

**Northern Territory
Submission to the
Commonwealth Grants
Commission –
2020 Methodology Review
Draft Main Report
September 2019**

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1. Introduction

- 1.1 The Northern Territory welcomes the opportunity to comment further on the Commonwealth Grants Commission's (the Commission's) proposed assessment approaches outlined in its 2020 Methodology Review (2020 Review) Draft Main Report (Draft Report).
- 1.2 The Northern Territory remains a strong supporter of horizontal fiscal equalisation as the guiding principle the Commission applies for determining the methods used to distribute GST across the states and territories.
- 1.3 The Northern Territory notes that Chapter 4 of the Draft Report outlines the Commission's preliminary understanding of the requirements of the legislated changes to the GST distribution and how they will give effect to these changes, including transitioning to the new benchmark standard, adjusting for the relativity floor and calculating whether any state is worse off during the transition period.
- 1.4 The Northern Territory agrees with the Commission's initial interpretation of the legislation where existing mechanisms for determining states' fiscal capacities will continue to form the initial basis for relativity calculations.
- 1.5 The Northern Territory is supportive of the Commission's approach to calculate standard state capacities in each assessment year and then apply the current process of averaging to obtain the application year relativities. This approach will more accurately reflect states' fiscal needs and avoid the requirement for complicated adjustments at the time of the final budget outcome, compared to the approach set out in the Commonwealth's initial modelling provided to states.
- 1.6 Further, the Commission's suggested approach to assess top-up payments on an equal per capita (EPC) basis, in affected assessment years when determining GST revenue only relativities for the no-worse-off comparison, is reasonable.
- 1.7 It is imperative that all calculations the Commission undertakes to give effect to the legislation remain transparent. States should receive all calculations contributing to the final relativity beginning with the calculation of state fiscal capacities as per current arrangements, the standard state calculation as per the new level of equalisation, the blended relativity and the floor inclusive GST relativity, as well as the calculation of the relativity for the no-worse-off comparison.
- 1.8 It is important that states receive the five different relativity calculations, as part of the supporting documentation for each update and review, in order to inform their own forecasting decisions and to understand where fiscal capacity changes have occurred year-on-year.
- 1.9 The following chapters detail the Northern Territory's response to the proposed assessment methods outlined in the Commission's Draft Report. The Northern Territory acknowledges and supports improvements made to the expenditure categories to better assess the impact of remoteness, regional costs and service delivery scale (SDS).

- 1.10 The submission focuses mainly on areas where the Northern Territory considers gaps remain in the Commission's proposed assessments in terms of adequately assessing the Northern Territory's level of expenditure need. In particular, the Northern Territory's submission seeks further Commission consideration of the treatment of Investment expenditure needs where states are being assessed as needing to disinvest, the assessed level of administrative scale expenses and removal of the NT adjustment, the approach to measuring the non-state sector activity in Health, community criteria for electricity and water subsidies in Services to Communities, and the adequacy of the regional cost gradients in Courts, Prisons and Services to Communities.
- 1.11 Where the Northern Territory has not provided a comment on the Commission's proposed methodology, it can be considered that it either supports or has no significant objection to the approach, or it has not been able to produce further evidence as sought by the Commission to support its case, in addition to that provided in its submission to the Commission's Draft Assessment Papers (DAPs).

2. Revenue

The Northern Territory:

- Considers that if the Commission proceeds with shifting EPC assessments from relevant categories to the Other Revenue category, these revenues should be clearly identifiable in the annual Assessment System.
- Believes fire and emergency services levies (FESLs) meet the definition of a tax and that they should be differentially assessed in the relevant revenue categories.
- Considers Valuer-General data should be utilised, if the Commission intends to update its assessment of the Northern Territory's value of taxable land holdings.
- Accepts the Commission's proposal to incorporate concessional rates of stamp duty in the Stamp Duty category.
- Supports the exclusion of worker's compensation, compulsory third party and builder's warranty insurance premiums from the insurance tax revenue base, with the corresponding duties remaining in the category.
- Considers the rounding of the split of light and heavy vehicle registration fees to be an arbitrary simplification.
- Notes the Commonwealth Treasurer unilaterally directed that the Commission not consider changes to the mining revenue methodology, as part of the 2020 Review.
- Supports separate assessments for minerals where it is material to do so.
- Considers non-royalty mining-related revenues, when raised on production values or volumes, should be assessed in the relevant mineral component, by including the additional revenue in total actual revenue.
- Supports the Commission working with states to reconcile differences between Government Finance Statistics (GFS) and state-provided mining revenue data.
- Prefers user charges associated with expenses identified in the Other Expenses category to continue to be assessed in the Other Revenue category. Should this not occur, netted off user charges should be identifiable in the annual Assessment System.

2.1 The following chapter provides the Northern Territory's commentary on specific revenue-related proposals.

EPC assessments

2.2 The Commission is, in general, proposing to shift EPC assessments from relevant revenue categories to the Other Revenue category. While this may be attractive on simplicity grounds, the Northern Territory questions whether this will reduce the transparency of the revenue assessments.

- 2.3 Should the Commission decide to proceed with the proposed approach, these revenue sources should remain clearly identifiable in the annual Assessment System, retaining transparency and ensuring states can identify changes in these revenues over time.

FESLs

- 2.4 The Northern Territory does not support the Commission's view that FESLs should be treated as user charges because revenue is dependent on the cost of providing emergency services, and that property and insurance FESLs should be netted off emergency services expenses in the Other Expenses category.
- 2.5 The Australian Bureau of Statistics (ABS) defines a tax as a compulsory levy imposed by government to raise revenue, with no direct or clear link between the payment of tax and the provision of services.¹ The Northern Territory's view is that those paying FESLs do not automatically receive fire and emergency services, hence FESLs meet the definition of a tax rather than a user charge.
- 2.6 Further, the drivers of FESL revenue, annual property values and insurance premiums, have no bearing on the cost of providing emergency services. For example, if a state experienced significant growth or reduction in property values and numbers, its collected FESL revenue would correspond. However, it is not clear that emergency services costs are directly driven by increases or decreases in property values or insurance premiums.
- 2.7 The Northern Territory considers revenue raised from FESLs is akin to a tax, and that property and insurance FESLs should be differentially assessed in the relevant revenue categories.

Elasticity

- 2.8 The Northern Territory notes the Commission has decided not to progress with an elasticity adjustment, and will review the application of an adjustment should states commence major tax reforms.

Value of taxable land holdings

- 2.9 An adjustment of 0.6 per cent of the value of other states' taxable land holdings is currently applied to the Northern Territory to estimate its value of taxable land holdings. The Commission is seeking states' views on the size of the adjustment.
- 2.10 If the Commission intends to update the way it assesses the Northern Territory's land tax capacity, the Northern Territory's provided Valuer-General data should be utilised. This data on the value of taxable land holdings is recent and accurate, with local government consistently using the data to determine rates.
- 2.11 Should the Commission have concerns with the Northern Territory's Valuer-General data, the current adjustment should be retained.

¹ ABS, Taxation Revenue, Australia, Taxes Classification
<https://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/5506.0Explanatory%20Notes12017-18?OpenDocument>.

Concessional rates of duty for first home owners

- 2.12 The Northern Territory considers the Commission's proposal to incorporate concessional rates of stamp duty payable for first home owners through a reduction in states' effective rates of tax to be reasonable. Given the majority of states provide assistance to first home owners by reducing stamp duty payable, this treatment is reflective of what states do.
- 2.13 The Northern Territory also supports the Commission's intention to retain the assessment of first home owner grants in the Housing category.

Insurance tax revenue base

- 2.14 The Northern Territory supports the Commission's intention to exclude worker's compensation, compulsory third party and builder's warranty insurance premiums from the insurance tax revenue base due to associated policy influence, and to retain the corresponding duties in the Insurance Tax category.

Split of registration fees

- 2.15 The Northern Territory considers the Commission's proposal to round the split of registration fees between light and heavy vehicles based on state-provided data an arbitrary simplification.
- 2.16 While the Commission notes small changes in the split are immaterial, the Northern Territory considers the split should directly align with state-provided data in order to best reflect what states do. In addition, the Northern Territory questions whether there is scope for the split to be updated annually to reflect the most recent data, rather than fixing the split for the duration of the 2020 Review.

Mining methodology

- 2.17 Throughout the 2020 Review, states and the Commission have endeavoured to strike an appropriate balance between policy neutrality and what states do in the Mining category. However, following the Commonwealth Treasurer's direction in November 2018 that 'the Commission [is] not to consider changes to the mining royalties methodology as part of the 2020 review', the 2015 Review assessment methodology is unchanged.

Separate assessments for minerals

- 2.18 Consistent with the 2015 Review methodology, which made separate assessments for minerals where material to do so, the Northern Territory supports nickel and lithium royalties being assessed in the Other Minerals component of the category, as neither are currently material to warrant a separate assessment. If and when lithium royalties become material, the Northern Territory notes they will be assessed separately.

Non-royalty mining-related revenue

- 2.19 Some states, including Queensland and Western Australia (WA), are currently raising or considering raising non-royalty mining-related revenue, which is currently assessed EPC in the Other Revenue category. Consistent with the 2015 Review methodology, the Commission intends for all mining revenues to be assessed in the Mining Revenue category.
- 2.20 Given the potential for states to reduce their assessed mining capacity through restructuring their mining revenue arrangements, the Northern Territory considers that where mining-related revenue fits the general characteristics of a royalty payment, in particular where it is raised on production values or volumes, it should be captured in the relevant mineral component of the Mining category. An example of non-royalty mining-related revenue is WA's 25 cents per tonne fee on some of the state's iron ore production. In this instance, the additional revenue raised should be included in the total actual revenue for iron ore, to reflect states raising additional revenue on specific minerals. The remaining non-royalty mining related revenue, which is not raised on production values or volumes, should continue to be assessed EPC in the Other Revenue category.
- 2.21 The Draft Report notes the Commission will only incorporate non-royalty mining-related revenue into the Mining category where material to do so. However, based on the approach proposed above, given underlying minerals are already assessed, the royalty-like revenue ought to be included in the assessment regardless of materiality.
- 2.22 While the Northern Territory raises non-royalty mining-related revenue through grant application, annual administration, registration and late lodgements fees, rent and a mining rehabilitation security levy, these charges are not raised on production values or volumes. As noted above, this revenue should continue to be assessed in the Other Revenue category.

Mining revenue data

- 2.23 Previously, if total GFS data and state-provided data on mining revenue did not match, the Commission adjusted the revenues in the other minerals component to reconcile the difference. The Northern Territory supports the Commission working instead with states to ensure mining revenue is accurately captured. However, failing this, the Northern Territory considers the Commission should revert to its previous approach.

Royalty revenue sharing agreements

- 2.24 As noted in Chapter 3 – Commonwealth payments, the Commission intends to make a minor change to the composition of the category by shifting Commonwealth royalty and reduced royalty revenue-sharing agreements with WA and the Northern Territory to other Commonwealth payments. The Northern Territory supports the change, noting payments should be easily identifiable in the final report and annual Assessment System.

User charges

- 2.25 The Northern Territory's preference is for user charges associated with expenses identified in the Other Expenses category to continue to be assessed in other revenue, rather than netted off in the Other Expenses category, due to transparency and simplicity concerns.
- 2.26 If the Commission proceeds with this change in treatment, to aid in transparency, netted off user charges should be identifiable in the annual Assessment System.

3. Commonwealth payments

The Northern Territory:

- Supports payments under the Infrastructure Investment Program – Bridges Renewal Program impacting state fiscal capacities.
- Considers payments for investment in national road and rail networks should impact on state fiscal capacities.
- Supports moving the assessment of royalty revenue sharing agreements to Commonwealth payments, noting payments should be easily identifiable in the annual Assessment System.
- Supports equalising capital payments in the year they are paid.

Bridges Renewal Program

- 3.1 Noting the Commission has developed a differential assessment for bridges and tunnels in the 2020 Review, payments under the Infrastructure Investment Program – Bridges Renewal Program will impact state fiscal capacities. The Northern Territory considers the treatment of these payments appropriate, given expenditure needs will be assessed.

National road and rail networks

- 3.2 The Commission intends to continue treating 50 per cent of Commonwealth payments for investment in national road and rail networks as having no impact on state fiscal capacities. This reflects that the Commission considers transport infrastructure payments are influenced by Commonwealth considerations not recognised in the assessment, such as national objectives around enhancing productivity and improving social equity and quality of life.
- 3.3 The Northern Territory remains of the view, as expressed in its second submission to the Commonwealth Grants Commission – 2020 Methodology Review in August 2018 (second submission), that the objectives of these payments align with state priorities, including reducing congestion and improving access, and hence reducing state expenditure needs. Therefore, not taking into account 100 per cent of national road and rail network funding, fails to adequately equalise states fiscal capacities, departing from the principle of horizontal fiscal equalisation.

Pool top-up payments

- 3.4 The Northern Territory notes an EPC assessment of pool top-up payments in the other Commonwealth transfers component of Commonwealth payments is reasonable, with further discussion provided in the Introduction.

Royalty sharing agreements

- 3.5 The Commission intends to assess Commonwealth royalty and reduced royalty revenue sharing agreements with WA and the Northern Territory, previously assessed in the Mining category under the grants in lieu of royalties component, in Commonwealth payments. As the change is consistent with the treatment of Commonwealth payments and presentational only, with revenue continuing to be assessed actual per capita (APC), the Northern Territory supports the change, noting payments should be easily identifiable in the final report and annual Assessment System.

