



Northern
Territory
Government

COMMONWEALTH GRANTS COMMISSION NEW ISSUES FOR THE 2018 UPDATE

Northern Territory Response to Staff
Discussion Paper CGC 2017-20-S

October 2017

Introduction

The Northern Territory welcomes the opportunity to respond to Staff Discussion Paper 2017-20-S - New Issues For the 2018 Update (New Issues Paper). The issues identified in the Discussion Paper relate to the use of new Census data, incorporating states' transitions to the full National Disability Insurance Scheme, the Health assessment, Quality Schools payments and the Schools assessment, rescaling in the Investment assessment, the treatment of mining royalties where bans have been introduced and the treatment of Commonwealth payments in the 2017 Update.

The Territory is largely comfortable with the Commission staff's proposed approach to these issues but has concerns with the use of preliminary Census data prior to the release of official estimates in some cases, as well as with the proposed treatment of Quality Schools funding in 2017-18. Its views on these issues are provided below.

The Territory supports the Australian Capital Territory's calls for the reinstatement of the Commonwealth Superannuation Scheme (CSS) adjustment, to be expanded to include Public Sector Superannuation Scheme (PSS).

Use of new Census data

The Territory has significant concerns with the results of the 2016 Census for the Territory, particularly the high undercount, increasing overcount and level of imputation.

The Territory supports the recommendation that the Commission incorporate new Census data selectively, however the Territory has concerns with the proposed approaches in some instances. Specifically, the Territory:

- supports the proposal to use ABS published estimated resident populations (ERPs) from June 2016 onwards, and derive total state ERPs for estimates before June 2016 using the published components of growth
- supports the use of 2016 Census Indigenous ERPs, however the Territory does not consider that the whole of state population growth rate is an appropriate measure of Indigenous population growth, and proposes that the 2011 Census based Indigenous population projections be used until 2016 Census based Indigenous population projections are available
- does not support the proposal to use 2016 Census count data to estimate sub-state geographic distribution of the Indigenous population, and proposes that 2011 Census-based ERPs should be used for this purpose, until 2016 Census-based ERPs become available
- supports the proposal to use new IRSEO and NISEIFA data in the Schools, Post-secondary education and Welfare categories, and for IHPA health data in the assessment of admitted patient expenses
- accepts the proposal to use 2011 Census based data from Medicare and AIHW data to assess non-state adjustments in the Health category, but has concerns with the limitations of Medicare data
- supports the use of new data on geographic classifications for urban centres, significant urban areas, low density areas and pseudo-urban areas
- supports the proposal to use 2011 Census based data for remoteness areas and discrete Indigenous communities
- supports the proposal to use new Census data in the assessment of social housing use rates, except for remoteness.

Total population estimates

1. The Territory accepts that the 2016 Census is the most contemporary population data available, and that the CGC will incorporate Census data into its assessments for the 2018 Update onwards. Despite this, the Territory has concerns about the results of the Census, due to the high level of imputation evident in the Census as well as the large

