FIFOs in Australia.

22.4 Specific time series data on the number and socio-demographic characteristics of FIFO workers in the Territory is not available, however, the Territory is able to provide data from the 2011 Census. It is important to note that there is considerable diversity in the characteristics of FIFO workers in different industries in the Territory. For example, the age and gender characteristics of FIFO workers in the mining industry are very different to those of FIFO workers in other industries such as health. As a result, aggregated data on the characteristics of FIFO workers in general may not accurately reflect the characteristics of FIFO workers in mining.

22.5 Census data shows that in 2011, the Territory's total non-resident workforce was around 5200 people or about 5 per cent of total employment in the Territory. Of these workers, 70 per cent were male, with the largest age-group being 50-54 years (Table 22.1).

Table 22.1: FIFO workers in the Northern Territory by age and gender, 2011

Age	Males	Females	Total	% of total FIFOs
15-19	73	52	125	2.4
20-24	355	156	511	9.8
25-29	430	221	651	12.5
30-34	348	154	502	9.7
35-39	385	113	498	9.6
40-44	404	108	512	9.9
45-49	409	153	562	10.8
50-54	453	214	667	12.9
55-59	377	205	582	11.2
60-64	273	109	382	7.4
65-69	116	47	163	3.1
70-74	24	10	34	0.7
Total	3 647	1 542	5 189	100.0

Source: ABS, 2011 Census

22.6 Table 22.2 shows the characteristics of FIFO workers in the mining industry. More than 90 per cent of FIFO workers in the mining industry were male. Compared to the total FIFO worker population, FIFO workers in mining exhibited a relatively younger age profile, with a smaller proportion of workers aged 55 years and over.

Table 22.2: Mining industry FIFO workers in the Northern Territory by age and gender, 2011

Age	Male	Female	Total	% of mining FIFOs
15-19	9	0	9	1.0
20-24	71	9	80	8.8
25-29	105	16	121	13.4
30-34	94	7	101	11.2
35-39	103	12	115	12.7
40-44	109	9	118	13.1
45-49	100	6	106	11.7
50-54	117	7	124	13.7
55-59	67	5	72	8.0
60-64	42	3	45	5.0
65-69	10	3	13	1.4
70-74	0	0	0	0.0
Total	827	77	904	100.0

Source: ABS, 2011 Census

22.7 Table 22.3 shows that the majority of FIFO workers were based in remote and very remote parts of the Territory, with the Greater Darwin region accounting for only 5 per cent of mining industry FIFO workers in the Territory.

Table 22.3: FIFO workers in the Territory by region, 2011

Region	% of all FIFOs	% of mining FIFOs
Greater Darwin	29.0	5.1
Katherine	7.0	6.7
East Arnhem	12.7	21.3
Daly-Tiwi-West Arnhem	7.6	13.7
Barkly	2.9	4.9
Alice Springs	14.5	21.3
No fixed address[1]	11.8	7.7
Not specified	14.6	19.1
Total	100.0	100.0

1: Includes migratory/offshore/shipping FIFO workers
Source: ABS, 2011 Census

22.8 While mining related infrastructure costs are primarily borne by mining operators to the extent that they directly benefit, the establishment of mining projects also has implications for other areas such as education and health. The Territory accepts that the impact of increases in the service population in an area due to FIFO workers is captured in the existing socio-demographic characteristics component of the relevant assessments. For example, the impact of an increase in the use of health services in a mining community would be captured in the Community Health assessment. The Territory is not aware of any empirical evidence of a duplication of costs that can be attributed to the existence of FIFO workers.

State views are sought on:

- the average cost recovery period for different types of infrastructure to allow the Commission to assess any potential impacts on relative fiscal capacities
- how to determine the average State policy on the timing of infrastructure provision
- any reliable or nationally consistent datasets that would allow the Commission to measure the cost of inefficient capital utilisation linked to structural change for all States to allow the Commission to assess any potential impacts on relative fiscal capacities.

22.9 The Territory provides a range of mining-related infrastructure, including road works/upgrades to address increased heavy vehicle traffic associated with projects such as the McArthur River Mine (Carpentaria Highway) and the Ichthys liquified natural gas project in Darwin (Stuart and Arnhem Highways and related arterial roads). While this infrastructure is provided to support the mining industry, the Territory also recognises that there are associated "public good" benefits. Upgrades to the Territory's road network benefit both the mining operators and the broader community. Consequently, the Territory does not consider that there is a quantifiable "cost recovery" period attached to such infrastructure. In any case, due to the remoteness and small population of the Territory's centres, it is often not practical to implement a direct "user charges" system as a means to recover the cost of providing infrastructure.

22.10 Commission staff have invited comments on the availability of data that would allow the Commission to assess the impact of inefficient utilisation of capital on relative fiscal capacities. The Territory is not aware of any nationally consistent datasets that would support this process.

State views are sought on:

- how the Commission could consistently identify and measure the influence of unique State policy on their tax bases.

22.11 The Territory believes that attempting to assess the "unique" policies implemented by states in response to their particular circumstances would be a complex process that would require substantial judgement. For example, in considering the impact of unique policies implemented by a state in the past (which continue to impact the state's current fiscal capacity), the Commission would need to exercise judgement on how far back in history to look. In addition, reaching an acceptable definition of what is considered "unique" policy would cause further difficulty. To regard a policy as unique, the Commission would have to be satisfied that no other state, if faced with similar circumstances, would implement the same policy. The Territory is not aware of a universally accepted method that could be used for this purpose.

23 Other Expenses

Staff propose to recommend the Commission:

- retain the current assessment of other expenses for the next review, amended if required for state natural disaster expenses.

23.1 The Territory supports retaining the current assessment of other expenses and would support an APC assessment of natural disaster expenses provided it is material.

24 Infrastructure

State views are sought on:

- whether an alternative presentation based on gross capital expenditure would make that clearer. To allow for the different factors affecting investment and depreciation, an alternative presentation would include two components.

24.1 The Commission's current approach to assessing infrastructure needs is simple and transparent. The current approach separately assesses the two components of infrastructure costs: Depreciation and Investment.

24.2 Depreciation measures how much of an asset's value has been used in a year and requires replacement, while Investment refers to the addition of new infrastructure in a year. For the purposes of the Commission's assessment the two are mutually exclusive and do not result in double counting.

24.3 The Territory does not consider the proposed alternative presentation based on gross capital expenditure would enhance transparency and understanding of the current Infrastructure category. On this basis a change to the current category presentation is not supported.

Staff propose to recommend the Commission:

- continue to use its existing methods to recognise that population growth affects State needs for infrastructure and financial assets.

24.4 The Territory strongly supports the continued recognition of the impact population growth has on states' needs for infrastructure and financial assets. The 2010 Review Report states that the Commission accepts there is a strong conceptual case that population growth is a major driver of state infrastructure spending. The Territory considers there have been no significant changes since that time to the contrary.

24.5 Population growth is the key determinant of capital needs and a major driver of capital expenditure. Population growth increases demand for state services and further on the infrastructure that supports these services. Expenditure on additional infrastructure such as classrooms, hospital beds, public housing etc is therefore driven by population growth.

State views are sought on:

- which recurrent disabilities do not affect infrastructure requirements.

24.6 Refer to discussion below.

Staff propose to recommend the Commission:

- continue to base the infrastructure factors on the recurrent disabilities
- exclude those disabilities which have minimal impact on infrastructure
- review the requirement for the 12.5% discount.