Equalising capital grants

- 3.6 The Northern Territory supports the Commission continuing to equalise capital infrastructure payments and corresponding expenditure in the year the payments are received. While there is merit in capital payments being equalised over the years in which they are spent, collecting information on the spending of each payment, which often spans over several years, would be problematic and burdensome for states.

4. Schools

The Northern Territory:

- Supports the new state-funded schools regression model that better captures relative need, based on school student characteristics, compared to the previous approach.
- Requests the Commission test the variable in the regression model, for students with a disability.
- Notes the Commission tested the variable for concentration of Indigenous students, which produced a counter-intuitive result.
- Notes the decision to move student transport into the Transport assessment.

- 4.1 The Northern Territory welcomes the re-specified regression model to estimate user cost weights for state funding of both government and non-government schools. The Commission has been transparent with the variables that have been tested, the resulting regressions (in the Supplementary Information for the Draft Report) and the reasons for inclusion and exclusion of variables.
- 4.2 The state-funded government school model captures the key drivers of relative need by recognising student numbers, Indigenous status, low socio-economic status (SES) and remoteness, as well as accounting for SDS. The state-funded non-government school model has similar specifications, however it does not include a variable for Indigenous status. The Northern Territory agrees with the Commission's decision to exclude this variable for the present given it produced a counter-intuitive result of a negative cost weight across all years tested in the regression.
- 4.3 The Commission has taken a strong stance on excluding a variable for students with a disability despite a number of states supporting its inclusion. The Commission and some states believe that the Nationally Consistent Collection of Data on School Students with Disability (NCCD) is not sufficiently reliable for use in the assessment despite the Commonwealth using NCCD in its Quality Schools allocation calculations, and some states, including the Northern Territory from 2020, using NCCD in their school resourcing models. Given that states provide additional resources to students with disabilities, the Northern Territory requests the Commission test the variable in the model to see if it provides a greater explanation of the variance in the model. If the variable adds value to the model, the conceptual case for including this variable is strengthened and may outweigh the data concerns.

- 4.4 The Northern Territory notes the Commission tested, as requested, the impact of the concentration of Indigenous students on the schools regression model. However, the inclusion of a variable for low proportion of Indigenous students and a variable for high proportion of Indigenous students produced counter-intuitive results. Despite WA, the Commonwealth and the Northern Territory's funding models including cost weights for the concentration of Indigenous students, the Northern Territory accepts, given the counter-intuitive results, that the Commission will not include these variables.
- 4.5 In its second submission, the Northern Territory did not support removing the student transport assessment from the Schools category. It is noted that this assessment has been moved to the urban transport component of the Transport assessment, given concerns around accurately identifying the proportion of transport costs allocated to school transport.

5. Post-secondary education

The Northern Territory is supportive of the proposed changes to the assessment.

- 5.1 The Draft Report Attachment 11 – Post-Secondary Education, provides the Commission's proposals for the category that remain largely unchanged since the Staff Draft Assessment Paper CGC2018-01/11-S – Post Secondary Education.
- 5.2 The Northern Territory supports the changes to the assessment, in particular the development of a category-specific regional cost gradient. This gradient will apply full remoteness disaggregation in the 2020 Review and will not be adjusted or discounted by the Commission.

6. Health

The Northern Territory:

- Acknowledges and supports the improvements made in the Health category to better assess the impact of remoteness, regional costs and SDS.
- Notes that the Commission will consult with states as part of the 2021 Update regarding the suitability of non-admitted patient (NAP) Tier 2 data.
- Considers that data relating to Other Standalone Hospitals including Gove District Hospital (GDH) should be included in the block funding (BF) adjustment.
- Considers that recognition of regional cost and SDS disabilities improves the adjustment relating to Indigenous Australian's Health Program (IAHP) grants, but argues that this program primarily expands service provision and does not lessen state spending needs.
- Remains concerned about the policy neutrality of Medicare revenue received by states under the Section 19(2) exemption.
- Disagrees with the Commission's proposal to introduce a cross-border capital stock factor unless it is limited to an assessment between New South Wales (NSW) and the Australian Capital Territory (ACT).

6.1 The Northern Territory welcomes the improvements to the Health category assessment to better capture the impact of remoteness, regional costs and SDS. The methods adopted in the 2015 Review substantially underestimated the Northern Territory's health expenditure needs, and the proposed changes to the Health category assessment have narrowed the gap between assessed and actual expenses.

6.2 The Northern Territory notes that the Commission will continue to use admitted patient separations as the proxy measure for NAP services in the 2020 Review, but will consider changing to the NAP Tier 2 data for the 2021 Update. The need to develop the new Australian Non-admitted Care Classification (ANACC) system evidences the limitations with the Tier 2 data, but unfortunately it will be some years before data using the new classification is available for use in the Commission's assessment. In the interim, the Northern Territory is concerned that a shift to use of NAP Tier 2 data could undo improvements made in the 2020 Review that better capture the Northern Territory's relative needs. The Northern Territory notes, however, that the Commission will consult with states prior to making changes in the 2021 Update and welcomes the opportunity to comment further at that time.

- 6.3 The Northern Territory has no further comments on the levels of substitutability for the non-state sector assessments, considering these finalised. The Northern Territory's residual concerns relate primarily to the approaches used to measure the influence of the non-state sector on states' expenditure needs, which are discussed in the following sections. Further comments are also made regarding the exclusion of data for GDH from the BF adjustment, non-hospital patient transport and the new cross border capital stock factor.

Non-state sector assessments

Medicare services with an out-of-pocket cost

- 6.4 The Commission only includes bulk-billed services in its indicators for non-state sector service provision. Services that attract an out-of-pocket cost are excluded. As a result, services with an out-of-pocket cost are effectively considered as not reducing the demand for state services. As argued in its second submission, the Northern Territory does not believe that this is the case and considers that greater access to private sector services, regardless of whether or not an out-of-pocket cost is incurred, reduces demand on state services.
- 6.5 For example, if it is assumed that two states have the same population (size and socio-demographic characteristics including socio-economic profile) and the same access to bulk-billed service provision, there will be no non-state sector adjustment. If, however, one state (State 1) has a larger non-bulk-billed sector (omitted from the Commission's assessment), its population is receiving an above average level of combined state and non-state services. As states tend to focus on health outcomes rather than volumes of service delivery, this means that State 1 can deliver fewer state sector services and achieve comparable outcomes in terms of the health status of its population than State 2. Conversely, if State 1 does not reduce its state sector service provision (and its population has better health outcomes), State 2 will need to increase state sector service provision in order to achieve the same outcome.
- 6.6 The Northern Territory considers the inclusion of all Medicare services (not just bulk-billed services) merits further attention as the exclusion of non-bulk-billed services may distort the non-state sector assessments, materially affecting outcomes from the assessment.

Section 19(2) exemptions

- 6.7 State governments can claim Medicare revenue for primary health services under exemptions to Section 19(2) of the *Private Health Insurance Act 2007* (Cwth). Not all states have chosen to access the Council of Australian Governments (COAG) Improving Access to Primary Care in Rural and Remote Areas – COAG s19(2) Exemptions Initiative, introduced in conjunction with the Better Health for All Australians Action Plan under the 2006-07 Commonwealth Budget. The initiative is designed to expand access to primary care in rural and remote areas (beyond existing services provided by state governments).

- 6.8 Although all states are eligible to participate, only half of the jurisdictions have taken up the initiative (the Northern Territory, NSW, Queensland and WA). Participating jurisdictions will have the Medicare revenue for bulk-billed general practitioner (GP) services (the community health non-state sector indicator) received under the initiative captured in their actual level of non-state sector expenditure (activity), which is then deducted from the Commission's assessed level of non-state sector activity.
- 6.9 The result, known as the non-state sector adjustment, decreases (or increases) a state's need to spend on community health services depending on whether actual non-state sector activity exceeds (or is below) the Commission's assessed non-state sector activity. This process means non-participating states benefit because their actual non-state sector activity is lower than it would be if they had taken up the Section 19(2) initiative. This means the deduction from assessed non-state sector activity is less. All other things being equal, it leads to a higher assessment of state expenditure needs for community health services for non-participating states. This advantageous outcome may incentivise those states not to take up the initiative and penalises the states that do access the initiative.
- 6.10 It is understood that the Commonwealth Department of Health is unable to identify Section 19(2) exemption services in its Medicare expenditure so it cannot exclude relevant services from the data provided to the Commission. An alternative solution may be to source revenue data from participating states.
- 6.11 The Northern Territory advises that revenue for GP services under the Section 19(2) exemption amounts to about \$15 per capita, a substantial amount for the Northern Territory. The Northern Territory urges the Commission to investigate this issue further to improve the policy neutrality of the non-state sector assessment for the community health component.
- 6.12 While this issue is highlighted in respect of the community health assessment, the Northern Territory notes that the same non-state sector indicator, bulk-billed GP services, is used for the non-state sector assessment for the emergency department component. This means there are two areas in the Health category assessment where the Section 19(2) initiative has implications for the policy neutrality of the assessment.

IAHP adjustment

- 6.13 The Northern Territory Government actively supports the transition to, and operation of, Aboriginal community-controlled health services. In July 2019, a further two Northern Territory Government services in North East Arnhem Land transitioned to the Miwatj Health Aboriginal Corporation.² The transition has not reduced Northern Territory expenditure; it is required to maintain its contribution (\$3.3 million per annum). The Commonwealth also provides funding to Miwatj (\$3.2 million) and in the future, Miwatj can engage directly with the Commonwealth for additional funding under the IAHP and other health programs to address local needs and priorities as determined by the community.
- 6.14 The Northern Territory supports improvements to the IAHP adjustment to account for regional costs and SDS based on data from the Australian Institute of Health and Welfare (AIHW) relating to primary health care organisations servicing Indigenous populations. Notwithstanding this, the Northern Territory considers that the primary purpose of the IAHP is to expand service provision for Indigenous Australians and deliver comprehensive, culturally specific care, not to replace or reduce state government services. The additional funding aims to close the gap in health outcomes, that is, address unmet need, which is greatest in remote and very remote areas.³
- 6.15 The Commission's methods are premised on the average level of service, but addressing unmet need in the Indigenous population will require an above average level of service provision, particularly in remote and very remote areas. Including the IAHP funding in the assessment process results in additional funding for addressing unmet need being redistributed away from where it is needed most. Therefore, despite the position outlined above, the Northern Territory continues to be of the view that the IAHP adjustment should be discontinued and removed from the assessment completely.

SDS adjustment for block-funded hospitals (BF adjustment)

- 6.16 In its earlier submission, the Northern Territory advised that data for GDH should be included in the Commission's calculation of the BF adjustment. GDH is classified as an Other Standalone Hospital due to its very high costs. The efficient cost for the hospital is determined in consultation with the Northern Territory with reference to the in-scope reported expenditure in the National Public Hospital Establishments Database.

² Northern Territory Government. Miwatj looking after the health of North East Arnhem Land. Media release on 1 July 2019. Accessed on 23 August 2019 at http://www.territorystories.nt.gov.au/js/pui/bitstream/10070/753708/1/Fyles-010719-Miwatj_looking_after_the_health_of_north_east_arnhem_land.pdf.

³ ABS.3302.0.55.003 – Life tables for Aboriginal and Torres Strait Islander Australians, 2015-2017. Table 2. Accessed 27 August 2019 at <https://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/3302.0.55.0032015-2017?OpenDocument>.

- 6.17 The higher costs of GDH will not be adequately captured by applying the proposed BF adjustment to its national weighted activity units (NWAU). This is because the gap between an activity based funding costing and BF costing for GDH is much greater than determined in the BF factor calculated in Table 19 in Attachment 12 of the Draft Report.
- 6.18 The Draft Report noted that GDH was a small 30-bed hospital and inclusion of its data would have a negligible effect on the BF loading. The Northern Territory disagrees; bed size is not a good indicator of GDH's costs. GDH's activity falls within Group G of the National Efficient Cost (NEC) matrix. These hospitals have NWAU of between 2501 and 3500. GDH falls in the very remote classification for this group, for which there is no NEC value; its costs are too high.
- 6.19 The Northern Territory has calculated the impact of adding GDH's costs to Table 19. It increases the very remote factor from 2.00 to about 2.10. While this follows the BF adjustment method, the approach spreads GDH's costs across states (as the BF adjustment would be applied to all very remote BF NWAU). This would mean that the Northern Territory incurs the full cost of GDH, but only part of its expenditure would be accounted for through the Commission's assessment methods.
- 6.20 A further concern is that payments associated with GDH are included in Commonwealth payments for hospitals under the National Health Reform Funding. These payments are captured in the Commission's assessments and impact the Northern Territory's fiscal capacity. As Commonwealth payments are deducted from assessed needs, it would be inequitable to ensure less than full capture of GDH's costs in the hospital assessments.
- 6.21 Given GDH's outlier status, it is difficult to incorporate into averaging approaches such as the BF adjustment. The matter cannot, however, be ignored as the high cost of GDH and associated Commonwealth funding is material for the Northern Territory. While there is a minor impost on the Commission, data for GDH is available from the Northern Territory or the Independent Hospital Pricing Authority (IHPA) and the National Health Funding Body, and can be updated annually.
- 6.22 The Northern Territory notes that in the NEC Determination 2019-20, a further two hospitals have now been classified as Other Standalone Hospitals (these were previously classified as Block Funded Small Rural Hospitals). The movement of these hospitals out of the NEC matrix into the Other Standalone Hospitals group may impact negatively on the BF adjustment, an impact that is likely to fall disproportionately on remote and Indigenous populations as key users of services provided by Other Standalone Hospitals. The Commission may need to consider whether these hospitals remain within the bounds of the BF adjustment (for example, their outlier status is less extreme than GDH) or whether separate treatment may also be required for these hospitals.