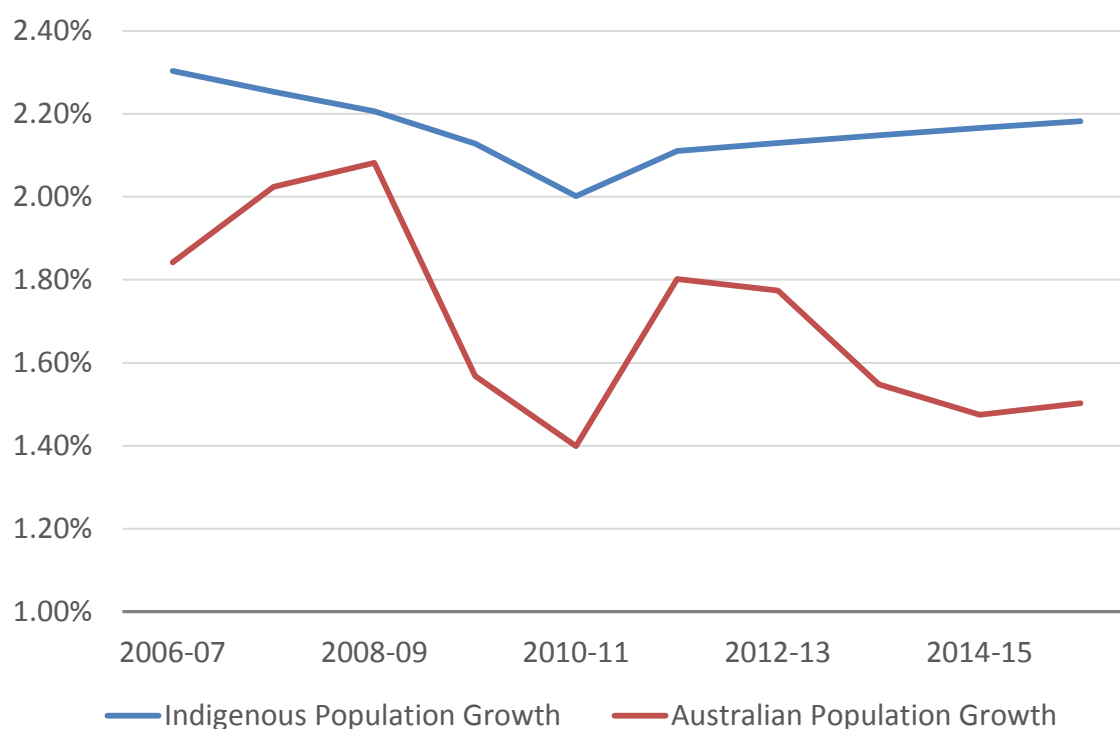
under and over counts. The Territory is in discussions with the ABS regarding its concerns in relation to 2016 Census results.

2. The Territory supports the proposed approach to measuring population growth in the years preceding the 2016 Census, which is to set aside the intercensal discrepancy, and to derive population growth estimates using the published components of growth (births, deaths and net migration). As indicated by the ABS, the intercensal discrepancy is not a measure of population growth, but rather an error adjustment.

Indigenous population estimates

3. The Territory accepts the proposal to use 2016 Census-based Indigenous ERPs for the 2018 Update at the state level, which are the most contemporary data available. However, the Territory has concerns with the proposed approach to estimating Indigenous populations for the 2018 Update based on whole-of-state population growth rates, and estimating sub-state geographic distributions of the Indigenous populations using 2016 Census count data.
4. The Territory proposes that 2011 Census-based Indigenous population projections are a more accurate indication of the drivers of growth in Indigenous populations, more accurately reflecting Indigenous-specific trends in components of growth (births, deaths and migration), than whole-of state population growth estimates.
5. Chart 1 shows that over a ten year period, annual increases in Indigenous ERPs have outstripped whole of population growth rates by around 1 per cent per annum, with the ten year average growth rate for Indigenous ERPs of 2.2 per cent compared with 1.7 per cent for the total population. This, coupled with the relatively low interstate and international migration of the Indigenous population suggests that a whole of population projected growth rate is not a suitable measure of Indigenous population growth.

Chart 1 Annual Indigenous and Total Population Growth Rates, 2006-07 to 2015-16



Source: ABS, Estimated resident Aboriginal and Torres Strait Islander population, Australia, 2001-2011, ABS, Projected population, Aboriginal and Torres Strait Islander Australians 2011-2026.