24.7 The Territory supports the use of recurrent disabilities as proxies for infrastructure factors. The conceptual case linking factors which drive higher service use and cost with demand for additional infrastructure is well established, namely socio-demographic factors and service delivery scale.

24.8 The Territory strongly disagrees with the assumptions outlined in Table 24-4 and does not support omitting the following recurrent disabilities, for reasons outlined below.

- Schools/Post Secondary – it is accepted that it costs more to educate low SES and Indigenous students relative to other students and this is reflected in higher cost weights for these students. Students from these demographics are more likely to be cognitively less developed than their peers and suffer from extremely poor health outcomes. These factors result in the need for additional teaching resources, and therefore support staff and offices at the regional and central level and in many instances subsidised housing, as well as specialist infrastructure to address their educational needs. Examples of the additional infrastructure required to support high cost low SES and Indigenous students are listed below and detailed in Attachment A:
  - modified classrooms to counteract hearing difficulties;
  - additional classrooms to deliver accelerated literacy programs and regular cultural activities by community members;
  - kitchens to provide nutrition programs;
  - additional specialist rooms to provide crèches for students with children;
  - schools that are essentially maintained to enable students to stay on land, rather than travelling or doing distance education;
  - infrastructure catering for early years learning needs e.g. Family as First Teachers;
  - trade training centres or other training infrastructure in communities that would possibly not be provided in other jurisdictions.

- Welfare and Housing – Indigenous cost weights reflect the extra management and maintenance costs of housing occupied by Indigenous housing tenants compared to the cost of other tenants in similar locations. Overcrowding in Indigenous housing is well documented and is a significant driver of the high management and maintenance costs of public housing in the Territory. Not only does the impact of overcrowding lead to reduced economic life of the Territory's existing infrastructure it is also indicative of the Territory's additional infrastructure needs. The following provides further evidence that houses for Indigenous tenants cost more to build or are replaced more frequently:
  - The lifespan of social housing provided to Indigenous people is widely understood to be significantly less than those provided to non-Indigenous people. The Remote Indigenous Housing NP recognised that this was the case and sought to address this by rolling out a "a program of ongoing maintenance and repairs" that will "progressively increases the life cycle of remote Indigenous housing from seven years to a public housing-like lifecycle of up to 30 years" in-line with non-Indigenous housing.
  - The same report notes that the significant increase in cost over the initial estimate was "that the houses will be larger than the average building with a range of specialised features. This additional size and amenity was in response to… overcrowding". Efforts to reduce overcrowding are justified on the grounds that they would prolong the life of the asset.
  - Houses built for Indigenous tenants tend to cost more due to the unique needs of Indigenous people. The 2009 Review of the Strategic Indigenous Housing and Infrastructure Program (SIHIP) program notes that houses "designed in consultation with relevant communities, were bigger than expected in order to cope with overcrowding. As a result they included features such as larger bedrooms and visitor sleeping areas".
  - Further advice from the Territory Department of Housing supports the case that both construction and maintenance costs for Indigenous public housing is higher than that for non-Indigenous housing, reporting that overcrowding is the key driver. The advice highlights the requirement for larger homes, greater capacity for utility provision such as sewerage and water, higher frequency of maintenance, and more complex forms of tenancy management.

24.9 The Territory accepts there may not be a strong case for maintaining the other factors in Table 24-4.

24.10 The Territory does not support the use of discounting. Notwithstanding those disabilities referred to in paragraph 24.9, the Territory is of the view that a strong conceptual case has been established for maintaining all elements of the recurrent disabilities, including those for schools, post-secondary and welfare and housing, and that on this basis the 12.5 per cent discount currently applied to the infrastructure disabilities should be removed.

Staff seek State views:

- on the suitability of using Rawlinsons cost indices to derive a capital cost factor
- on whether a construction cost factor based on Rawlinsons cost indices would adequately capture physical environment and urbanisation disabilities.

24.11 Each capital city faces unique conditions that impact the cost of construction, such as the level of services available, size of markets and population density.

24.12 At a macro level, the Territory is a relatively small market with a limited construction sector that is distinguished by major projects. As a consequence the construction sector is highly susceptible to supply constraints, and inevitably higher costs, while construction in remote regions is affected by another layer of costs, primarily due to difficulty in scaling up. Construction in remote regions is typically impacted by: high transport costs from using road trains and barges; limited local labour and building materials from being far from supply centres; and the cost of accommodation.

24.13 It is essential then that the investment assessment recognises these cost pressures faced by states, therefore the Territory is supportive in principle of a cost index to reflect the cost differential of construction between states. However the Territory has concerns with the use of the Rawlinsons indices, and the Commission staff's proposed approach to addressing gaps in the regional index.

24.14 The use of Rawlinsons Indices to determine the differential unit costs between states may not truly reflect the high cost premiums associated with construction in Darwin. Rawlinsons is very limited in its coverage of construction costs for Hobart, Canberra and Darwin, with the majority of the handbook relating to construction costs in the large capital cities of Sydney, Melbourne, Brisbane, Perth and Adelaide only.

24.15 The Rawlinsons Perth office has advised that while the regional indices are based on all types of construction, the regional variation index is based on a set of common construction infrastructure including administration offices, city hotels, single story warehouses and retail. While the regional variation index may provide a reasonable cost differential between states for such infrastructure, it is unlikely that this index will reflect the true cost differential between states for government type infrastructure such as hospitals, schools, police stations and the like which have quite different design specifications.

24.16 This also raises the question as to whether the regional index for Darwin, which shows cost differentials between Darwin and other locations in the Territory, reflects the true cost differentials as this index uses Adelaide as the base. The top end of the Territory has a fairly onerous cyclone building code which imposes a number of design requirements that are not required in non-cyclonic states such as South Australia. It is estimated that cyclonic-coded buildings cost around 10-15 per cent more than the same non-cyclonic-coded buildings in the Territory.

24.17 The Commission staff also highlight that the Rawlinsons regional indices do not establish a cost index for all locations within a state.

24.18 While the cost premiums, relative to Darwin, for the few locations given in the Rawlinsons regional index are considered reasonable on average, the assumption that locations with similar degrees of remoteness have similar building cost differentials is not considered appropriate.

24.19 Cost of construction between the Rawlinson locations[10] and nearby locations can be substantially different due to factors such as type of access (road or barge), wet season access and the availability of services such as accommodation. The following examples provide evidence to support this.

- Groote Eylandt - Rawlinsons regional index for Groote Eylandt is 185, which indicates that construction costs in this location are around 57 per cent higher compared to Darwin. However, 2012 tender estimates for the construction of a childcare centre at Umbakumba, on the east coast of Groote Eylandt, resulted in the average locality loading for the project at 84 per cent relative to the estimated price to construct the same childcare centre in Darwin.
- Jabiru is on the Rawlinsons regional index (150) with construction costs around 27 per cent higher than Darwin. Jabiru is about 250km from Darwin via the sealed Arnhem Highway – access is straight forward with accommodation, food, petrol, readymix concrete, etc available at higher but reasonable prices. Gunbalanya is only about 60km by road from Jabiru however to get there the East Alligator River must be crossed into Arnhem Land, followed by a dirt road access from the crossing to Gunbalanya. The road access to Gunbalanya is cut off at high tide and during the wet season from December/January through to May/June/July depending on the magnitude of the wet season. Gunbalanya is an aboriginal community where Jabiru is not. Aboriginal communities often have no contractor accommodation, food or general services available and work is often suspended to allow for funerals and other culturally significant events. Tender estimates received in 2013 for the construction of a trade training centre at Gunbalanya resulted in the average locality loading for the project at 56 per cent relative to the estimated price to construct the same centre in Darwin, around two times the cost differential for Jabiru.