Non-hospital patient transport (NHPT)

- 6.23 The NHPT component comprises expenses on aero-medical services (including the Royal Flying Doctor Service) and Patient Assisted Travel/Transport Scheme (PATS). As noted in the Draft Report, these services are provided disproportionately to people in remote and very remote regions.
- 6.24 The Northern Territory incurs substantial NHPT costs because for much of its remote and very remote population there is no alternative other than referral and travel to services in its main urban centres. For example, a patient in a remote community requiring a chest x-ray must travel to the nearest hospital, a journey that can involve hundreds of kilometres of travel, charter flights if there is no regular commercial transport available or if road travel is not feasible/possible (for example, during the wet season when road access is cut), and accommodation costs.
- 6.25 In 2017-18, about 88 per cent of NHPT expenditure in the Northern Territory was for people in remote and very remote areas. Only 12 per cent of expenditure was for people in Greater Darwin (outer regional classification), primarily related to PATS. Most people in Greater Darwin are ineligible for PATS due to travel distance criteria. As such, costs relating to the outer regional classification will largely be instances where it is determined that treatment for the medical condition is not available in Greater Darwin or not available within a clinically appropriate timeframe, and the patient is referred interstate for treatment.
- 6.26 Other states' patient travel assistance schemes have eligibility criteria including minimum travel distances to the nearest treating service or specialist. Travel distance criteria and concentration of treating services and specialists in major cities mean that it is reasonable to expect that relatively few people in major cities would be eligible for PATS, and NHPT costs for the major cities classification should be small.
- 6.27 This is not the outcome from the Commission's NHPT assessment. The assessment method applies a weight of 1 to non-remote populations and a weight of 21 to remote populations⁴. The weighted approach results in about 52 per cent of assessed expenditure nationally being allocated to the major cities classification.
- 6.28 The Northern Territory questions whether this reflects actual expenditure patterns from state data returns. The Northern Territory believes it is likely that there will be relatively little expenditure applicable to populations in major cities. Instead, non-remote expenditure is likely to be concentrated in inner and outer regional areas. The Northern Territory believes that applying a weighting of 1 to major city populations (despite eligibility criteria excluding much of this group) distorts outcomes and is the reason why the Commission's assessment of the Northern Territory's needs falls well short of its actual expenditure (a deficit of more than 25 per cent).

⁴ Currently, the weight is 30, but the Draft Report advises this will be reduced to 21 in the 2020 Review.

- 6.29 The Northern Territory urges the Commission to reassess whether the proposed weightings are appropriately applied given this counter-intuitive result.

Cross border capital stock factor

- 6.30 The Commission proposes to introduce a new cross-border capital stock factor for health capital expenses. The assessment is material for the ACT because of cross-border flows with NSW.
- 6.31 The cross-border assessment particularly disadvantages the Northern Territory, which needs to send patients interstate when the severity and/or nature of injury or illness is beyond local expertise or technical capability. This is an efficient and effective approach for a small state where there is not the economy of scale or ability to attract and retain, particularly on a full-time basis, the necessary skills and capital for certain services. Patients will usually be treated and stabilised in Northern Territory hospitals prior to interstate transfer meaning that they have a capital stock impact both in the Northern Territory as well as interstate (i.e., their treatment interstate does not diminish the Northern Territory's capital stock requirements).
- 6.32 The Northern Territory's net flow is small at -2000 NWAU. For illustrative purposes, if it were assumed an NWAU represented a patient, this would equate to five patients a day. Even if these patients all went to the same hospital in the same state, if they went to a large metropolitan facility, this would have a relatively little impact on that state's capital requirements.
- 6.33 More generally, positive (or negative) net flows are likely to spread across public hospitals so that their volume requires relatively little additional (or less) capital to accommodate the extra (lower) patient load. Moreover, additional patients, particularly in regional and remote border areas, may mean that cross-border flows result in the capital stock of the treating hospital being utilised more efficiently. If there are negative issues associated with the concentration of cross-border patients at particular hospitals, it would be expected that states would address this in bilateral arrangements.
- 6.34 The Northern Territory also notes that there are initiatives such as the Nationally Funded Centres (NFC) Program, which are premised on cross-border flows.⁵ The NFC Program facilitates equitable access to high-cost, low-volume and highly specialised clinical technologies and procedures. A NFC is an established service that requires a national population base for efficient and effective service provision and thus relies on cross-border patient flows for viability. Services under the NFC Program are approved by the Australian Health Ministers' Advisory Council and funded by states and territories.

⁵ For further information on the NFC refer

<https://www.sahealth.sa.gov.au/wps/wcm/connect/Public+Content/SA+Health+Internet/Clinical+resources/Clinical+programs/Nationally+Funded+Centres+Program/Nationally+Funded+Centres+Program>.

6.35 The Northern Territory believes that if a cross-border capital stock assessment is introduced it should be limited to the cross-border flow between NSW and the ACT, recognising their specific circumstances. The cross-border needs are not material between other states and the assessment should not be broadened to include other jurisdictions and more general interstate patient flows.

7. Welfare

The Northern Territory:

- Does not support assessing non-National Disability Insurance Scheme (NDIS) disability expenses in the same way as aged care, on an EPC basis.
- Supports the proposed use of the ABS Index on Household Advantage and Disadvantage (IHAD) as a measure of household SES in the Other Welfare Services component.
- Opposes the removal of SDS from the family and child services component.
- Proposes that expenses for the National Redress Scheme for Institutional Child Sexual Abuse be assessed APC rather than EPC on the basis that states do not have any policy control over the level of expenses incurred.

Non-NDIS disability services

- 7.1 The Northern Territory does not support the proposal to assess non-NDIS disability services on an EPC basis. The Northern Territory supports the approach proposed in the DAPs to combine non-NDIS Disability Services with expenses in the Other Welfare component, which uses proportions of state populations in the bottom quartile of the IHAD as a measure of need.
- 7.2 Non-NDIS disability clients in the Northern Territory would largely lose access to services if they were not state funded, as the majority of service users are from remote Indigenous communities with no access to private sector services, and are also generally from highly disadvantaged, low-income households. The services provided act as a safety net to ensure people living with disability receive some support.
- 7.3 The Northern Territory considers that an EPC assessment is inappropriate due to the client profile for non-NDIS services being largely low-SES, and there being significant need for services, particularly in disadvantaged populations.
- 7.4 The Northern Territory's Office of Disability within the Department of Health estimates that following transition to full-scheme NDIS, around 60 per cent of its clients will be ineligible for the NDIS, and will therefore still require some level of services. These clients have mild to moderate or temporary impairments and are therefore not eligible for NDIS support.
- 7.5 The services that continue to be provided by the Northern Territory, following transition to full-scheme, include⁶:
 - transport assistance for school children
 - assessments and home modifications
 - coordination of allied health requirements

⁶ Certain NTG provided services may be recognised as in-kind contributions to the NDIS, however this is currently under negotiation with the Commonwealth.

- community equipment and aids and seating service
 - personal care in schools for daily personal activities
 - in home support
 - voluntary out-of-home care for children
 - funding for insulin injections for those without capacity to self-administer
 - forensic services (care of people under court supervision deemed unfit to plead).
- 7.6 The Draft Report states that there is limited evidence available to conclude that service users are predominantly from low SES groups, and that some states objected to assessing low-SES as a driver of non-NDIS disability services needs on the basis that users of disability services are not necessarily low-SES.
- 7.7 The Northern Territory contends that while disability services are not provided exclusively to people with low SES, the lack of exclusivity of services does not preclude low-SES as a driver of need. There are clear links between disability and low economic status that should be recognised.
- 7.8 For example, both the Socio-Economic Index For Areas (SEIFA) and IHAD include disability as a measure of disadvantage; the ABS includes disability status as a measure of low SES within a health setting⁷ and the AIHW has found that there is a strong correlation between SES and severe disability in capital cities⁸.
- 7.9 Further, ABS disability statistics show that people with disability are less likely to be employed and less likely to be in the labour force, regardless of the severity of disability (which is the key determinant of eligibility for the NDIS). In 2015, 61.1 per cent of people with a profound or severe core activity limitation were in the labour force, compared with 61.5 per cent of people with moderate or mild core activity limitation. This compares with 88.3 per cent of people with no reported disability being in the labour force.
- 7.10 People with disability from low SES backgrounds are more likely to require state-provided disability services than people from high SES backgrounds and, as such, a low SES measure is more appropriate than total population as a driver of need.
- 7.11 The Northern Territory's strong view is that equalisation is better achieved by measuring a partial driver of need than no driver at all, particularly where a conceptual case exists, and urges the Commission to assess non-NDIS disability services expenses in the Other Welfare component of the category, as originally proposed in the DAPs.

⁷ ABS Information Paper - Measures of Socioeconomic Status, June 2011.

⁸ AIHW Report – The Geography of disability and economic disadvantage in Australian capital cities, April 2009.

IHAD

- 7.12 The Northern Territory supports the move to the new IHAD as a measure of SES in the other welfare services component, which is more contemporary than the 2006 Census-based Socio-economic Index for Individuals used in previous reviews, and provides an improvement on the previous SEIFA index, being household, rather than area based.

Expenses under the National Redress Scheme

- 7.13 The Northern Territory proposes that states' expenses in relation to the National Redress Scheme for Institutional Child Sexual Abuse be assessed on an APC basis, rather than on an EPC basis.
- 7.14 The Northern Territory accepts that past compensation schemes affect current costs associated with providing redress, however the Northern Territory's view is that the length of time elapsed between current and past schemes negates the need for consideration of the ability for states to influence their financial obligations under the current scheme.
- 7.15 The Northern Territory notes that all states are participating in the scheme, which sets nationally agreed parameters for monetary compensation and, as such, states have little ability to influence their exposure through policy decisions. Further, the provision for states assuming responsibility as the funder of last resort for failed or dissolved institutions exposes states to costs beyond their past policy control, providing further justification for an APC assessment.
- 7.16 The Northern Territory also notes that previous Commonwealth policy affects its exposure under the scheme, due to the Northern Territory's inheritance of institutions established by the Commonwealth following self-government in 1978. While the scheme will attribute claims for abuse based on the time of abuse, the Northern Territory may have inherited institutions where abuse was undiscovered or ongoing, beyond 1978.

Family and child services – Indigenous cost weight

- 7.17 The Northern Territory's second submission proposed an Indigenous cost weight for child protection services to capture the additional Indigenous-specific costs associated with ensuring child protective services and out-of-home care are provided in a culturally appropriate context, on country, where possible.
- 7.18 The Northern Territory used Productivity Commission data from the Report on Government Services (RoGS) to run a simple regression analysis to predict the additional cost per Indigenous child compared with a non-Indigenous child. Based on the national data provided, the regression predicted that states spend approximately 1.6 times more per Indigenous child in out-of-home care than non-Indigenous children.

- 7.19 The commentary in the Draft Report suggests that the current methodology overstates the Northern Territory's needs, because the RoGS data reported lower expenditure per child than the Northern Territory's assessed expenses. However, the Northern Territory notes that the data provided was limited to out-of-home care expenses only, and that its actual expenditure on family and child services (predominantly child protection and out of home care expenditure) in 2017-18 was \$24.3 million, or \$98.49 per capita higher than the Commission's assessment of its needs⁹ for that year.
- 7.20 That is, the Northern Territory spends 5.1 times the national average on Family and Child Services but is assessed as needing to spend 4.7 times the national average in 2017-18, based on the 2015 Review methodology.

Regional costs and SDS

- 7.21 The Northern Territory is concerned that the proposed removal of the SDS disability from the Welfare category, and only applying the general cost gradient, will significantly understate its regional and scale-affected costs.
- 7.22 The child protection and other welfare components of the Welfare category are subject to regional and scale disabilities, due to the high costs of providing welfare services in smaller towns, in remote areas and the long travel times for staff to service remote communities through a hub and spoke approach.
- 7.23 While child protection workers travel long distances from major centres to conduct investigations, the remote offices in Nhulunbuy, Tennant Creek, Katherine and Alice Springs are important to ensure local decision-making and culturally appropriate services are provided to remote clients. In 2017-18, these offices comprised 10 per cent of the Territory Families workforce, with another 7 per cent located across other (smaller) remote and very remote communities.
- 7.24 The Northern Territory accepts the Commission's proposal to capture the combination of scale-affected and regional-affected costs in the regional cost gradient, however the approach to estimating the gradient in the Draft Report does not do this sufficiently. The Northern Territory's concerns with the general regional costs gradient are provided in Chapter 19 – Geography.

⁹ 2019 Update Simulator Data.

8. Housing

The Northern Territory:

- Considers the current Indigenous cost weight of 1.3 is the absolute minimum level needed to recognise the higher costs associated with delivering housing and housing services to the Northern Territory's Indigenous population.
- Considers the current Indigenous cost weight, regional cost gradient and maintenance expense weight should be retained if state-provided data is unreliable and fails to adequately capture additional costs, including those associated with overcrowding and remoteness.