Indigenous population by remoteness

6. Similarly, the Territory does not support the proposal to use 2016 Census count data to estimate Indigenous population by remoteness. Instead, the Territory proposes that the 2011 Census-based ERP distribution across remoteness areas should be used to distribute the 2016 Census-based Indigenous ERPs.
7. Table 2 in the New Issues Paper presents extraordinary growth in the count data for the Indigenous populations in all states other than the Territory and Western Australia, which both have significant shares of their Indigenous population in remote areas (approximately 80 per cent and 40 per cent respectively).
8. In addition, the Census Independent Assurance Panel to the Australian Statistician for the 2016 Census acknowledged that despite the significant increases in Indigenous populations in the largest states, the Post Enumeration Survey indicates that the net Indigenous undercount did not decrease between the 2011 and 2016 Census (Census Independent Assurance Panel to the Australian Statistician, page 36). The Territory expects that the undercount was most prevalent in remote Indigenous communities, which experience high levels of imputation and undercount compared with urban areas.

9. Consequently, the Territory expects that remote and very remote areas will have higher relative upwards adjustments reflected in sub-state geographic ERP estimates compared with urban Indigenous populations which will be more accurately captured through adopting 2011 Census based population estimates until 2016 ERPs become available by geographic classifications.
10. This approach would also create consistency of methodology within a Review period, reducing the need for three different approaches to estimating populations by remoteness (2011 ERPs, 2016 Count-based ERPs and 2016 ERPs).

Indigenous disadvantage

11. The Territory supports the proposal to update IRSEO and NISEIFA for the 2018 Update, particularly due to the increasing Indigenous identification exhibited in the 2016 Census results for the largest states. The Territory supports the Commission staff view that not updating these measures of disadvantage would likely produce biased results that do not accurately reflect the spread of disadvantage across remoteness areas.

Non-state adjustments in the Health category

12. The Territory accepts the proposal to continue to use 2011 Census based SEIFA until the ABS produces SEIFA on a 2016 Census basis and Medicare incorporates it into its geography, and to use 2011 Census based Australian Institute of Health and Welfare (AIHW) data on patient separations by SEIFA, until the relevant 2016 Census based data is available to produce this information by IRSEO and NISEIFA for the 2019 Update.
13. The Territory notes that it has overall concerns with the quality of Medicare data used in the Health category, which does not adequately capture use rates in very remote areas as distinct from remote areas, or adequately captures Indigenous use patterns. The Territory notes that solutions to these issues are being considered as part of the 2020 Review.

Remoteness areas and Discrete Indigenous Communities

14. The Territory supports the proposal to continue to use 2011 Census based data for classifying remoteness areas and discrete Indigenous communities until 2016 Census data becomes available, as these are not expected to have changed significantly since the 2011 Census classifications were developed.

Other geographic classifications and Housing

15. The Territory supports the proposal to use the most up to date data available for urban centres, significant urban areas, low density areas and pseudo-urban areas, and social housing use rates, based on the principle of incorporating the most contemporary available data into the Commission's assessments.

Quality Schools Payment and the Schools Assessment

The Territory:

- supports the Commission's proposal to determine that Quality Schools is sufficiently National Education Reform Agreement (NERA)-like and that the Terms of Reference continue to apply, on the basis that having a nationally consistent needs based formula is the criteria that defines a Commonwealth school funding program as NERA-like;
- accepts the proposal to assess Commonwealth funded school expenditure using SRS weights and student numbers from assessment years
- does not support the proposal to assess revenue from Commonwealth payments using the share of payment states were entitled to (but not necessarily received) in the assessment years, unless directed through Terms of Reference
- supports the proposal to assess other conditional payments using the actual payment received, not the payment the state was offered.

NERA Terms of Reference and the treatment of Quality Schools funding

16. The Territory supports the proposal to determine that the Terms of Reference direction to not unwind the recognition of education disadvantage embedded in the Commonwealth funding arrangements, which was issued in relation to NERA funding for the 2015 Review, applies to Quality Schools funding, on the basis that the Territory expects that this direction will be reiterated through the Terms of Reference for the 2018 Update.