24.20 The assumption that locations with similar degrees of remoteness have similar building cost indices is not considered appropriate and the Territory suggests a further weighting be applied to take account of the risk factors (access/services) mentioned above.

24.21 The Territory suggests that the average cost index should be developed based on state infrastructure data. The proposed approach for deriving an average cost index for each level of accessibility and remoteness by weighting building costs in each location by population would not address the issue of scale. In the majority of states where the extent of remoteness is not significant it is possible to concentrate services, and therefore infrastructure, in selected communities. However, in the Territory this is not possible owing to the distances between communities and lack of transport options. For example, to ensure access to education, the Territory provides schools to communities with small populations.

[10] Rawlinsons Australian Construction Handbook, Edition 30 2012, page 934

24.22 As previously stated, the Territory supports the development of a capital cost index, however in light of issues raised over the assumptions in the Rawlinsons cost indices, the Territory suggests the Commission investigate this further with a view to resolving these issues.

State views are sought on:

- whether the report provides a suitable basis for assessing the effects of the physical environment on infrastructure costs.

24.23 The Territory strongly supports assessing the impact of the physical environment on state infrastructure costs.

24.24 The Territory faces a construction cost premium and shorter asset life spans due to environmental factors which are experienced more frequently and/or more extremely than the average, such as the effects of heat, humidity, wind, flooding and soil type.

24.25 The consultant's report provides a conceptual and empirical platform to enable a differential assessment of the impact of these environmental factors on infrastructure costs. Further, the report was prepared using nationally comparable data and follows the Commission's own metrics and definitions, which makes it easily applicable to the current infrastructure assessment.

24.26 The Territory notes that the report omits the impacts of flooding and natural disasters, and as a consequence any physical environment factor would underestimate the additional costs faced by the Territory. Further, the Territory is not convinced that effects of the omitted environmental factors are similar to those that have been measured. For example, the 'wet season' experienced annually in Northern Australia can completely stop construction and maintenance in remote regions, and cause significant delays in non-remote regions - no other environmental characteristic included in the report has adverse impacts on the work itself to the same extent, or is experienced unpredictably. This is above the additional costs incurred to mitigate the impact of flooding and cyclones, for example: flood protection for roads, bridges and rail; the need for levees, stormwater retarding basins and flood control weirs; the maintenance of river channels; and the requirement of structures to be built to withstand a category four cyclone.

24.27 As this disability is omitted due to the lack of data, the Territory encourages the Commission to continue to follow developments in this area so that flooding and natural disasters can eventually be included in the equalisation process.

24.28 Nevertheless, the report provides a suitable basis for assessing the effects of the physical environment and the Territory strongly supports its integration into the infrastructure assessment.

Staff propose to recommend the Commission:

- not assess allowances for intrastate migration because they would be immaterial.

24.29 The Territory considers there is a conceptual case for recognising the additional infrastructure burden from intrastate migration. This is particularly the case for rural regions, where a decline in population has a greater impact on economies of scale as infrastructure is spread over an even smaller population. The Territory notes that Commission staff found that the average annual population decline, by statistical area, is currently less than the average depreciation rate and suggests that any assessment would be immaterial.

24.30 Notwithstanding, the average annual population decline in those statistical areas in the Territory between 2009 and 2012 was 1.2 per cent, which is two times greater than the national average. Further, a far greater proportion of the Territory's population is at risk of migration, with the total number of persons leaving a statistical area in the Territory between 2009 and 2012 making up 0.5 per cent of the population, compared to 0.1 per cent nationally. As there are material differences between states in intrastate migration, it is recommended that the Commission investigate methods to capture this in the equalisation process.

Staff propose to recommend the Commission:

- use the proportions of assets used to provide each service to weight the factors for each service where those proportions can be reliably measured.

24.31 The Territory agrees in principle with this proposal subject to provision of reliable data. Using the national proportion of the stock of non-financial produced assets is considered a better measure by which to weight recurrent disabilities as it implicitly takes into account differences in the depreciation rates and economic life of state assets.

State views are sought on:

- the purposes of their investment in rural roads in the last three years.

24.32 The Territory's rural road investment over the last 3 years has predominantly been for enhancing the Territory's road network, with key programs aimed at widening roads, pavement strengthening, flood immunity improvements, drainage improvements and road safety improvements.

24.33 A key driver of this investment has been the growth in the population residing in rural areas.

24.34 Population growth is a determinant of the level of investment states need to make in their road networks, urban and rural alike. As such, the Commission's assessment should retain the differential population growth disability in the assessment for road infrastructure.

Socio Demographic Influences on Education Infrastructure

Hearing needs in classrooms

24.35 According to the Menzies School of Health Research, Indigenous children have the highest reported rates of otitis media (OM), commonly known as middle ear infection, and burst eardrums in the world. Nine out of 10 young Indigenous children who live in remote communities have some form of ear disease, and currently one in six has burst eardrum(s). Long-term middle ear damage causes hearing loss, which impacts on the development of speech and language, and is linked to educational disadvantage and behavioural problems.

24.36 To address hearing impairment, classrooms with Indigenous students often need to be fitted with sound field amplification systems which consist of a receiver/ amplifier; wall-mounted multiple speakers and one or two teacher transmitters/ microphones. The teacher's voice is transmitted from a microphone to a receiver and amplified evenly throughout the classroom, no matter where the teacher is standing.

24.37 Classrooms also need to be designed to reduce ambient or environmental sound. The noise level in an empty classroom should be kept to less than 35 decibels, and reverberation or echoes controlled with soft coverings on floors and walls.

Specialist rooms to provide crèches for students with children

24.38 Schools require specialist rooms to provide child care services for young Indigenous mothers so they are able to attend school and complete their secondary schooling in communities where there are no organised child care services.

Kitchens for Nutrition Programs

24.39 Many remote schools require kitchens with refrigeration, cooking and cleaning facilities to provide school breakfast and lunch programs for Indigenous students to ensure they have the nutrition and energy to learn effectively. These programs can also provide an incentive for Indigenous students to attend school regularly.

Very Small Schools and Homeland Learning Centres

24.40 Schools and homeland learning centres are operated and maintained in small communities enabling Indigenous students to stay with their families on their traditional lands. These facilities would not be constructed for similarly sized non-indigenous communities because there is an expectation that non-Indigenous students would go to boarding school or undertake distance education. Further, the cost of constructing and maintaining these buildings in remote regions is far greater than in non-remote regions, as previously stated in the submission.

Trade Training Centres

24.41 Trade Training Centres are constructed in small communities to provide vocational training for secondary students so they have the opportunity to gain training and competencies required to find employment in their local area. As with small schools and homeland learning centres, Trade Training Centres would not be constructed for similarly sized non-Indigenous communities and they are expensive to construct and maintain due to their isolation.