Indigenous cost weight and location factor

- 8.1 In Staff Draft Assessment Paper CGC 2018-01/14-S the Commission recommended that the Indigenous cost weight and location factor be updated with states' latest available data.
- 8.2 The Northern Territory continues to face additional and substantial costs in delivering social housing services, due to the characteristics of its Indigenous social housing population. As such, it strongly supports the continued application of the Indigenous cost weight, noting the current cost weight of 1.3 should be considered the absolute minimum necessary to recognise the higher costs associated with the delivery of Indigenous-specific housing and housing services.
- 8.3 The substantial additional costs associated with delivering housing to the Northern Territory's Indigenous social housing population are the result of the high mobility, overcrowding and cultural requirements of this population. Examples that add to costs include:
 - houses experiencing an influx of visitors due to ceremonial obligations¹⁰ or cultural and sporting events¹¹
 - house swapping occurring for various reasons, including medical reasons¹² and cultural and kinship obligations
 - housing allocations considering clan and kinship relationships and placements to support community harmony

¹⁰ Buergelt, P., et al. *Housing and Overcrowding in Remote Indigenous Communities: Impacts and Solutions from a Holistic Perspective*. Energy Procedia, 2017. Accessed on 9 August 2019 at https://researchsystem.canberra.edu.au/ws/portalfiles/portal/26131125/1_s2.0_S1876610217334811_main.pdf.

¹¹ *Understanding 'demand sharing' of Indigenous households*, Australian Housing and Urban Research Institute, 2017. Accessed on 9 August 2019 at <https://www.ahuri.edu.au/policy/ahuri-briefs/understanding-demand-sharing-of-indigenous-households>.

¹² Habibis, D., et al. *Reviewing changes to housing management on remote Indigenous communities*. Australian Housing and Urban Research Institute, 2016. Accessed on 9 August 2019 at https://www.ahuri.edu.au/__data/assets/pdf_file/0010/10270/AHURI_Final_Report_No271_Reviewing-changes-to-housing-management-on-remote-Indigenous-communities.pdf.

- houses being vacated due to curses¹³ or a death in the house¹⁴
 - existing dwellings needing to be modified for kinship carers.
- 8.4 As discussed during the Commission’s visit to Alice Springs and set out in previous submissions, the Northern Territory’s housing department endeavours to deliver programs with a flexible, place-based co-design approach in accordance with the Northern Territory’s Local Decision Making Policy, which seeks to return decision making of services and programs to Indigenous community control. This approach, which is similar to the shared decision making approach being adopted by the COAG Joint Council on Closing the Gap,¹⁵ adds significantly to the cost of delivering housing services to the Northern Territory’s Indigenous population.
- 8.5 Any reduction to the cost weight will fail to acknowledge the additional costs placed on the Northern Territory for delivering housing and housing services to its Indigenous population.
- 8.6 Should the Commission consider state-provided data is unreliable and does not adequately capture the additional costs associated with providing social housing services to Indigenous persons or in remote areas, the Northern Territory supports the retainment of the current Indigenous cost weight, regional cost gradient and maintenance expense weight.

¹³ Habibis, D., et al. Reviewing changes to housing management on remote Indigenous communities. Australian Housing and Urban Research Institute, 2016. Accessed on 9 August 2019 at https://www.ahuri.edu.au/__data/assets/pdf_file/0010/10270/AHURI_Final_Report_No271_Reviewing-changes-to-housing-management-on-remote-Indigenous-communities.pdf.

¹⁴ Nash, D., Memmott, P. *Housing conditionality Indigenous lifeworlds and policy outcomes – Tennant Creek case study*. Australian Housing and Urban Research Institute, 2016. Accessed on 9 August 2019 at https://www.ahuri.edu.au/__data/assets/pdf_file/0020/7319/AHURI_Research_Paper_Housing-conditionality,-Indigenous-lifeworlds-and-policy-outcomes-Tennant-Creek-case-study.pdf.

¹⁵ The Partnership Agreement on Closing the Gap 2019-2029 expresses the formal partnership between the COAG and Indigenous persons, represented by their community controlled peak organisations, on Closing the Gap. It is a historic agreement that formally shares decision making with Indigenous community controlled representatives in the design, implementation and monitoring of the Closing the Gap framework.

9. Services to communities

The Northern Territory:

- Argues that relative electricity usage as well as prices are important considerations in whether subsidies are provided to consumers.
- Believes an upper limit of 1000 population for remote communities in the water subsidies assessment is too low, excluding larger communities where subsidies are necessary to cover the shortfall between costs and revenue.
- Considers water quality to be a driver of the need for water subsidies, but notes the difficulty in finding a simple and reliable measure of the disability.
- Disagrees with the overly conservative approach to deriving regional costs factors for water subsidies, including high level (50 per cent) discounting of the resulting estimates.
- Argues that a wage costs factor should apply to electricity and water subsidies.
- Supports the separate assessment of fiscal needs for Indigenous community development and that general revenue assistance for Indigenous councils is included in the assessment.
- Supports the application of the general regional cost gradient to the protection of bio-diversity and landscape component of environmental protection expenses.

- 9.1 The Northern Territory supports the revised structure of the Services to Communities category. The split of utilities subsidies into separate electricity and water subsidy components as well as separate assessment of Indigenous community development expenses (from other community development expenses) is more transparent and allows better capture of underlying cost drivers.
- 9.2 The Northern Territory supports the application of a general regional cost gradient to expenses for the protection of biodiversity and landscape. A substantial amount of activity is undertaken in remote and very remote locations and this requires recognition in the assessment. The Commission proposes to apply the general regional cost gradient to relevant assessed expenses. The Northern Territory supports this, but is concerned about the adequacy of the general gradient (in all categories where it is applied). The Commission is referred to Chapter 19 – Geography for further discussion of this matter. Beyond this, the Northern Territory makes no further comments on the environmental protection component of the Services to Communities category.
- 9.3 The Northern Territory's residual concerns with the category relate to the eligibility criteria for communities to be included in the subsidies assessments, discounting of regional costs for water subsidies and the absence of a wages cost factor in the electricity and water subsidies assessments.

Electricity subsidies

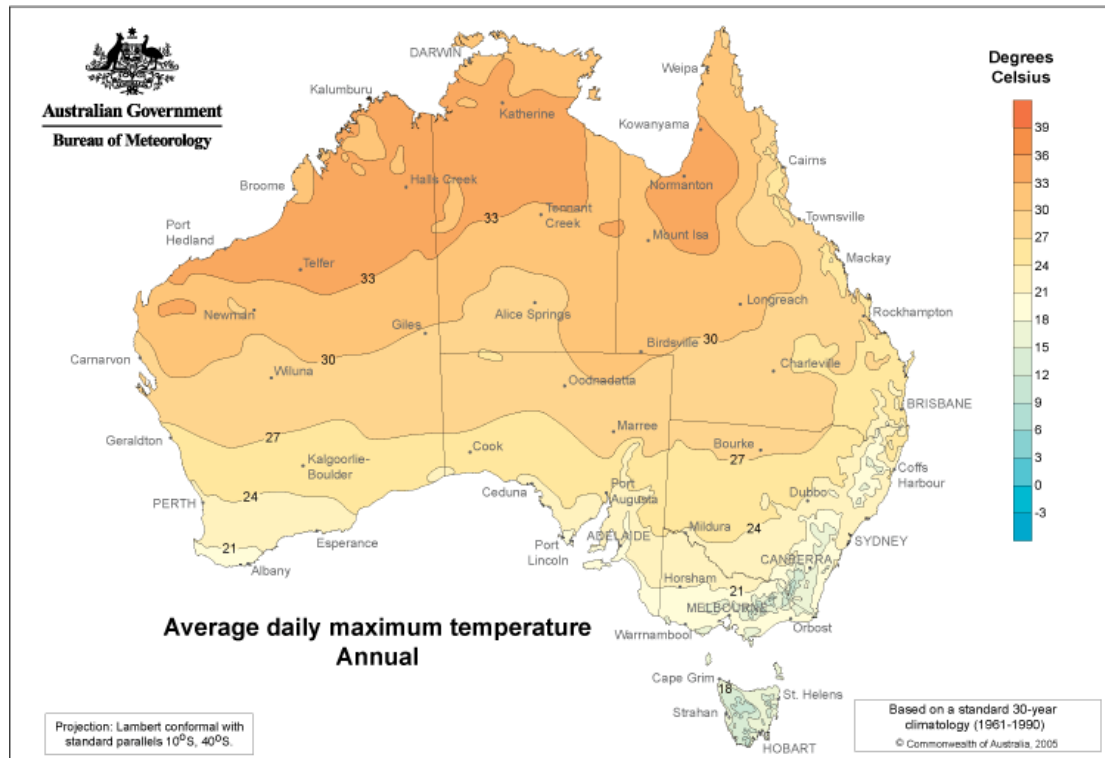
- 9.4 The proposed characteristics to define eligible populations for the differential electricity subsidies assessment are communities located in remote and very remote areas with populations of between 50 to 30 000 people and a population density of at least 60 people per square kilometre¹⁶. While these criteria suitably capture the majority of the Northern Territory's communities, the remote classification (and upper population limit) excludes the population in the Greater Darwin area, which is classified as outer regional.
- 9.5 The Commission assumes that electricity subsidies for consumers in non-remote areas are likely to be a policy choice rather than due to an underlying disability. This effectively means it is assumed that there is no reason why these consumers should not be charged a cost-reflective tariff (other than policy choice). The Northern Territory disagrees with this and considers the issue needs to be approached from a consumer impact perspective (as recipients of the average service) rather than an electricity supply perspective (cost recovery). For consumers, it is the size of the electricity bill (the combination of usage and price) not the price paid per kilowatt hour (kWh) of electricity that is important.
- 9.6 This perspective matters for Darwin where electricity consumption is particularly high due to its harsh and uncomfortable climate. The Darwin climate is hot throughout the year (Figure 1) and combined with high humidity, which intensifies during the build-up and wet season, these conditions result in high demand for electricity for cooling purposes by households and business, in addition to their normal energy requirements (lighting, appliance use etc.). For example, average annual electricity usage for a four-person household in the Darwin area is about 10 000 kWh compared with 6600 kWh in Sydney and 5800 kWh in Melbourne.¹⁷ Electricity usage in Darwin is also higher than in Cairns (7900 kWh)¹⁸, which has a warm climate (but on average is cooler and wetter than Darwin).
- 9.7 Most other centres with climatic conditions more comparable to Darwin are likely to be captured by the Commission's eligibility criteria due to their remoteness and smaller population size, but Darwin is excluded. Larger urban centres on the eastern seaboard such as Cairns will also be excluded, but they are connected to the National Electricity Market (NEM), providing access to a relatively low-cost source of supply. In contrast, Darwin relies on a relatively small, standalone power system (the Darwin-Katherine power system) for electricity supply. Costs are higher due to a reliance on gas generation (there is no generation from lower cost sources such as coal-fired and hydro plant), high per capita infrastructure costs and limited competition among generators and retailers.

¹⁶ For geographic areas not classified by the ABS as urban centres and localities.

¹⁷ Australian Government. Energy made easy website accessed on 3 September 2019 at <https://www.energymadeeasy.gov.au/benchmark>.

¹⁸ Ibid.

Figure 1: Maximum annual daily temperatures, Australia

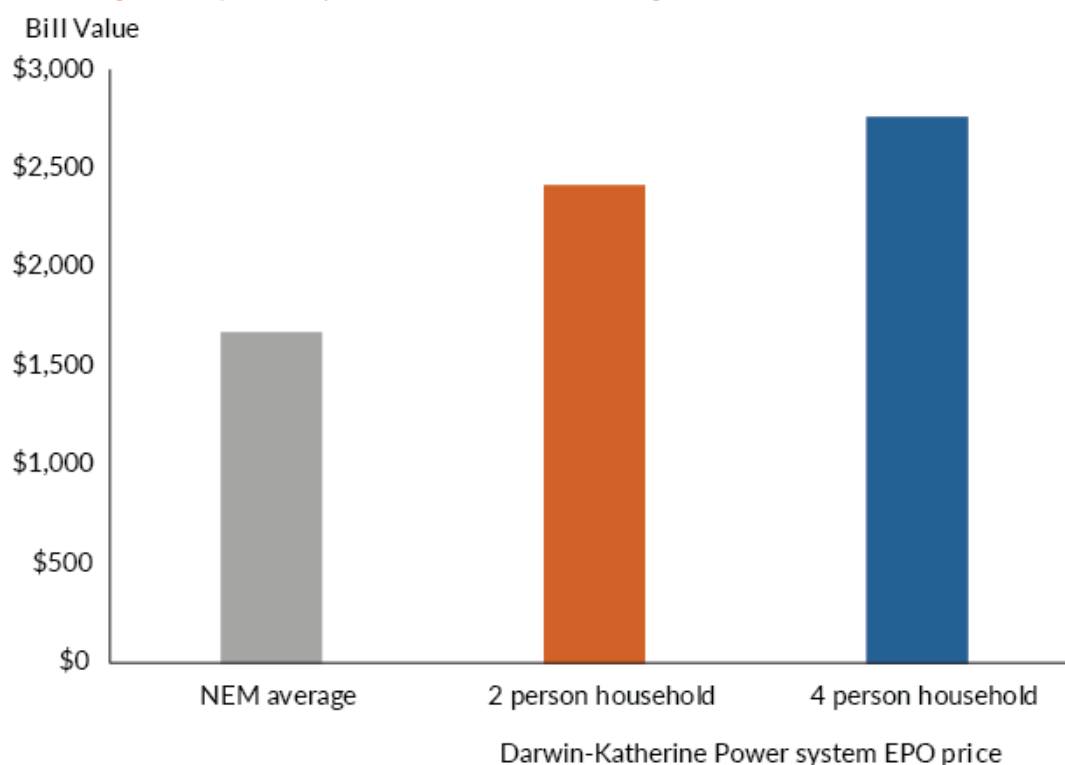


Source: Commonwealth of Australia, Australian Bureau of Meteorology¹⁹

- 9.8 The Northern Territory Government's Regulated Retail Electricity Pricing Order (EPO) caps the price that retailers can charge residential and small business consumers. The EPO price is similar to prices in other states, but despite this, a residential household in Darwin still faces an electricity bill that is much higher than that of the average NEM household due to its higher usage (Figure 2).
- 9.9 Affordability of electricity is a critical issue for households due to the reliance on air conditioning and other cooling to lessen the hardship of living in Darwin's harsh climate. If charged a cost-reflective price, there is likely to be limited ability for households and small business in Darwin to reduce usage (and thus bill size) as it would increase physical discomfort and risk of heat stress, reduce productivity and increase the risk of product spoilage. If unaffordable, households may leave the Northern Territory and the higher cost of living would exacerbate the difficulty of attracting people, adversely affecting service provision and economic and population growth.
- 9.10 The Northern Territory argues that electricity subsidies for its residents are not simply a policy choice and the fiscal needs associated with providing electricity subsidies to the Darwin population should be differentially assessed (not assessed on an EPC basis). Other states do not have the same drivers that necessitate subsidisation of electricity costs for the population in Darwin.