Measuring application year entitlements

17. The Territory proposes that for the 2018 Update, Commonwealth 2017-18 Mid-Year Economic and Fiscal Outlook (MYEFO) estimates of states' entitlements are an appropriate measure of state's entitlements. The Territory's understanding of the arrangements for 2018 are that states will receive funding consistent with that set out in the Commonwealth's 2017-18 Budget, with no penalties to apply in 2018, as the arrangements surrounding the application of penalties and other matters will not be finalised until 2018 at the earliest, and that these arrangements will be reflected in the Commonwealth's MYEFO.
18. The Territory's view is that the most appropriate means of ensuring that funding for educational disadvantage is not unwound is to use the most contemporary data available as outlined in the Commonwealth's MYEFO. It follows that the Territory's

view is that 2017-18 Student Resource Standard (SRS) weights should also be used in the assessment.

19. Given the imposition of penalties will not be an issue for the 2018 Update, their treatment can be determined at a later date, once the arrangements for imposing penalties are known, and the Commonwealth has issued Terms of Reference for their treatment.
20. While the Territory acknowledges that the shares outlined in the 2016-17 MYEFO were not indicative of states' funding shares, this was the result of a transition in Commonwealth policy, which has now been settled to a sufficient extent to estimate states' share of Quality Schools funding in 2017-18.

Treatment of penalties and conditional payments

21. The Territory is of the strong view that the conditions for penalties differ significantly between states, given the differences in the starting levels of states contributions in the assessment of maintenance of effort. Unless the Commission is directed to treat penalties in a particular manner through terms of reference, the Territory's view is that the Commission should assess states' actual Quality Schools funding, not entitlements. The Territory notes that the previous terms of reference, which the Commission staff are deeming to apply to Quality Schools funding only direct the Commission not to unwind the recognition of education disadvantage, with no regard to penalties.
22. It is however noted that penalties will not apply in 2017, or 2018 and as such, this issue will not need to be resolved until the 2019 Update at the earliest.
23. Assessing states' shares of Quality Schools funding on an actual per capita basis is consistent with the proposed treatment of similar payments which impose penalties for non-compliance, and the Territory's view is that the Commission should be consistent in this regard, until directed to act otherwise.

Other Issues

The Territory supports the ACT proposal to reinstate the CSS adjustment and to include ACT's PSS expenses in the wages assessment. The Territory did not support the abolition of this assessment on materiality grounds.

The Territory supports the Commission staff proposals to:

- make no change to its assessment methods for disability services in this update
- estimate notional Disability SPPs in the application year for New South Wales, South Australia and the ACT to derive consistent splits of expenses between NDIS and Specialist Disability Services
- use the Independent Hospital Pricing Authority's emergency department activity captured by the Non-admitted Patient Emergency Department care National Minimum Data Set and Activity-based Funding Emergency Services Care Data Set Specification collections for all assessment years in the 2018 Update without any adjustment for under coverage because the number of emergency department occasions not being captured is negligible (1.1 per cent of total activity) and including an adjustment is not material for any state
- treat the \$730.4 million payment for the transfer and operation of the Mersey Community Hospital as not affecting the relativities because it is expected to be quarantined by the terms of reference
- not make any additional adjustments to Tasmania's financial data for the management of the payment or operation of the hospital over the next 10 years because it would add complexity but not have a material effect on the GST distribution
- not make any adjustments for the transfer of the asset valued at \$10 million
- allow the payment for the delivery of rehabilitation and palliative care services to affect the GST distribution because it is for normal state services and needs are assessed in the Health category
- rescale the Investment assessment by distributing the difference between the assessed change in stock, and the unscaled expenses on an equal per capita basis
- not change its treatment of royalties where bans on extraction are in place in most states in the 2018 Update as it is not material to do so
- consider the treatment of state mineral bans as part of its 2020 Review
- treat Commonwealth payments in 2016 as outlined in Table A-1, with the exception of the Commonwealth payment for Developing Northern Australia,

on the basis that this payment is designed to address unmet need, and as such, needs are not assessed

- not backcast the Commonwealth payments commencing in 2017-18 or 2018-19 listed in Table A-2.