Increased Building Security

24.42 Schools and other education facilities in remote communities require additional physical security measures including fences, security screens and shutters to reduce theft and vandalism because there is no capacity to respond to intruder alarms and there is often no staff present in the community during school holiday periods. Increased security measures also need to be applied on teacher and staff accommodation for the same reasons.

25
Net Lending

Staff propose to recommend the commission:

- retain the Net lending assessment regardless of materiality.

25.1 Commission staff propose to expand the scope of equalisation to include the operations of government in providing housing and urban transport services.

25.2 As detailed in chapter 15 of this submission, the Territory supports the proposal to capture services provided through state housing PNFCs on the basis that the housing services are consistent with the practices of those states which have retained the provision of social housing through government departments. In relation to the inclusion of transport PNFCs, the Territory provides in-principle support for reasons outlined in chapter 19.

25.3 Commission staff note that this has implications for the net lending assessment, namely that housing and urban transport infrastructure will no longer be treated as part of net financial assets, thereby substantially reducing the average level of net financial assets.

25.4 Commission staff have indicated that as a result of these proposed changes, the net lending assessment may not be material. Notwithstanding this, Commission staff propose to retain the assessment because net lending is a fundamental process used by all governments, which provides all states with the capacity to hold the same net financial assets per capita.

25.5 The Territory believes the net lending assessment should be retained for completeness, regardless of its materiality, as a state's financial holdings impact its fiscal capacity. Furthermore, the assessment recognises the impact of population growth on states capacity to generate revenue from net financial worth. This is appropriate because population growth significantly impacts states' fiscal capacities.

Staff propose to recommend the commission:

- not make allowances for differences in the revaluation of assets or differential borrowing costs.

25.6 The Territory supports the Commission staff recommendation to not make allowances for differences in the revaluation of assets, on the basis that this would not result in a true reflection of the price paid by states for the assets.

25.7 In the 2010 Review and its first submission to the 2015 Review, the Territory argued for a needs based assessment to capture the difference in borrowing costs between states.

25.8 In the 2010 Review, the Commission accepted that there was a conceptual case for a differential assessment of borrowing costs. However, the Commission concluded that no assessment was warranted as the additional costs were not material.

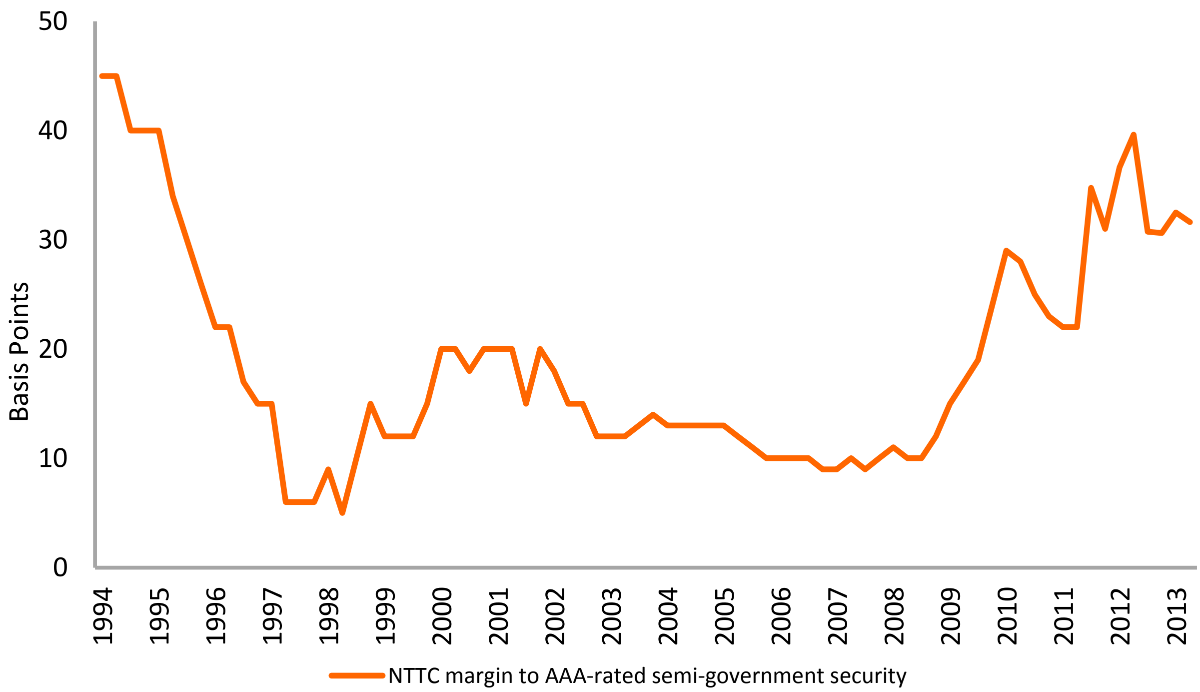
25.9 For the 2015 Review, Commission staff suggest that differences in borrowing costs reflect a number of factors, with most influenced by State policy.

25.10 The Territory is disappointed that the Commission continues to ignore the impact of unavoidable differences in borrowing costs and instead assumes that states face the same costs of borrowing.

25.11 During the 2010 Review Commission staff noted that informal advice from Reserve Bank officials indicated the four smaller states paid about 5 basis points more than larger states due to their lower volumes of debt, and that while the margin may have changed in recent years, an allowance based on higher costs of that order of magnitude falls well short of the materiality thresholds.

25.12 As figure 25.1 shows, the margin for the Territory over AAA-rated state governments has increased substantially, averaging about 31 basis points in 2012-13.

Figure 25.1: Trading Margin



Source: Northern Territory Treasury Corporation (NTTC) 2012-13 Annual Report

25.13 The Territory argues that a cost of borrowing disability should be adopted to recognise that the relatively small size of the Territory's borrowing program does not promote significant trading activity and, as such, the borrowing margin is more a reflection of the liquidity premium demanded by institutional investors for supporting Northern Territory Treasury Corporation's bond issuances. This is not a function of state policy but rather the reality that the size of the Territory is inherently smaller.

25.14 Based on current gross general government debt of around $2.6 billion, an average age of debt of approximately four years, and an estimated average premium of 27 basis points, this equates to an additional impost of around $7.1 million per year for the Territory or approximately $29.55 per capita.

25.15 As outlined in its first submission to the 2015 Review, the liquidity factor as well as the Territory's weaker credit rating position results in a higher premium being placed on holding Territory debt. The Territory reiterates that these factors are outside the influence of Territory Government policy and instead largely reflect non-policy influences, such as the narrowness of the economies in the smaller states and, more specifically for the Territory, because of the Territory's relatively high level of debt which is predominantly a result of its early stage development.

25.16 For the reasons above, the Territory encourages the Commission to include a cost of borrowing disability to recognise that smaller states have a higher cost of borrowing relative to the larger states.

Staff propose to recommend the commission:

- remove the 25% discount from the assessment.

25.17 In the 2010 Review, the Commission adopted a 25 per cent discount in the net lending assessment to account for uncertainty around the assumptions in the assessment.

25.18 In principle, the Territory does not agree with the continued use of discounting (see the Territory's response to CGC 2013-06-S, Part 1) and supports its removal.

25.19 If the proposal to include housing and urban transport PNFCs is adopted, then the discount becomes less warranted, as uncertainty in the assessment is significantly reduced.

26

Priority Issue Indigeneity

Before making a recommendation to the Commission, staff intend to examine the implications and consult with States on:

- Replacing SEIFA with IRSEO for the Indigenous population to appropriately capture the characteristics of the population.