¹⁹ Accessed 3 September 2019 at http://www.bom.gov.au/jsp/ncc/climate_averages/temperature/index.jsp?maptype=1&period=an.

Figure 2: Estimated average residential customer electricity bill, NEM and Darwin-Katherine regulated power system, 2017-18, excluding GST



Source: Northern Territory Department of Treasury and Finance calculation²⁰

Water subsidies

Community criteria

9.11 The criteria for the differential assessment of water subsidies are communities located in regional and remote areas (major cities are excluded) with populations of between 50 to 1000 people, and a population density of at least 60 people per square kilometre. The key difference between the new criteria and those from the 2015 Review is that non-remote communities are now included. The Northern Territory has no objection to this change on the basis that it reflects what states do and that it is a reflection of higher per capita infrastructure costs associated with small-scale service provision; a matter likely to affect small communities regardless of remoteness.

²⁰ Based on the Australian Energy Regulator's Electricity and gas bill benchmarks for residential customers 2017 and average NEM bill size from the Australian Competition and Consumer Commission's Restoring Electricity Affordability and Australia's Competitive Advantage Retail Electricity Pricing Inquiry - Final Report June 2018, inflated to 2017-18 prices using ABS consumer price index.

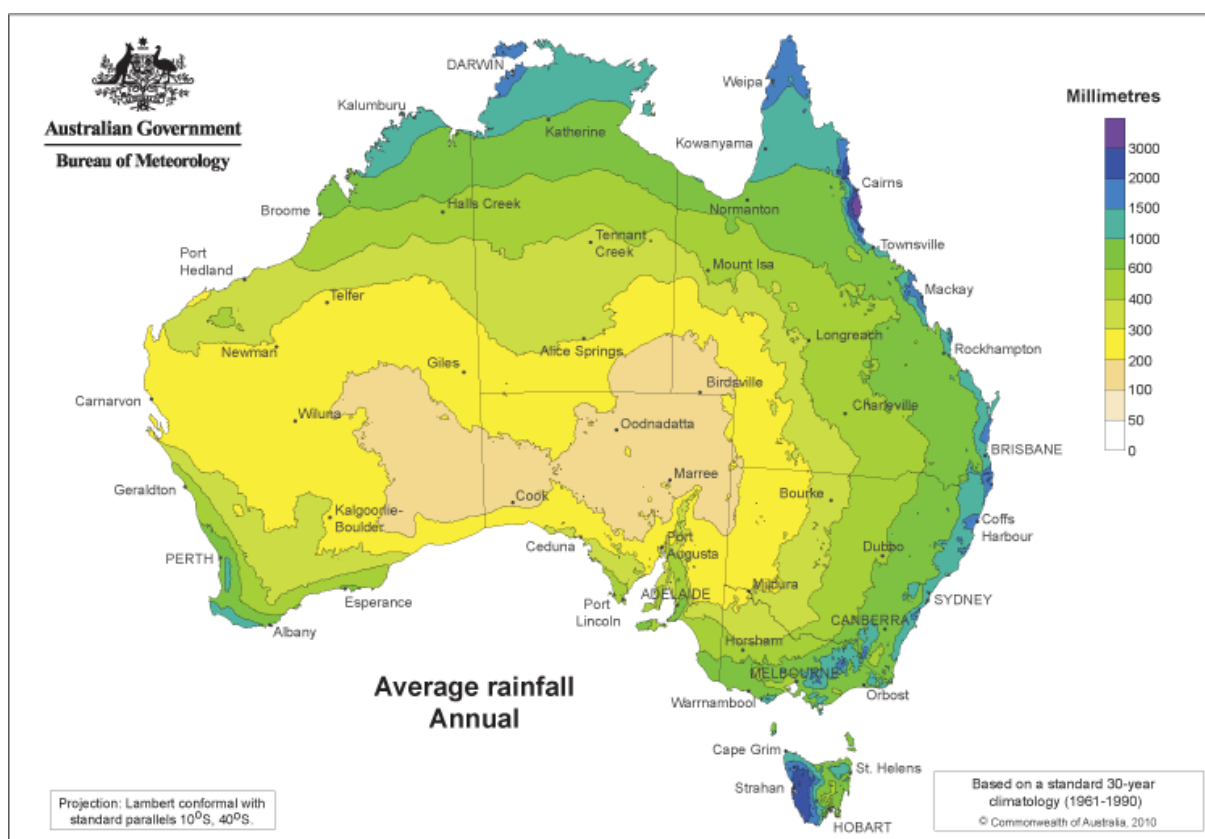
- 9.12 The Northern Territory is, however, concerned about the application of the upper limit for the population criterion for remote and very remote communities. This excludes a much greater proportion of its population than in other jurisdictions. The upper limit criterion also excludes larger communities in the Northern Territory's Indigenous Essential Services program despite these communities having relatively small populations (less than 3000 people), being located in very remote areas and most households in those communities having low incomes (limiting the ability of service providers to raise revenue). The Northern Territory argues that the upper limit for remote communities should be set at a higher level to ensure such communities are captured.

Water quality

- 9.13 The Commission acknowledges that water quality is a factor that drives states' costs, but has been unable to derive a simple and reliable way of measuring this disability. Community distance from the water source was tested, but no apparent relationship with residential subsidies was found.
- 9.14 The Northern Territory is concerned about the inability to capture the impact of water quality with many of its townships, including larger centres such as Alice Springs and Tennant Creek, located in arid zones (Figure 3) and dependent on groundwater sources. Extraction and treatment to drinking quality standards will be more costly than for equivalent communities where supply can come from surface water sources. The needs of larger communities in arid areas are, however, excluded from the differential assessment of water subsidies.
- 9.15 While there is likely to be a relationship between a community's annual average rainfall and water subsidies, the Northern Territory notes it may not be straightforward. Communities in the Top End have much greater rainfall, but the wet-dry tropical climate means that rainfall only occurs during a relatively short period. The combination of lengthy dry periods (for more than half the year there is little or no rainfall), high evaporation and relatively flat topography means most remote communities rely on groundwater rather than surface water supplies. Groundwater supplies for these communities can also require treatment to address mineral and pathogen contamination prior to being suitable for consumption.²¹
- 9.16 Arid zones and wet-dry tropical areas typically coincide with greater remoteness. This means that the Commission's regional costs assessment may to some extent act as a proxy to capture water quality issues along with the additional cost of providing services in remote areas (compared with non-remote locations). Given this, the Northern Territory is particularly concerned about the adequacy of the Commission's proposed regional cost factors for the water subsidies assessment.

²¹ Kaestli M, O'Donnell M, Rose A, Webb JR, et al. Opportunistic pathogens and large microbial diversity detected in source-to-distribution drinking water of three remote communities in Northern Australia. *PLoS Neglected Tropical Diseases* 13(9): e0007672. Accessed on 13 September 2019 at <https://doi.org/10.1371/journal.pntd.0007672>.

Figure 3: Annual average rainfall, Australia



Source: Commonwealth of Australia, Australian Bureau of Meteorology²²

Regional costs factor

- 9.17 The Commission does not have complete data for all states that provide water subsidies in order to derive regional cost weights. It has data for the Northern Territory and WA, but has applied conservative assumptions to data from NSW, Queensland and South Australia in order to make the data suitable for the estimation of regional costs for the assessment. The Commission proposes to discount the resulting cost weights by 50 per cent to recognise that they are based on incomplete data.
- 9.18 The Northern Territory objects to the 50 per cent discount, which is additional to the conservative approach to imputing other states' data. That approach distributes subsidies equally across communities regardless of remoteness. This is counter to the concept of regional costs and inconsistent with patterns in the data from the Northern Territory and WA, which show that subsidies increase with remoteness. The Northern Territory believes the conservative approach and large discount penalise the Northern Territory and WA, which have provided suitable data. It may also discourage other states from providing better data as the discount reduces the return on the additional resources required to improve the quality of their data.

²² Accessed 3 September 2019 at http://www.bom.gov.au/jsp/ncc/climate_averages/rainfall/index.jsp.

- 9.19 The Northern Territory does not support discounting of assessments, but it notes that this is the Commission's practice in order to introduce conservative bias or allow use of less reliable data in assessments where there is a strong conceptual basis in order to better achieve horizontal fiscal equalisation. Accordingly, if the Commission is to apply a discount to the regional cost weights, it should be applied to the data without the overlay of other assumptions with a conservative bias. A conservative approach should come through application of the discount and not other adjustments that are inconsistent with the nature of the disability being assessed.

Wage costs

- 9.20 The Commission does not intend to assess a wage costs factor for electricity and water subsidies because there is no evidence that subsidies paid to service providers are influenced by wage levels. This is effectively saying that a \$1 subsidy buys the same amount of services in a high wage state as a low wage state. For this to be true, it would require prices for electricity and water to be set in a manner that offsets the wage differential (higher price in higher wage states). This seems unlikely; rather, other factors will influence price setting, for example, ensuring households pay the same price regardless of where they live.
- 9.21 The Northern Territory notes the wages cost factor is based on private sector data, which should include private sector utilities. The differences shown in the wage cost regression would reflect differences in wages costs between private sector electricity and water service providers in different states. The local labour market forces acting on private sector providers will also influence government-owned utilities. The Northern Territory believes that the amount of subsidy required will be affected by wage costs and this should be reflected in the assessment.

Community development

- 9.22 Indigenous community development expenses will be separately assessed from other community development expenses and general revenue assistance to local councils for service provision in Indigenous communities included in the assessment. These grants meet a range of costs and cannot be reliably disaggregated by purpose to enable their assessment in relevant service delivery categories. The Northern Territory strongly supports this approach, agreeing with the Commission's view that expense needs for this assistance are driven by the Indigenous population in discrete Indigenous communities not the total population (as would be implied by an EPC assessment).
- 9.23 The Commission intends to apply a regional costs disability to both Indigenous community development and other community development expenses. The Northern Territory supports the assessment of regional costs using the general regional cost; however, as noted previously it has concerns regarding the adequacy of the general gradient (refer Chapter 19 – Geography).

10. Justice

The Northern Territory:

- Supports the new policing model, considering it to be an improvement on the previous approach based on a split between 'specialised' and 'community' policing.
- Believes the data shows that Indigenous defendant rates in outer regional, remote and very remote are higher than in major cities and inner regional areas, and this should be reflected in the Courts' socio-demographic assessment.
- Considers the regional costs assessment in Courts and Prisons understates the cost differential for remote populations.

Police

- 10.1 The Northern Territory is pleased that the police assessment will no longer be based on an arbitrary split between 'specialised' and 'community' policing and supports the new assessment method based on regression modelling. The regression model, which predicts spending in police districts, shows per capita costs increase with remoteness and offender numbers.
- 10.2 The model assigns all remoteness costs to the population (the per capita cost), not offenders. The Northern Territory considers this a superior approach to an alternative model developed by the Commission, which attempted to assign remoteness costs to offenders as well as the population. The alternative model generated implausible results that have no conceptual basis. The Northern Territory considers the results from the alternative model evidence its concerns that underlying data collection, classification and costing systems do not support offender-based modelling of fiscal needs.
- 10.3 The Commission's preferred model shows per capita spending increases with remoteness, with loadings ranging from 1.5 in inner regional areas to 9.5 in very remote areas. The loadings reflect the combined impact of regional costs, SDS and differences in the nature and complexity of the policing task. As noted by the Commission, the higher cost in more remote areas reflects in part that the roles undertaken by police in those areas are broader than in non-remote areas.
- 10.4 Other cost drivers include servicing remote Indigenous communities, where strong ties to traditional beliefs, cultural practices and language increase the complexity of policing and require officers to have a specific skill set. The costs of policing in very isolated communities, discussed during the Commission's visit to the Northern Territory, also contribute to the higher loading for very remote areas. While it would be desirable to have a more granular level of analysis to capture these specific effects, the Northern Territory acknowledges the difficulty of obtaining data at a community level. Accordingly, modelling based on police districts is a practical and more reliable solution.

- 10.5 The Northern Territory acknowledges the work by Commission staff to develop the new policing model. It considers that the new model provides the best measure of states' relative policing expenditure needs and is an improvement on the current approach.