PSS and CSS

24. The Territory supports the ACT proposal to reinstate the CSS adjustment and to include ACT's PSS expenses in the wages assessment. The Territory did not support the abolition of this assessment on materiality grounds. The Territory also notes that the ongoing costs associated with the CSS are not currently captured by the wages assessment, which is only based on expenses related to current employees, whereas the most material costs to the Territory of the CSS are the ongoing expenses associated with employees accessing the scheme after retirement.

National Disability Insurance Scheme

25. The Territory's view is that the current approach is a reasonable means of ensuring that the assessment of disability services reflects what states do, and that the assessment of notional SPPs is required to ensure that equalisation outcomes are not distorted by divergence in states' transitions to the NDIS.

Emergency Department Data

26. The Territory considers that the Commission staff proposed approach not to apportion missing hospital activity data by remoteness area is appropriate, given the level of extrapolation required, which may or may not be a reliable means of estimating activity for those hospitals not reporting in national datasets. Further, while the Territory does not support materiality thresholds in principle, making an adjustment would be inconsistent with the Commission's stated materiality thresholds under its 2015 Review methodology.

Treatment of Commonwealth payment for the transfer of the Mersey Community Hospital

27. The Territory supports the Commission staff proposed approach to treat the payment for the transfer and operation of the Mersey Community Hospital by exclusion on the basis that it will be directed to do so through the 2018 Update Terms of Reference.
28. The Territory accepts the recommendation not to make further adjustments to exclude the flow-on implications of the payment on the basis that these adjustments are not material, however in principle, the Territory supports full equalisation.
29. Similarly, the Territory supports the proposal not to make any adjustments for the transfer of the asset valued at \$10 million, and to allow the payment for the delivery of

rehabilitation and palliative care services to affect the GST distribution because it is for normal state services and needs are assessed in the Health category.

Rescaling in the Investment Assessment

30. The Territory supports the Commission staff's proposal to undertake rescaling in the Investment assessment by distributing the difference between the assessed change in stock, and the unscaled expenses on an equal per capita basis.
31. The scaling treatment applied in the 2017 Update resulted in a significant reduction in the Territory's assessed GST needs, significantly overstating the impact of below-average population growth on its assessed Investment needs. This was an unintended and unforeseen outcome.
32. Scaling in the expenditure categories is a balancing measure designed to ensure that the sum of assessed expenses is equal to the sum of the state's actual expenses and is not intended to have a significant impact on the GST distribution. It is also difficult to reconcile the concept that an assessed need to disinvest in one state, would result in an increased investment need in another state.
33. Given the issues with the current scaling treatment are only likely to arise in the Investment assessment, it is appropriate that a different treatment be adopted to that applied in the other expenditure categories. The Commission staff's proposed rescaling treatment on an equal per capita basis will significantly reduce the impact of rescaling going forward and the Territory supports this proposal. While this approach represents a method change, the Territory considers it necessary in order to remove unintended consequences from the Investment assessment and to ensure an appropriate equalisation outcome is achieved.

Treatment of mining royalties where bans have been introduced

34. The Territory acknowledges that there are currently some conceptually perverse outcomes in the assessment of royalties from coal seam gas and uranium production given the current divergent extraction policies across states. The Territory considers that there are significant policy issues associated with changing the treatment of royalties raised from these minerals and as such, a rigorous consultation should be undertaken prior to undertaking a method change of such significance. As a result, the Territory supports the recommendation that the Commission not change the treatment of royalties where bans on extraction are in place in the 2018 Update, but rather consider this issue as part of the 2020 Review.

Treatment of Commonwealth payments commencing in 2016-17

35. The Territory supports the proposed treatment of Commonwealth payments commencing in 2016-17, with the exception of payments provided under the Northern Australia Infrastructure Fund. The Territory considers that the CGC does not assess the

need for infrastructure other than that arising from changes in population, whereas this payment is being made in recognition of the early stages of economic development in Northern Australia compared with southern Australia, for which needs are not assessed.