26.1 Commission staff proposed to incorporate preliminary Indigenous ERPs benchmarked to the 2011 Census into the 2013 Update. The Territory opposed this in part because the 2010 Review methodology was unable to accommodate large increases in the Indigenous population as it erroneously assumed that all Indigenous people have the same socioeconomic status and service use and cost profiles.

26.2 As analysis by the Territory showed, the 'new' Indigenous population captured in the 2011 Census did not have the same characteristics as the 'old' Indigenous population captured in the 2006 Census and more closely resembled the non-Indigenous population of their states.

26.3 This was further compounded by the uneven distribution of the 'new' Indigenous population across the states with the south-eastern states of New South Wales, the Australian Capital Territory, Victoria and South Australia experiencing much higher growth than the other states.

26.4 The Territory showed that the large increase of 'new' Indigenous people into the south-eastern states had a significant effect on the educational attainment of the Indigenous population, with these states experiencing an increase in the educational attainment of their Indigenous populations.

26.5 The Commission's 2010 Methodology does capture some of the differences in the composition of the population by using SEIFA, which ranks areas based on the socioeconomic characteristics of the area's population. In remote and very remote areas where the population is substantially Indigenous, this approach captures the characteristics of Indigenous people. However, in major cities where the Indigenous population comprises a minority of the people in an area, SEIFA will be more reflective of the characteristics of the large non-Indigenous populations and conceal the population characteristics of the Indigenous population.

26.6 For this reason, SEIFA is not able to accurately gauge the effects of differences within the Indigenous population due to the influence of the non-Indigenous populations. Rapid growth of the Indigenous population in metropolitan areas is primarily driven by 'new' Indigenous people who have population characteristics quite unlike those of the 'old' Indigenous population and has resulted in growing disparities in the levels of disadvantage experienced within the Indigenous population.

26.7 As a result, the Territory supports Commission staff's proposal to use separate Indigenous and non-Indigenous indexes of socioeconomic status (SES) on the basis that separately assessing the Indigenous and non-Indigenous SES will better measure the relative disadvantage within each population. The rapid growth of the non-Indigenous population as measured in the 2011 Census in the south-eastern states and the different characteristics of many of the newly identifying Indigenous people has added additional impetus to the need to recognise and address this situation.

Before making a recommendation to the Commission, staff intend to examine the implications and consult with the states on:

- Replacing SEIFA with an ABS produced non-Indigenous SEIFA for the non-Indigenous population to appropriately capture the characteristics of the population.

26.8 The Territory acknowledges that some areas within SEIFA will be influenced by the characteristics of Indigenous populations, particularly in remote areas, so if IRSEO is used it would be appropriate to use a non-Indigenous index for the non-Indigenous population.

26.9 The Territory considers that a non-Indigenous specific SEIFA would better capture differences in the level of disadvantage within the non-Indigenous population than IRESO as its smaller geographical basis (SA1) is more suited to distinguishing disadvantage within the non-Indigenous population, which is largely concentrated in urban areas.

27

Administrative Scale

Staff propose to recommend the Commission:

- retain the status quo and index the existing quantum.
- update the quantum of expenses using the ABS State and local government final consumption expenses deflator.
- for presentational purposes, include all administrative scale expenses in the Other expenses category rather than assessing them in a number of categories.

27.1 Commission staff propose to retain the current administrative scale quantum on the basis that time constraints in the 2015 Review do not allow for the development of a new method to re-estimate the quantum. The Territory recognises that the development of a new quantum is a time-intensive process and accepts that there is insufficient time in the 2015 Review to do so.

27.2 In the 2010 Review, the Commission adopted the state and local government final consumption expenditure (SLGFCE) deflator to index the administrative scale quantum. This replaced the composite index used in the 2004 Review, which comprised the consumer price index (CPI) weighted at 20 per cent and the labour price index (now the wage price index) weighted at 80 per cent.

27.3 The Territory does not support the proposal to use the SLGFCE deflator to index the administrative scale quantum in the 2015 Review. While the SLGFCE deflator does reflect state costs, the Territory notes that the aim of the administrative scale assessment is not to capture all state costs but rather the cost of providing the minimum level of administration required to deliver government services. As such, in determining an appropriate index for the quantum, the focus should be on capturing the factors that directly influence administrative scale costs. Changes in overall state expenditure do not necessarily reflect these factors. The Territory considers that the size of the administrative scale quantum is directly influenced by changes in the price of goods and services used in administrative tasks and wage levels. These changes are reflected by the CPI and the wage price index. The Territory therefore considers that using the composite index is a more appropriate method of indexing the quantum.

27.4 Commission staff propose to include all administrative scale expenses in the Other expenses category rather than assessing them in a number of categories. The Territory supports this proposal as it is for presentational purposes only and will aid simplification without affecting the GST distribution.

28
Interstate Wages

Staff propose to recommend the Commission:

- continue to consider that interstate differences in private sector wages remain an appropriate proxy for measuring interstate differences in public sector wages.
- measure the interstate wage disability through an econometric model of the private sector wage differentials, using the COE
- continue using the 2009 SET, updated by LPI, until the COE is available; and
- investigate whether a simpler and more transparent model specification can produce a reliable estimation of interstate wage levels.

28.1 The interstate wages assessment captures the material differences in wages paid to comparable employees in different states due to factors that are beyond the control of state governments.

28.2 This assessment is particularly critical to the Territory, where wages are influenced by factors including the high cost of living and high labour mobility, which increases the cost of recruiting and retaining staff. These wage pressures are faced in both the private and public sectors in the Territory. The Territory faces further public sector wage pressures due to additional costs relating to Territory Government employees who are members of the Commonwealth Superannuation Scheme, which is generally more generous than comparable state schemes.

28.3 The costs of attracting and retaining staff are compounded in remote and very remote areas across the Territory, where higher levels of wages and incentives are required to employ people in these areas.

28.4 Due to policy neutrality concerns, the Commission has in the past accepted that interstate differences in private sector wages are a suitable proxy for differences in public sector wages. The Territory supports continuation of this approach.

28.5 The current interstate wage assessment is based on the ABS's Survey of Education and Training (SET). In the 2010 Review, the Territory expressed concerns about the range of disabilities that were not captured by an analysis of the SET alone, particularly differences in non-wage remuneration such as employee housing and additional leave benefits. These allowances are essential in order to attract and retain appropriately qualified staff across the Territory.

28.6 In addition, the SET did not pick up the long-standing influence of Commonwealth Government benefits that were inherited by the Territory at self-government.

28.7 Commission staff are considering using the Characteristics of Employees (COE) survey to base the interstate wage assessment. The adoption of data from the COE survey presents an important opportunity for the Commission to apply the necessary adjustments to recognise these influences. The Territory therefore supports the use of COE survey data to the extent that it captures the same disabilities captured in the SET, with adjustments to recognise the additional influences not captured in the SET.

28.8 As data from the COE will not be available until the 2016 Update, the Territory supports the use of 2009 SET data updated by the wage price index until the COE is available as the Territory is not aware of a suitable alternative dataset on which to base the interstate wages assessment in the interim.