Courts

Socio-demographic assessment

- 10.6 The Commission advises that there is no clear relationship between the rate of defendants and their remoteness location. The Northern Territory agrees that Figure 11 in Attachment 16 of the Draft Report shows there is relatively little variation by location within the non-Indigenous population, but a difference is evident in the Indigenous population. The Indigenous defendant rates for outer regional, remote and very remote areas are higher than major cities and inner regional areas. The gap is similar in size to the defendant rate for the non-Indigenous population as a whole (about 150 defendants per 10 000 population).
- 10.7 While this grouping does not align with the Commission's usual non-remote/remote split²³, that should not prevent inclusion of a location factor in the socio-demographic composition (SDC) assessment for the Indigenous population. The Northern Territory believes the Commission should investigate this matter further to determine whether including a location factor, whereby outer regional and remote areas are grouped together, would be material to the assessment.

Regional costs

- 10.8 The Commission considers that the 2015 Review method of applying a general regional cost gradient in the Courts and Prisons assessments is no longer appropriate. Instead, information was sought from states to allow calculation of gradients specific to each component.
- 10.9 In the Courts assessment, the proposed regional cost weight will apply to criminal court services and only the court-related costs in the other legal services component. The Commission advises that most other legal-related services are provided from a centralised location and the cost weight will not be applied to those expenses.
- 10.10 The regional cost factor in the Courts assessment must capture the combined impact of service location costs (the additional cost of providing the same service to the same client in different locations, i.e., regional costs), defendant location costs (the extra demand and cost relating to characteristics of defendants, for example, remoteness and Indigeneity costs) and SDS. The Commission has sought to capture these effects using an average cost per case analysis based on state data on local (magistrates') courts.

²³ Outer regional is usually grouped with major cities and inner regional areas.

10.11 The analysis showed that the cost varies between states and regions and national average patterns are difficult to interpret. As a result, a judgement based estimate of 10 per cent is proposed. The Commission advises that this estimate takes into account:

- the relative costs of court services in different regions
- the standard of service provided in different regions
- the propensity of residents to travel to non-remote areas to attend court
- that Magistrates' courts represent about half of all court costs and higher courts rarely travel to remote areas.

10.12 The cost per court case approach to estimating regional costs is fraught with difficulty and the Northern Territory is not surprised that a judgement-based approach is needed given the complex interactions that will influence the cost per case analysis.

10.13 Firstly, the nature and severity of the offence will differ between offenders and affect court and legal services processing times. The Commission suggests that there is evidence that the time spent per case is lower in remote courts. This cannot simply be assumed to mean that those courts only hear minor offences with more serious cases heard in non-remote areas. Rather, the Northern Territory notes the pressure to deal with cases efficiently given the limited time that the court is in the community. The Northern Territory also notes that there will be a scaled-up effect (larger volume) of cases relating to minor offending given the substantially higher offending rate in the Indigenous population (a nine-fold difference in the Northern Territory²⁴).

10.14 Even if the offence was identical, the characteristics of an offender will impact on processing times. This is exemplified in the Australian Broadcasting Corporation (ABC) podcast on the circuit court in Wadeye referenced by the Commission.²⁵ The podcast evidences the additional costs associated with preparing Indigenous defendants who have low English fluency (English is the third [or lesser] language for most people in Wadeye and other remote Indigenous communities) for their court appearance. Not only is a translator required, but the time taken to ensure the client comprehends charges, legal terminology and defence options is substantially longer than for a person fluent in English and who understands court processes.

10.15 Even if the offence and offender were identical, the cost of the remote service is higher due to travel costs (airfares, charter costs, travel allowance and accommodation) and reduced productivity (due to travel) of judges, prosecution and defence staff. There are also maintenance or hire costs of remote facilities while urban facilities are underutilised when the court is away on circuit.

²⁴ ABS. Recorded Crime – Offenders, Australia, 2016-17. Catalogue no. 4519.0. Accessed 30 August 2019 at <https://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/4519.02016-17?OpenDocument>.

²⁵ ABC. What if your day in court lasted just five minutes?, Background Briefing, 17 February 2019. Accessed on 28 August 2019 at <https://www.abc.net.au/radionational/programs/backgroundbriefing/what-if-your-day-in-court-last-ed-just-five-minutes-v1/10813042>.

- 10.16 The Commission notes that there is a propensity for residents to travel to non-remote areas to attend court. Travel presents a barrier to remote defendants due to distances and costs. Remote Indigenous defendants may have neither the financial resources nor capability (about half of Indigenous households outside Greater Darwin have no vehicle²⁶) to travel to distant urban courts. Failure to appear reduces court productivity with cases adjourned, a warrant issued or a decision made that may be subsequently annulled, requiring the case to be re-heard. Bringing the court to remote communities improves attendance rates; however, as evidenced in the ABC podcast, there were still five non-appearances in one day. Although the people turned up on the following day (a warrant was issued for their arrest), their cases contributed to the court and legal assistance staff working beyond the scheduled sitting time to complete the case load.
- 10.17 The Northern Territory advises that its high costs per case in outer regional areas in Figure 3 of Attachment 16 of the Draft Report reflect the centralisation of salary costs for judiciary and support staff in major urban areas. The Northern Territory intends resubmitting data with relevant costs apportioned to its circuit courts.
- 10.18 Regardless, the Northern Territory believes the cost per case analysis is not providing an accurate assessment or indication of the additional cost of providing court services to residents from remote and very remote areas. It considers the proposed weight of 10 per cent is insufficient and believes a better approach would be to continue the 2015 Review method of applying the general regional cost gradient to relevant court costs.

Prisons

- 10.19 Similar to Courts, the regional cost factor for the Prisons assessment needs to capture the array of remoteness-related influences on the cost of providing prison services. The Commission has used regression modelling of the costs per prisoner to estimate the additional cost of maximum security prisoners, prisoners in remote prisons and the level of fixed costs. Based on the results from the modelling, it is estimated that, on average, a prisoner costs \$87 610 per annum²⁷. Adding in costs for prisoners in remote prisons and fixed costs, the Commission has estimated that prisoners who originate from remote areas are about 9 per cent more expensive to service than prisoners who originate from non-remote areas.
- 10.20 The Northern Territory has advised Commission staff of possible errors in the calculation of the fixed cost component of the regional cost weight that understate the fixed costs applicable to remote prisoners. Corrections may increase the estimated loading slightly (to about 11 per cent).

²⁶ ABS. 2016 Census – Counting Dwellings, Place of Enumeration. Number of motor vehicles by GCCSA and Indigenous Household Indicator. Accessed using Tablebuilder Pro on 30 May 2019.

²⁷ This allows for the fact that one in every five prisoners is in maximum security, which is more costly.

- 10.21 More generally, however, the Northern Territory is concerned about the low explanatory power of the model (adjusted $R^2=0.15$). This suggests that there are major cost drivers that have been omitted from the model. One omission may be additional costs associated with Indigenous prisoners. Health care costs for Indigenous prisoners are typically higher with the poor health of the broader Indigenous population reflected in the prisoner population. There are also services targeted at improving outcomes and reducing recidivism including the Elders Visiting Program, the Reducing Anger, Gaining Empowerment Program, Aboriginal mentoring programs and education services (about 90 per cent of prisoners in the Northern Territory are estimated to have an overall Grade 2 level of education).²⁸
- 10.22 The Commission's model explains relatively little of the variation in per prisoner costs and the resulting cost weight is substantially lower than other regional cost weights. The Northern Territory believes that the Commission should continue the 2015 Review approach of applying the general regional cost gradient to Prisons unless a model can be developed that better explains the variation in the prisons data.

²⁸ Northern Territory Department of Correctional Services. 2015-16 Annual Report. Accessed 28 August 2019 at https://justice.nt.gov.au/__data/assets/pdf_file/0004/380731/ntdcs-annualReport-2015-2016.pdf.

11.Roads

The Northern Territory:

- Supports the new rural road assessment that better captures relative need, with the addition of road lengths for connections to mines, ports and national parks.
- Supports the removal of the adjustment for unsealed rural roads.
- Supports the introduction of a differential assessment for bridges and tunnels, an improvement from the previous EPC approach.

- 11.1 The Northern Territory supports the adjustments to the rural road length to incorporate all Urban Centre/Localities (UCLs), not just those with populations over 400, and the addition of roads to mines, ports and national parks, given states are generally responsible for these roads.
- 11.2 The Northern Territory supports the Commission's decision to account for roads that connect mines to ports. Commission staff advised the judgement to include mines of significance level 1 and 2 was based on the theory that mines of higher significance are likely to be owned by large companies that mine minerals in large quantities, consequently requiring government-provided roads and road services for freight and mining technologies, which appears reasonable. Further accounting for the rural road length that connects ports to their nearest UCL and national parks to their nearest road intersection appears reasonable.
- 11.3 The Commission should update the mines and ports included in the rural road length algorithm at such time when more contemporary data are available from Geoscience Australia or a more appropriate national data source.
- 11.4 The Northern Territory welcomes the Commission's decision to remove the 0.5 adjustment for unsealed rural roads, given that the length of the unsealed network is unable to be reliably measured and there is a lack of data on the cost difference of maintaining sealed and unsealed roads.

11.5 The Commission's decision to adopt a differential assessment for the bridges and tunnels component of the Roads assessment is a better reflection of relative need compared to the previous approach that simply applied an EPC assessment. Bridge and tunnel length of structures greater than four metres, and heavy vehicle use, are appropriate disabilities to capture the drivers of state expenditure need. The use of actual state-managed bridge and tunnel length has the potential to be policy influenced, however, the Northern Territory accept that this is currently the most appropriate data to represent the topography and safety factors that influence states' needs for bridges and tunnels. The Northern Territory supports the Commission's decision not to include lane-kilometres in this component, as this measure has a greater potential to be policy influenced. Further, the Northern Territory is supportive of the application of the component-specific regional cost factor, which is based on the length of bridges and tunnels by remoteness region.

12.Transport

The Northern Territory:

- Supports the new urban transport model, considering it to be an improvement on the previous approach which was based on urban populations only.
- Notes the addition of light rail passenger numbers and ferry services to the econometric model.
- Supports the use of modelled passenger numbers compared to actual passenger numbers, given policy neutrality concerns.
- Accepts the Commission's decision to move student transport into the Transport assessment.

12.1 The Northern Territory supports the use of an econometric model for the assessment of urban transport expenses. The model, based on urban centre characteristics of population density, distance to work, topography, train passenger numbers, bus and light rail passenger numbers, and the presence of ferry services, captures the key drivers of relative need. This model was developed by consultants who thoroughly tested a range of variables in consultation with the states and the Commission. The model, based on six variables, is a significant improvement for the measure of urban transport expenses compared to the previous approach where urban population was the main variable for the driver of need.

12.2 The Northern Territory acknowledge the Commission's adjustments to the consultants' model to incorporate light rail passenger numbers. It appears reasonable that the Commission incorporate light rail passengers with bus passenger numbers to represent supply and congestion, given that the Commission and consultants are determined that they are close substitutes with similar cost structures. Further, the Commission has chosen to include a dummy variable for ferry services. The consultants had not originally included these variables as they are only provided in a few urban centres, however, the adjustments to the model to include these additional variables provides a more comprehensive assessment.

12.3 The overall assessment for urban transport is a blended assessment made up of the econometric model with a weight of 75 per cent and the proportion of state populations living in urban centres with a weight of 25 per cent. The econometric model utilises population density to represent demand, replacing the old demand variable of urban population. The Northern Territory accepts the Commission's concerns regarding data limitations and the use of proxy data in the model. Therefore, the Commission's blended approach, as opposed to an assessment-based 100 per cent on the econometric model, appears reasonable.

- 12.4 The Commission has chosen to apply modelled passenger numbers to the econometric model coefficients in the calculation process, as it considers actual passenger numbers are not a policy neutral measure. The Northern Territory considers the simplified approach, proposed by Commission staff (in an email on 16 August 2019), to model passenger numbers using national use rates based on urban population size and the presence of heavy rail, is reasonable. This method for modelling passenger numbers seems to be an improvement on the method proposed in the draft report given it groups population centres by population size rather than remoteness, which better reflects the drivers of transport use rates.
- 12.5 The Northern Territory accepts the Commission's decision to include student transport expenditure in the urban transport component of the transport assessment. The student transport expenditure cannot be reliably separated from other transport expenditure or split between urban and rural expenditure without the use of significant judgement.

13. Services to industry

The Northern Territory:

- Does not support the EPC assessment of business development expenses, and proposes that the assessment recognise the additional needs of states with relatively small, underdeveloped private sectors.
- Proposes that the major expenses regulation assessment be subject to a watching brief, should it become material, given there is a strong conceptual basis for the assessment.