28.9 Commission staff consider that the regression model used in the interstate wages assessment is complex and requires simplification. This is partly because it includes 137 variables, some of which Commission staff consider add no significant explanatory power. However, Commission staff have not outlined the specific variables they consider the assessment of interstate wages could do without. As such, it is difficult to support any proposed change to the current regression model without a complete understanding of the proposed changes. The Territory considers that further information on this issue should be provided before a definitive position can be reached.

State views are sought on:

- using capital city wages to assess interstate wages
- applying a State specific regional loading assessment to States with high regional wages based on the difference between the rest of State private sector wage level and the capital city private sector wage level.

28.10 The Territory strongly supports the application of a regional loading assessment to states with high regional wages but strongly opposes the Commission staff view that this should only apply to Western Australia and Queensland.

28.11 The Commission staff view to only apply regional wages to Queensland and Western Australia appears to stem from analysis of 2009 SET data, which shows that only these states are affected by higher wage levels outside the capital city.

28.12 The 2009 SET data does not provide wage data at the disaggregated level for the Territory. It appears that as a result of this data gap, Commission staff have assumed that the Darwin wage differential (relative to average capital city wages nationally) reflects the wage differential in the rest of the Territory. The Territory strongly rejects this assumption.

28.13 The Territory could be characterised as the most remote state in Australia. The assumption that the wage differential between Darwin and the other capital cities is the same as the wage differential between the rest of the Territory and regional areas in other states is counter intuitive, particularly given that this does not apply to Queensland

and Western Australia. This approach ignores the significant challenges faced by the Territory in providing the necessary remuneration to recruit and retain remote-based employees.

28.14 The Territory's view is supported by wages data from the 2011 Census. Figure 28.1 shows capital city and rest-of-state wages relative to the respective national averages. It is based on weekly income data from the 2011 Census and shows that in the Territory, average private sector wages outside Darwin were about 19 per cent higher than average non-capital city wages nationally.

Figure 28.1: Relative private sector wages, 2011

Note: '0' is equal to the national average wage
Source: 2011 Census *Working population profile* tables; Treasury calculations

28.15 Based on 2011 Census, the Commission staff assumption that wages differentials are homogenous across the Territory is not supported. As a result, applying the Darwin wages differential to non-Darwin wages in the Territory would significantly understate the wage costs of providing average levels of government services in regional areas across the Territory.

28.16 The 2011 Census is a better measure of wage differentials than the SET because of its wider coverage. Due to data constraints of the SET, that is the SET does not provide data on the wage levels for the rest of the Territory, the Commission should not rely on SET data alone to determine interstate wage differentials. If SET data is used, a suitable adjustment should be applied to address its data deficiencies and recognise the higher wage differentials in the Territory's regional areas, consistent with the proposed approach for Queensland and Western Australia.

Staff propose to recommend the Commission:

- not apply an isolation discount to Tasmania's wage factor
- cease applying the CSS adjustments in the capital and depreciation categories.

- not adjust the discount until all outstanding issues have been settled.
- consider the appropriate discount to be applied to wages in each update, not merely at the start of the review.

28.17 The Territory has long expressed its opposition to discounting in general, as it requires a significant amount of judgement, particularly in determining the size of the discount. In the case of the discount previously applied to Tasmania's interstate wage factor, it appears the data underpinning the assessment does not warrant a discount. The Territory therefore supports the Commission staff proposal.

28.18 The Territory accepts the reasoning behind the Commission staff proposal to cease applying the Commonwealth Superannuation Scheme adjustments in the capital and depreciation categories. The Territory's position is discussed in detail in the Infrastructure section of this submission.

28.19 The Commission currently applies a 12.5 per cent discount to the Interstate wages assessment due to concerns about the reliability of SET data. In the 2015 Review, some states have argued for the assessment to be either more heavily discounted or discontinued altogether. The Territory has previously opposed discounting the Interstate wages assessment as there is a strong conceptual case that there are material differences in interstate wages, and there is no evidence that the assessment overstates these differences. On the contrary, the assessment possibly understates wage differentials due to the data gaps already outlined in this submission. The Territory's preference is for the discount to be removed; however, at the very least there should be no adjustment to the discount until all outstanding issues relating to the assessment have been resolved.

28.20 Commission staff propose to recommend that the Commission consider the appropriate discount to be applied to wages in each update rather than at the start of the review. Notwithstanding the Territory's opposition to discounting, it is appropriate for the Commission to consider changes to the assessment when new data becomes available.

29

Interstate Non-Wage Costs

Staff propose to recommend that the Commission:

- no longer assess freight; and
- cease the interstate non-wage assessments on the grounds that the largest component is now captured with the Regional costs assessment and staff do not have confidence that the residual costs are better proxied by those elements for which data exists than by an equal per capita assessment.

29.1 The Territory strongly opposes the proposal to no longer assess interstate freight costs on the basis that the disabilities are being captured in the proposed changes to the regional costs factor.

29.2 The recognition of interstate differences in non-wage costs, particularly interstate freight, is crucial to isolated states such as the Territory. Virtually all goods used in the provision of government services in the Territory are sourced from interstate from the major sources of supply on the eastern seaboard. The distance from Darwin to the supply sources in the eastern capital cities can be over 4000 kilometres by road and, as such, lead to significant freight costs for the Territory.

29.3 Previous reviews have clearly established the conceptual case that material differences exist in the interstate freight costs faced by states and that the Territory is the most significantly affected state. The Territory does not consider that there has been any significant technological, labour market or pricing changes that diminish the strong conceptual case that has been accepted in the past.

29.4 The interstate freight assessment captures disabilities arising from isolation from the major centres of manufacturing and importation. Commission staff are of the view that the replacement of the State-based Accessibility/Remoteness Index of Australia (SARIA) with the Accessibility/Remoteness Index of Australia (ARIA) in the Regional costs assessment conceptually captures the same disability as was previously captured by the freight assessment. The Territory strongly disagrees with this view. While the Territory accepts that ARIA, due to its recognition of Darwin as a regional city, better captures the remoteness of the Territory, this alone does not mean it also captures interstate freight disabilities. ARIA and the freight assessment capture different disabilities. For example, ARIA may capture the remoteness of a location in the Territory from the nearest large urban centre; but this centre may not be a major manufacturing or distribution centre. In such a case, the use of ARIA alone would understate the remoteness of that location.

29.5 The Territory also incurs significant interstate travel costs due to its isolation from the major cities that usually host intergovernmental meetings. The Commission recognised this in the 2010 Review by applying the highest interstate travel factor to the Territory.

29.6 The interstate travel assessment recognises that some states incur additional costs because officials have to travel more often, their cost of travel is higher and in many cases, they also require overnight accommodation. While there has been increased use of teleconferencing in recent years, most intergovernmental bodies, including ministerial councils and various intergovernmental committees and working groups, still hold regular face-to-face meetings, usually in the eastern states.

29.7 No evidence has been presented to clearly demonstrate that the replacement of SARIA with ARIA removes the need to assess interstate freight and interstate travel costs. In the absence of such evidence, and given the importance of this assessment, the Territory strongly opposes the Commission staff proposal.

29.8 If the Commission decides that freight costs should be assessed in the ARIA based regional cost assessment, this would necessitate an increase in the weighting that the regional cost factor is applied to as the inclusion of freight costs increases the overall regional costs.

29.9 As noted in the Commission staff paper, in past reviews the interstate non-wage costs assessment has previously incorporated a number of variables, including: freight; travel; office accommodation; electricity costs; medical travel related subsidies; and labour related isolation costs in the Northern Territory. Only two costs (freight and travel) were retained for the 2010 Review. Commission staff propose to omit travel costs for the 2015 Review on the basis that the assessment of interstate non-wage costs will no longer be material once freight costs are removed.

29.10 The Territory argues that this is an area where changes made by the Commission have made the interstate non-wage costs assessments immaterial, rather than the costs themselves being immaterial.

29.11 Due to concerns the Territory has that ARIA does not adequately captures the high level of freight costs incurred in the provision of average level of services in the Territory and the material differences between states in the frequency and costs of interstate travel, the Territory strongly supports the retention of the interstate non-wage assessment. There should also be consideration as to whether the costs omitted in the 2010 Review should be reinstated as these are significant costs, particularly for the Territory, and there are material differences between states.

30
Regional Costs

Staff propose to recommend the Commission:

- use ARIA as its remoteness classification and staff have used ARIA in the calculation of the regional costs gradient.

30.1 The Territory supports the use of ARIA as the remoteness classification in the Commission's assessments. The Territory's views on the merits of adopting ARIA in place of SARIA were detailed in a Location-specific submission in 2013.

Staff propose to recommend the Commission:

- utilise the schools regional costs gradient calculated from a regression of ACARA data to assess regional costs for schools.

30.2 The Territory agrees that there is a strong conceptual case that service delivery costs generally increase with remoteness. The Territory also considers that ACARA data underpinning the regression model as it applies to schools represents the most comprehensive data available to allow an assessment of interstate disabilities. The Territory therefore supports the Commission staff proposal.

Staff propose to recommend the Commission:

- apply a State specific loading to those States with high regional wages based on the difference between the rest of State private sector wage level and the capital city private sector wage level.

30.3 While the Territory supports the principle of state-specific loadings for states with high regional wages, the Territory is concerned that Commission staff consider that Western Australia and Queensland are the only states that require this loading. As stated in the Territory's response to the interstate wages assessment, the Territory faces at least the same wage disabilities in remote areas as Western Australia and Queensland.

Staff propose to recommend the Commission:

- extrapolate the schools regional costs gradient to those categories to which regional costs were applied in the 2010 Review with the exception of Justice services
- apply the 2010 Review police regional costs gradient only to police (within Justice services)
- maintain the regional costs gradients until the next review.

30.4 In the 2010 Review, the majority of states were only able to provide regional cost data for schools and police (although some states did provide data for more categories).

30.5 Consequently, the Regional costs assessment was based on three regional cost factors: a schools factor, a police factor and a general factor which was the simple average of the schools and police factors. The school and police factors were derived from the observed regional cost gradients. The categories to which the general factor was applied were Community and other health services; Welfare and housing; the rural roads component of the Roads assessment and some elements of the Other expenses category. In the 2015 Review, Commission staff propose a departure from this approach, with the schools regional costs gradient alone being extrapolated.

30.6 While accepting that the quality of schools data available in the 2015 Review is higher than that of the data available in the 2010 Review, this does not mean that the schools regional factor now better reflects the regional costs in other categories. In the absence of concrete regional costs data from all states in the 2010 Review, the Commission observed that the simple average of the schools and police regional costs factors reflected the gradient observed for other categories by states that had provided regional data for them. Commission staff have not demonstrated a similar relationship between the new schools regional costs gradient and the observed gradient for other categories.

30.7 The Territory is therefore unable to support the proposal to change the factor used for those categories to which the general factor was applied in the 2010 Review. In the absence of evidence that the schools gradient reflects regional costs in other categories, the Territory considers that the simple average approach adopted in the 2010 Review should continue.

30.8 The Territory is not aware of any significant improvement or standardisation of state police data since the 2010 Review and agrees that the regional cost gradient applied to police in the 2010 Review should continue to be applied to police. As stated above, the average of the police factor derived from this gradient and the schools factor based on ACARA data should be applied to the categories to which the general factor was applied in the 2010 Review, unless it can be proved that a different approach better reflects the regional costs in these categories.

Staff propose to recommend the Commission:

- not apply any discount to the Schools education regional costs factor
- apply a low discount of 12.5% to the regional costs factor for all other categories to which it is applied.

30.9 In the 2010 Review, the Commission applied a 12.5 per cent discount to the schools and police factors due to uncertainty about the comparability of the state-provided data used to derive these factors.

30.10 As has been stated previously in this submission, the Territory does not support discounting in general, as it requires a significant amount of judgement and does not always move assessments closer to equalisation. The Territory supports the proposal to no longer apply a discount to the schools education regional costs factor. However, the Territory does not support the proposal to apply a discount to the regional costs factor for all other categories to which it is applied.

31
Service Delivery Scale

Staff propose to recommend the Commission:

- measure the schools education SDS disability on the basis of government students living in areas more than 20km from a centre of 5 000 people or more.
- apply the SDS disability to Schools education, family and child services (within Welfare) and police (within Justice services).
- apply a 12.5% discount to the family and child services and police assessments.
- apply the SDS cost weight as measured using schools data directly to School education and family and child services (within Welfare).
- apply the definition of SDS areas as calculated using schools data to police (within Justice services).

31.1 The Service Delivery Scale (SDS) assessment is crucial to the Territory due to its large land area and low population density. Despite being the third largest state by land area, the Territory is by far the least densely populated state, with a population density of 0.2 people per square kilometre compared to 2.9 people per square kilometre nationally in 2011.

31.2 The Territory supports the proposal to measure the schools education SDS disability on the basis of government students living in areas more than 20 kilometres from a centre of 5000 people or more. This definition, based on ACARA student characteristics data, is more appropriate than the current definition, which is based on total population.

31.3 In the 2010 Review, the Commission based the SDS factor on Census and state-provided data for schools and police, and extrapolated the factors for these services to the Community and other health, and Welfare and housing categories. For the 2015 Review, Commission staff propose to apply the SDS disability to schools education, family and child services and police. This means SDS disabilities would no longer be assessed for Community health and Housing.

31.4 The Territory strongly opposes the proposal to no longer assess SDS disabilities in Community health. In the 2010 Review, a conceptual case was established by the Commission that SDS impacts occur in Community and other health services, based on state-provided data and data from the AIHW. The Territory does not believe that there have been any significant changes in the way in which health services are provided since the 2010 Review to warrant the proposed approach.

31.5 The SDS assessment is aimed at recognising the diseconomies of scale faced by states in providing services in sparsely populated areas, virtually all of which are either remote or very remote. The suggestion that the substitutability of some health services is sufficient grounds to assume that diseconomies of scale do not exist in the entire Community health category is not sound. The Territory's submission on Community health discusses further the lack of substitutability between public and private provision of services.

31.6 In the Territory, staffing numbers of healthcare providers in remote and very remote areas reflect not only the high service use rates, but also the wider range of services that are required in those areas. The Territory considers that removing the SDS factor from Community health would ignore this fact.

31.7 Table 31.1 shows AIHW data on staffing numbers of nurses in different parts of Australia. It shows that staffing numbers are higher in remote and very remote areas than in more accessible areas (despite there being a smaller service population), and is evidence that SDS disabilities do exist in the provision of health services. On this basis, the Territory considers that SDS disabilities and should continue to be assessed in Community Health.