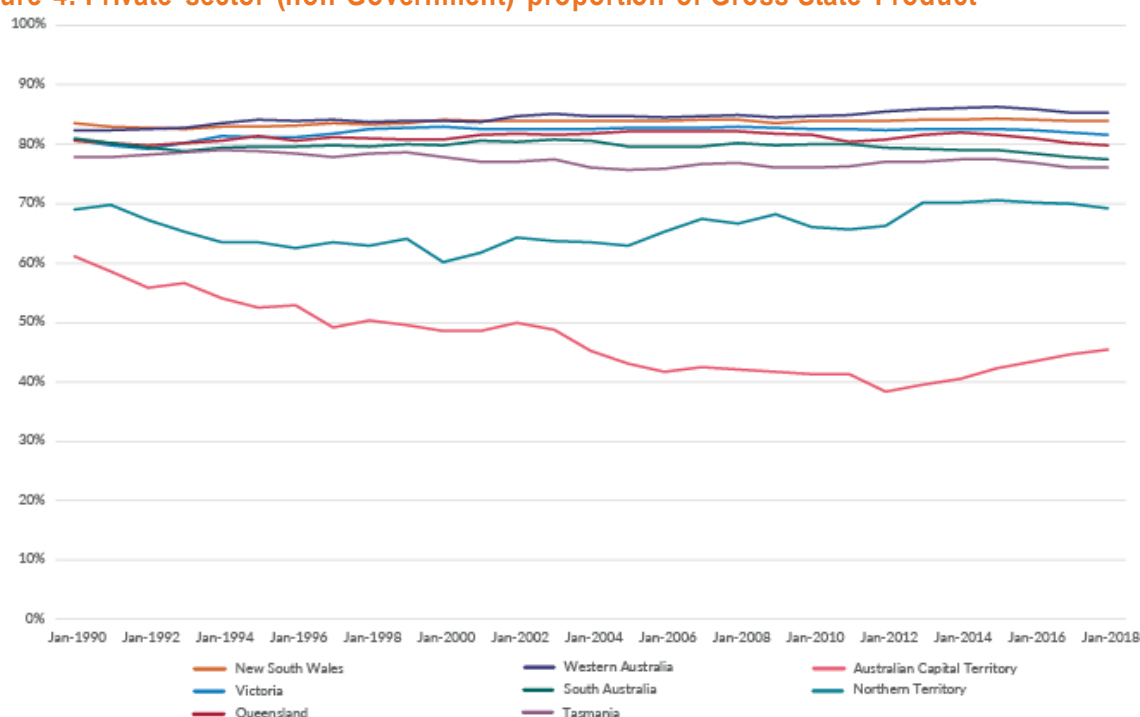
Business development expenses

13.1 The Northern Territory proposes that the Services to Industry category recognises the relatively higher needs of jurisdictions with under-developed private sectors, measured by the relative importance of the private sector to the states' gross state product.

13.2 The Northern Territory's view is that jurisdictions characterised by strong, well-developed private sectors do not require as much government investment in business due to higher levels of private sector activity underpinning the growth and development of private businesses, and the state economy.

13.3 Figure 4 shows the proportion of gross state product generated outside the government sector in each state. It shows that the least populous states have the smallest relative private sectors, indicating additional per capita need for business development expenses.

Figure 4: Private sector (non-Government) proportion of Gross State Product



Source: ABS Australian National Accounts: State Accounts, 2017-18 Cat. No 5220.0, Northern Territory Department of Treasury and Finance

- 13.4 The Northern Territory does not accept that states with larger private sectors have higher business development expenses, but rather, the impact of industry size is predominantly on a state's regulation expenses, rather than business development.

Major projects regulation

- 13.5 The Northern Territory accepts that major project regulation expenses are no longer material, however, given the strong conceptual basis for the assessment; that states with high levels of private sector investment incur higher planning and regulation costs, the Northern Territory proposes that these expenses be subject to a watching brief should they become material in future.

14. Other expenses

The Northern Territory:

- Has a preference for user charges and FESLs to continue to be assessed in the Other Revenue category and relevant revenue categories, respectively.

User charges

- 14.1 As discussed in Chapter 2 – Revenue, the Northern Territory preference is for user charges associated with the expenses in this category to continue to be assessed in other revenue, as this will aid in transparency and simplicity. In addition, as FESLs meet the ABS' definition of a tax and drivers of the associated revenue have no bearing on the cost of providing emergency services, property and insurance, these should be differentially assessed in the relevant revenue categories.
- 14.2 Should the Commission decide to proceed with the proposed approach of netting off user charges and FESLs in the Other Expenses category, this revenue should be identifiable in the annual Assessment System to improve transparency.

Natural disaster relief expenses for local government

- 14.3 The Commission has asked for states to comment on their funding arrangements for local government natural disaster relief out-of-pocket expenses.
- 14.4 Currently, if a natural disaster or other emergency event occurs in the Northern Territory, funding arrangements between the Northern Territory Government and local government are considered on a case-by-case basis, with reference to a local government's financial capacity. This takes note of the fact that local governments, particularly in remote areas, are unlikely to have the financial capacity to meet the full cost of repairs, particularly if significant damage to essential community infrastructure occurs.
- 14.5 The Northern Territory is currently drafting a holistic policy on funding for local government for expenditure related to natural disasters and other emergency events. It will aim to specify Northern Territory Government and local government responsibilities and funding arrangements for Disaster Recovery Funding Arrangements (DRFA) events and non-DRFA events. The policy will seek to clarify what circumstances and portion of costs will be covered by a grant from the Northern Territory Government to a local government, if it incurs any out-of-pocket expenses under the DRFA. For non-DRFA events, the policy is intended to specify that funding arrangements between the Northern Territory Government and local governments could be considered, under exceptional circumstances, on a case-by-case basis.

15. Investment

The Northern Territory:

- Does not accept the conceptual case for disinvestment at levels implied by the proposed assessment.
- Does not support the proposal to move to a gross assessment by adding depreciation expenses to investment expenditure.
- Supports the functionalisation of the assessment, which is more transparent and removes perverse outcomes caused by large revaluations of assets.
- Proposes significant method changes to the Investment category to remove the potential for high levels of assessed disinvestment, providing a range of options for consideration.
- Considers that additional costs associated with building on Indigenous land, and physical environment factors, should be subject to a watching brief, with potential data sources identified and adjustments made in the future.

Assessed disinvestment

15.1 The Northern Territory has serious concerns with the recent results of the Investment assessment, where it is assessed as needing to 'disinvest' in the Other Services component from 2014-15 onwards. This component includes assessed needs to build hospitals, health clinics, schools, public housing, police stations, prisons and infrastructure other than roads and urban transport. In some years, the Northern Territory was assessed as needing to disinvest at the category level, with annual category factors of -0.811 in 2014-15 and -0.133 in 2015-16.

15.2 Table 1 shows the significant assessed disinvestment for the Northern Territory and other states in the Other Services component of the Investment category.

Table 1: Assessed expenses, other services component, \$ per capita

Year	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
2014-15	35	93	20	2	2	-78	31	-456	33
2015-16	18	89	-16	-59	-40	-97	29	-503	9
2016-17	145	200	131	24	61	96	197	-91	135
2017-18	74	135	91	-1	-12	6	138	-333	75

Source: CGC 2019 Update Simulator Data

15.3 While the Northern Territory accepts the conceptual basis for the current assessment that stronger growing states require a higher level of investment, it does not accept that lessor growing states disinvest at the same rates or at all. This effect is exacerbated when accompanied by a decrease in the state's stock factors, which has been the case for the Northern Territory, as shown in Table 2.

Table 2: Northern Territory components of other services investment, 2019 Update

Year	Population Share	Closing Stock Factor, Other Services	Other Services Component Factor	Other Services Assessed Expenses, pc
2014-15	1.027%	1.921	-13.778	-\$456
2015-16	1.018%	1.894	-53.919	-\$503
2016-17	1.010%	1.877	-0.675	-\$91
2017-18	0.996%	1.862	-4.450	-\$333

Source: CGC 2019 Update Simulator Data, Northern Territory Department of Treasury and Finance

- 15.4 The Northern Territory's view is that the assessment significantly overestimates the responsiveness of states' investment expenditure to small changes in population growth rates, particularly when the state also has high relative infrastructure costs (as is the Northern Territory's circumstance). As such, the current approach is considered ineffective at capturing states' circumstances and what states do, particularly for the Northern Territory as a small, sparsely populated and relatively high-needs jurisdiction.
- 15.5 The Northern Territory has recently experienced a period of slow population growth (with a population decline estimated in 2018-19), but this has not translated into a commensurate reduction in demand for government services and infrastructure.
- 15.6 In the Northern Territory, changes in the population growth rate are predominantly driven by interstate and overseas migration of working-aged people responding to employment demand from major projects, rather than changes in the Northern Territory's highest-needs populations. The Northern Territory is experiencing continued demand growth for hospital services, has long public housing waitlists and requires a new youth justice facility. In this context, a result of assessed disinvestment is counter intuitive.
- 15.7 If the Northern Territory's actual Other Services Investment expenditure matched its assessed expenditure, it would have cumulatively disinvested \$338 million of general government assets from 2014-15 to 2017-18. This is equivalent to selling 11 per cent of the Northern Territory's \$3.1 billion public housing stock (the most liquid general government assets and most likely to be divested), whereas it has committed \$577 million for new housing stock and housing upgrades in its 2019-20 Capital Works Program.

What states do

- 15.8 The Northern Territory's major concern with the assessment is that it does not reflect what states do. Its high assessed disinvestment is driven by a divergence in its population growth rate from the national average. In such scenarios, the assessment produces results that do not reflect states' real world infrastructure expenditure responses to changes in population growth rates. The Northern Territory does not generally disinvest in government sector non-financial assets. The proceeds of any asset sales (predominantly public housing stock) are reinvested into new stock.

- 15.9 This is also the case in other states, with recent programs such as Victoria's Public Housing Renewal Program selling high-value inner-city public housing stock, and reinvesting proceeds of sales into new stock in cheaper areas, aimed at increasing the overall stock.
- 15.10 The Northern Territory considers that policy measures such as outsourcing the provision of public housing to non-government or private providers, with states divesting of public housing stock, should be reflected in the Commission's assessment. Public housing assets comprise around 22 per cent of states' other services component asset stocks (excluding roads and urban transport). Even if states undertook significant divestment of public housing, it would be unlikely to offset other investment spending such that states would incur a net disinvestment result at the component or category level. However, if average policy was to disinvest, the Northern Territory's view is that assessed disinvestment is appropriate. Notwithstanding this, average policy is not driving the Northern Territory's assessed disinvestment result; but rather, its declining share of national population, exacerbated by the application of stock and cost weights.
- 15.11 Beyond public housing, there are very few cases where states divest of general government assets, particularly not in the responsive and direct means implied by the Investment assessment. For example, states could not and would not sell a portion of a hospital in response to a decline in population growth, however, they could respond to increased demand for hospital services by adding to existing infrastructure.
- 15.12 A further unrealistic feature of the current assessment methodology is that it implies that states assessed as disinvesting will not only sell general government assets, but will also transfer the proceeds of asset sales for investment in other states. This is because a negative result for one state must be balanced by an increase in expenditure in other states to ensure the assessment sums to national total investment expenditure.
- 15.13 Table 3 summarises the unrealistic assumptions underlying the current assessment, which have been highlighted by the Northern Territory's assessed disinvestment, particularly in the Other Services component of the category.

Table 3: Comparing states' actual and assessed approach to infrastructure spending

What States Do	What the Investment Assessment Implies States Do
Invest in general government assets on a net basis	Disinvest in general government assets on a net basis
Respond to: changes in population growth; historical infrastructure deficits; public sentiment	Use population growth as a direct measure of investment expenditure need
Use investment expenditure as a means to stimulate economic and employment growth during periods of slowing economic/population growth	Immediately divest of general government assets in response to a reduced share of national population
Reinvest proceeds of asset sales into new stock	Transfer proceeds of asset sales for investment in other states
Gift assets/receive below-replacement value for transfer/sale of assets to the non-government sector	Receive returns equal to replacement value on the sale of assets, due to the cost weights applied
Take a long-term view of infrastructure investment with capital intensity fluctuating in the short term	Proportionately disinvest in divisible general government infrastructure to maintain a constant level of capital intensity
Plan for their own infrastructure needs independent of other states	Disinvestment in one state is transferred to other state, so that there is an offsetting increase in investment expenditure

Source: Northern Territory Department of Treasury and Finance

Weighted disinvestment

- 15.14 The Northern Territory accepts that an increasing population is a key driver of investment expenditure, but the current assessment structure creates extreme results for the Northern Territory, due to the combination of its declining share of national population, and the application of high stock and cost factors.
- 15.15 The Northern Territory strongly supports the application of stock and cost factors to states' assessed investment expenditure to reflect differences in costs and use rates of infrastructure between states. However, under the current methodology, the application of stock and cost factors to states' assessed closing infrastructure stock exacerbates a decline in its population share to an unreasonable extent.
- 15.16 The Northern Territory's relatively high stock and cost factors reflect the higher relative costs of providing new infrastructure in the Northern Territory, but are not indicative of the returns it receives on the (uncommon) sale of general government assets.
- 15.17 This is particularly evident in remote Indigenous communities, where the costs of providing infrastructure are high, due to remoteness, the Indigenous-specific design of some infrastructure and high use rates. However, if the Northern Territory wanted to divest of remote assets, it would not receive a premium rate on the sale of the asset reflecting its replacement cost. No private property markets exist in remote Indigenous communities, and under township leasing arrangements, the Northern Territory does not even own the land that its assets are built on. While the Northern Territory strongly supports the application of stock factors to investment expenditure derived from relevant operational expenditure categories, the application of the same disabilities to disinvestment is inappropriate.

15.18 The Northern Territory could accept assessed investment of zero as an appropriate conceptualisation of its infrastructure needs during a period of declining share of national population, but it cannot accept the disproportionately high levels of assessed disinvestment occurring under the current methodology.

Proposed method changes

15.19 The Northern Territory acknowledges the Commission's proposals aimed at addressing some of the issues raised with the Investment assessment results, such as the proposed functionalisation of the assessment which removes the impact of asset revaluations on states' assessed investment needs, however, the potential for assessed disinvestment remains.

15.20 Further, the Commission has stated that the combination of the depreciation and investment components reduces the prospect of assessed disinvestment. However, the Northern Territory considers that this is only a presentational measure, which does not address the conceptual issues highlighted above.

15.21 The Northern Territory believes there is a strong conceptual case to amend the approach to the Investment category to address the unreasonable results it is producing; there is no other expenditure assessment that produces negative assessed expenditure need.