Table 31.1: Employed nurses and midwives, Australia – FTEs per 100 000 population by remoteness area, 2012

	Major cities	Inner regional	Outer regional	Remote	Very remote	Australia
Registered nurses	970	847	821	1 007	1 126	936
Enrolled nurses	164	239	251	233	177	187
All nurses	1 134	1 085	1 071	1 241	1 303	1 124

Source: AIHW 2013, *Nursing and midwifery workforce 2012*

31.8 Commission staff consider that SDS is only applicable to family and child services within the new Welfare category and not to Housing. The Territory considers that a conclusive case to support this proposal has not been presented and as such, the Territory is not able to support the proposal. In the 2010 Review, the Commission found convincing evidence of SDS effects in the Welfare and housing category based on data provided by Queensland. As this category is being split in the 2015 Review, the Territory considers that any argument for the application of SDS disabilities to some aspects of the current Welfare and housing category and not to others should be supported by compelling evidence.

31.9 As with Community Health, the Territory does not consider that there have been any significant changes in the provision of welfare and housing services to warrant a different approach with regards to SDS disabilities. The Territory therefore considers that in the absence of evidence to support the Commission staff proposal, SDS disabilities should continue to apply to all elements of the current Welfare and housing category within the new separate categories.

31.10 In the 2010 Review, the Commission applied a 12.5 per cent discount to the SDS assessment due mainly to concerns about the comparability of state-provided data. The Territory considers that the adoption of ACARA data as the basis of the schools SDS assessment addresses the Commission's concerns as far as they relate to schools data. The Territory also considers that the cost weights derived from ACARA data are appropriate for use in assessing SDS disabilities in other categories. On this basis, the Territory does not support the proposal to apply a discount to the family and child services and police assessments.

31.11 The Territory supports the proposal to apply the definition of SDS areas as calculated using schools data to police (within Justice services).

32
National Capital

Due to the short timeframe for the 2015 Review, and considering no state addressed national capital allowances in their submissions (except the ACT who supported the existing assessments), staff do not intend to change the approach to this assessment.

32.1 The Territory supports this proposal.

33

Cross-Border

CROSS BORDER

Due to the short timeframe for the 2015 Review, and considering no state addressed national capital allowances in their submissions (except the ACT who supported the existing assessments), staff do not intend to change the approach to this assessment.

33.1 The Territory supports this proposal.

34

Native Title and Land Rights

Staff propose to recommend the Commission

- For presentational purposes, include all native title and land rights expenses in the other expenses category rather than assessing them in a number of categories.

34.1 The Territory supports this proposal because it will aid simplification but asks that the Commission staff continue to report the Native Title and Land Rights expenses on a separate line in the Other expenses category to maintain transparency.

35 Cultural and Linguistic Diversity (CALD)

State views are sought on this proposal:

- To review the work we have done with Victoria
- Subject to the results of that review and the new materiality thresholds, to cease assessing cultural and linguistic diversity.

35.1 The Territory supports the Commission staff proposal owing to the differences in use rates and costs for people born in different countries overseas. In the Territory's view, continuing to assess CALD would add considerable complexity to the assessment. The Territory also expects that part of this is likely due to differences in the age structure of migrant groups and is concerned that continuing to apply CALD risks double-counting the effects of age.

36 Population

Staff propose to recommend the Commission:

- Use ERP for its population estimates
- Use 31 December estimates for total population level increases
- Use 30 June estimates for population growth, or where disaggregated population data are required.

36.1 While the Commission staff proposals are sound in theory, they do not address concerns that the Territory had about the Commission's decision to incorporate the preliminary 2011 Census-based Indigenous population estimates in the 2013 Update. In the Territory's view, this data was not fit for purpose because it was a preliminary point in time measure rather than a time series measure.

36.2 The Commission's solution to derive its own Indigenous growth rates and population levels was not appropriate, given that it contradicted specific ABS advice that 'all indicators which make time series comparisons, or involved combined year measures… continue to use the projection population estimates based on the 2006 Census'[11]. In the Territory's' view this represents a distinct departure from the Commission's role as a data user.

36.3 Further, the Commission's approach creates a similar problem to that highlighted by the ABS that the use of '2006-based estimates and 2011-based estimates will result in misleading analysis, given the two sets of population estimates describe different populations'.

36.4 The Commission's approach had significant and unintended consequences for the Territory's share of the GST because it resulted in significant changes in the share of the Indigenous population between states due to changes in Indigenous self-identification. In the Territory's view this issue would not have arisen if the Commission had continued to use the ABS's official 2006 Census based population statistics.

36.5 In the Territory's view, the Commission should commit to using only the latest available final Census derived population figures. This approach would be consistent with the Commission's past practice to use final Census based population figures and ABS advice

[11] Source: ABS, *Australian Demographic Statistics, June 2012, Feature Article 2: Advice on the use of Aboriginal and Torres Strait Islander population estimates, page 17*.

that the final 2006 Census based population estimates were the ABS's official population statistics until final estimates were released.

Staff propose to recommend the Commission:

- Adopt a standard approach to the selection of age groups in assessments.

36.6 The Territory accepts that this change might result in some simplification gains but cautions that these should be weighed against the potential to dilute equalisation outcomes in the future by tying the Commission's hands. For example, if better data for zero year olds becomes available for the admitted patient assessment, the standard could be used as a rationale for resisting further disaggregation of the data even if the change is material. In the Territory's view, age group selection should continue to be based on the needs of the service population and the assessment in question.

Staff propose to recommend the Commission:

- Adopt the ABS remoteness areas as the standard classification of remoteness.

36.7 In June 2013, the Territory responded to the Commission Staff Discussion Paper CGC 2013-01 which sought state views on remoteness. While the Territory expressed concern over some aspects of ARIA, particularly the truncation of remoteness scores, it considered that the key issue for the Territory was the treatment of Darwin as a regional city, rather than a capital city.

36.8 The classification of Darwin as a capital city rather than a regional city is inappropriate because of its small size, lack of scale, remoteness and high service delivery costs. Assessing Darwin as being a capital city would therefore distort the actual cost of delivering government services. The Territory's view on this issue has not changed.

Staff propose to recommend the Commission:

- Use the UCLs to measure urban population, as described in the category chapter.

36.9 The Territory supports in-principle the Commission staff's proposal to use 2011 Census based UCLs to measure the urban population along with the proposed adjustments made to urban centres to ensure the data is fit for the Commission's purposes.

PART 3

Quality Assurance Strategies for the 2015 Review

1.1 This part details the Northern Territory's views on the issues raised in the Commonwealth Grants Commission 2015 Review Draft Quality Assurance Strategic Plan Staff Discussion Paper CGC 2013-08S.

1.2 The Territory supports the QA as a living document and considers that the strategies detailed in the plan will help achieve reliable, accurate and conceptually sound assessments of state fiscal capacities.

1.3 The monitoring, peer review, audit and reporting mechanisms detailed should minimise any unnecessary errors in the system applications and assessment calculations which would otherwise undermine equalisation outcomes.

1.4 While the QA specifically states, under Objective 2, that the Commission will:

a. inform the states on progress of assessment developments and ask for their input, through Commission and staff papers, meetings and the draft report; and
b. advise the states of major method changes between draft and final reports that result in material differences to assessments,

the QA does not explicitly incorporate states input on major changes between the draft and final reports.

1.5 The Territory considers that this is an integral component of the HFE process and should be explicitly detailed in the QA as it is consistent with states responsibilities for providing good quality data, supporting evidence and arguments.