15.22 There is a range of options that could improve the assessment, including:

- Imposing a floor to ensure minimum assessed investment is zero
- Developing a basis to 'unweight' assessed disinvestment to allow more reasonable interpretation of results
- Removing the cost weight from assessed disinvestment, which extrapolates higher/lower construction costs into higher returns/discounts on asset sale values
- Revising the basis for the assessment to remove the possibility of assessed disinvestment (a more direct approach).

Option 1 – Imposing a floor

15.23 The imposition of a floor in the Investment category would adjust any assessed disinvestment up to zero. This could occur either in the relevant category component or at the category level.

15.24 This approach would better reflect what states do than the current assessment, while retaining other key assumptions of the assessment, such as population growth being the key driver of need. However, this approach may still result in small negative results after adjustments, which could be shared EPC among relevant states.

Option 2 – Unweighting disinvestment

15.25 This approach would reverse the weightings applied to investment, so that they do not apply to assessed disinvestment. This would remove the unrealistic implication that factors affecting the demand for, or cost of providing, infrastructure translate into equally higher or lower returns on asset sales.

Option 3 – Remove cost weight

15.26 The Northern Territory considers this to be the minimum change required. It would remove the application of cost factor to any state with assessed disinvestment, addressing the issue of the implied premium on asset sales for states with higher than average construction costs (and the discount for states with below average construction costs). However, the impact of states with high-use populations weighting assessed disinvestment through the application of stock factors would remain if only the cost factor is removed.

Option 4 – Revise assessment entirely

15.27 The Northern Territory considers that a more robust option to remedy the issues with assessed disinvestment could be to take a more 'direct' approach to assessing states' investment needs. Under the Northern Territory's proposal, the method would no longer be attempting to assess the need for changes in asset stocks through the year, and would be based on states' shares of population growth in a given year.

15.28 Under this approach, assessed investment would change from the current approach of measuring end and start of year population shares, stock factors and investment per capita, with an overall cost factor, illustrated by the following formula:

$$\text{Investment} = \left[\left(\frac{K_1}{P_1} p_{i,1} \delta_{i,1}^u \right) - \left(\frac{K_0}{P_0} p_{i,0} \delta_{i,0}^u \right) \right] \delta_i^c$$

$\delta_{i,0}^u$ and $\delta_{i,1}^u$ are the disabilities affecting the quantity of infrastructure required by State i at the start (t=0) and the end of the year (t=1)

δ_i^c is the relative cost of building capital for State i across the year

$p_{i,1}$ and $p_{i,0}$ are the populations of State i at the end and the start of the year

P_1 and P_0 are the Australian populations at the end and the start of the year

K_1 and K_0 are the Australian total value of infrastructure stocks at end of year (K_1) minus investment spending gives K_0 under the 2020 Review approach (removing impact of revaluations).

Instead, a static assessment would be needed, measuring a state's share of national population growth, multiplied by national investment spending, and then applying cost weights and stock weights:

$$\text{Investment} = \left[\frac{(p_{i,1} - p_{i,0})}{(P_1 - P_0)} \right] I \delta_i^u \delta_i^c$$

$p_{i,1}$ and $p_{i,0}$ are the populations of State i at the end and the start of the year

P_1 and P_0 are the Australian populations at the end and the start of the year

I is national annual investment expenditure

δ_i^u are the disabilities affecting the quantity of infrastructure required by State i

δ_i^c is the relative cost of building capital for State i.

15.29 The Northern Territory's view is that this would greatly simplify the approach to assessing Investment, while retaining the basic premise that the fastest growing states have the highest investment needs. It would also improve equalisation outcomes by better reflecting what states do.

15.30 There would remain the possibility for a state to be assessed as needing to disinvest if its population declines over the year, however, the level of assessed disinvestment would be greatly reduced compared with the current approach because stock and cost weights are applied to proportions of national population growth, rather than changes in the proportion of the national population. Further, the use of single stock and cost weights reduces the risk of significant assessed disinvestment arising from significant changes in start of year stock factors to end of year.

15.31 A further measure that could be adopted to remove scope for assessed disinvestment would be to apply a conditional floor, such that assessed investment for any state cannot fall below zero, unless national average policy was to disinvest (as indicated by a negative overall component/category total).

Building on Indigenous land

15.32 The Commission has acknowledged there is a conceptual case for assessing the higher costs associated with constructing infrastructure on Indigenous land, and that these costs are not captured in the Rawlinsons regional indices.

15.33 While unaware of a national dataset that would appropriately identify these costs, the Northern Territory faces significant additional costs when building on Indigenous land. The additional costs include:

- early engagement of relevant stakeholders, including land councils and traditional owners
- seeking approvals of location, design and timing of the project from relevant stakeholders, including land councils, traditional owners and local councils
- satisfying Indigenous employment targets
- ensuring execution of the project is respectful of cultural considerations and the local community.

15.34 These obligations substantially increase costs, particularly because of the additional time required to adequately consult, and the delays caused by changes to the project by various stakeholders. The additional requirements of building on Indigenous land are evident in several policies, including the Northern Territory's Local Decision Making Policy, which seeks to return decision-making of services and programs to Indigenous community control. Additionally, the Northern Territory has recently released its draft Aboriginal Affairs Strategy, which provides a blueprint for government to put Aboriginal people at the centre of government policy design and service delivery.

15.35 Given around 98 per cent of the Northern Territory is subject to some form of Indigenous land tenure or interest, when building on Indigenous land, associated time and costs are substantial and difficult to distinguish from other project costs.

- 15.36 An example includes the Arnhem Link Road project, which was scheduled to commence in June 2018, however due to ongoing delays for land council approvals, the project is unlikely to be delivered until June 2021.
- 15.37 Additional costs associated with building on Indigenous land include mineral extraction fees payable for using natural gravel to build roads on Indigenous land, adding an additional two to four per cent to project costs. The Northern Territory Government and Northern Land Council are also currently negotiating water and camping charges, which will further add to building costs.
- 15.38 The Commonwealth's White Paper on Developing Northern Australia, along with some Commonwealth transport infrastructure funding, requires Indigenous Australians living in regional and remote areas to have greater opportunities to access employment and to start or expand businesses. In order to achieve this, specific targets are set for individual projects. Often, the local workforce lacks the necessary skills or qualifications, requiring sourcing and/or training of Indigenous workers, adding significantly to project costs, exacerbated by the remote and sparsely populated sites of many projects. Costs associated with achieving Indigenous employment targets on transport projects are estimated to increase construction delivery costs by 2.5 to 5 per cent. These additional costs are also likely occurring when constructing other infrastructure.
- 15.39 If the Commission does not have available data to make an assessment, the Northern Territory proposes that additional costs associated with building on Indigenous land should be subject to a watching brief, with a potential data source identified, and adjustment made, in the future.

Physical environment

- 15.40 The Northern Territory faces significant costs when constructing infrastructure due to the impact of the physical environment, particularly the annual wet season, and considers these costs are not sufficiently captured by the Rawlinsons regional indices. While there is currently no nationally consistent climatic and cost data, the Northern Territory believes this ought to be investigated in a subsequent review, considering states conceptually face varied costs in delivering infrastructure due to physical environment factors.

Stock factors

- 15.41 Views on the infrastructure stock factor for the Health category are discussed in Chapter 6 – Health.

16. Net borrowing

The Northern Territory:

- Considers interstate differences in the cost of borrowing on public debt transactions should be monitored throughout the review period.

- 16.1 In the Northern Territory's case, institutional investors demand a higher liquidity premium when purchasing its bonds, in comparison to larger states. For example, the Northern Territory Treasury Corporation's issuing margin when compared to the Aaa-rated states of NSW and Victoria over the last 12 months has been between 36 and 28 basis points lower. As evidenced in the Northern Territory's second submission, this is also likely the case for other smaller states.
- 16.2 This is not the result of policy influence. States have limited control over the size of their state and needs, and therefore borrowing program, and the demands of institutional investors.
- 16.3 The Northern Territory's view is that there is a policy neutral case for the Commission to recognise interstate differences in the cost of borrowing on public debt transactions. While the Northern Territory acknowledges that its recent yields on bonds do not currently meet the Commission's materiality threshold, it considers this should be monitored throughout the review period and if yields become material, an adjustment made to the Northern Territory's assessed need.

17. Administrative scale

The Northern Territory:

- Considers the current estimate of staffing for the Administrative Scale disability addresses some shortcomings in the estimate from the 2004 Review, but still understates the minimum staffing requirement.
- Argues that the standardised branch staffing used in the Commission's estimates do not have sufficient numbers of lower level officers necessary for the delivery of core head office services.
- Continues to object to the Commission's proposal to discontinue the NT adjustment except for a small (and new) adjustment to the administrative structure for the Department of the Chief Minister.

17.1 The Northern Territory notes that administrative scale expenses will continue to be included in the Other Expenses category. This best presents the disability, that is, the extent and fixed nature of minimum functions. It also distinguishes these expenses from service delivery costs, which increase with the size of the service population.

17.2 This chapter evidences the Northern Territory's belief that the proposed quantum of administrative scale costs is insufficient and responds to commentary in the Draft Report regarding the Commission's proposals for the NT adjustment.

Quantum of administrative scale expenses

17.3 The Northern Territory argued during the Commission's visit and in its earlier submission that the quantum of administrative scale expenses had been underestimated, using the minimum staffing structure for Education to evidence its concerns. The Northern Territory's Department of Education worked with the Department of Treasury and Finance to estimate the minimum head office structure using a minimum function, skills-based approach. This approach specifically sought to exclude positions that would be influenced by the scale of the service delivery task so that the estimates aligned with the nature of the Administrative Scale disability.

17.4 The outcome from this work, an estimate of about 200 staff, was significantly higher than the Commission's estimate of 133 staff. As a result, the Northern Territory recommended changes to the standardised staffing approach used by the Commission to estimate the Education departmental structure. The Northern Territory is of the view that the shortfalls seen in the Education estimates will be mirrored in other departmental structures because the standard number of branch staff is insufficient for minimum functions.

17.5 Despite this evidence, the Commission has retained its preliminary staffing estimates, advising that its revisions increased total administrative scale expenses in 2017-18 by 27 per cent, up from \$2.2 billion to \$2.8 billion. The

Northern Territory is of the view that the increase primarily reflects changes to address underlying deficiencies in the previous methodology (from the 2004 Review) such as the increase in the Health minimum structure, which resulted from direct consideration of the functions of health departments, rather than applying administrative scale cost proportions from the education and police functions. Direct estimation would also have implications for other departmental structures. There is also some allowance for increased information and communication technology (ICT) functions.

- 17.6 The Northern Territory argues that these changes disguise underlying issues with the standardised staffing approach to estimating minimum departmental structures. Table 1 compares the proposed staffing for the Education structure in a standard state in the 2020 Review with the Northern Territory's interpretation of the underlying staffing structure from the 2019 Update.²⁹ It shows that much of the growth in the staffing costs is due to changes at the management level rather than recognition of the functions performed and the minimum staffing required to undertake those functions.

Table 4: Comparison of estimated Education minimum staffing structure, 2019 Update and 2020 Review, standard state, 2017-18 values

Position	Base salary	U2019	R2020
Graduate	\$65,622		
APS1	\$50,364		
APS2	\$57,175		
APS3 (Personal assistant)	\$64,850	10	4
APS4 (Personal assistant)	\$71,852	1	1
APS5 (Junior officer)	\$78,046	26	32
APS6 (Junior officer)	\$92,583	26	32
EL1 (Senior officer)	\$112,901	26	32
EL 2 (Manager)	\$142,789	27	14
SES 1 (Branch head)	\$199,764	13	
SES 2 (Division head)	\$256,798	3	4
SES 3 (Secretary)	\$340,298	1	1
Total		133	120
Wage cost including superannuation and long service leave (\$000), undiscounted		15 655	12 771
With NT Adjustment ¹			13 900

¹ Assumes functions associated with NT adjustment are now incorporated in all states structures.

²⁹ 2019 Update estimates based on Discussion Paper CGC2001/16 Administrative Scale.

- 17.7 The Northern Territory considers the new structure better captures the senior staff required in the minimum structure with the inclusion of Branch heads and associated administrative support staff (personal assistants) and more managers within branches (recognising sub-functions within branches). This is a deficiency in the old structure and evident in the Northern Territory's estimates of the Education minimum structure.
- 17.8 The Northern Territory notes that the reduction in the number of branch staff in the new structure reflects a decrease in the number of branches in the structure (previously 14, now 13). The Northern Territory's Education structure showed more functional complexity within branches (sub-branches) and associated staffing than allowed for by the Commission's reduced branch and standardised staffing approach.
- 17.9 This inadequacy is even more concerning if, as the Commission considers, all states now have an elevated focus on Indigenous functions. This would mean that rather than the NT adjustment being discontinued, it should be added to the structure of a standard state (i.e., it would no longer specific to the Northern Territory). This would equate to a difference of about eight staff. This means the new structure effectively only has about five additional staff despite there being greater legislative and reporting requirements and changes in the nature and use of ICT since the 2004 Review (and assuming the structure was accurately estimated at that time).
- 17.10 The Northern Territory does not believe that the estimate of 133 staff adequately reflects the numbers associated with the Education minimum structure and based on its estimates, the deficiency lies primarily in the number of staff that should be included in each branch (staff under the Manager position). The Commission allows for three staff, but as per its previous submission, the Northern Territory argues that this should be four staff.
- 17.11 The Northern Territory is satisfied with the approach taken to the costing of the minimum staff structure. It also notes the non-wage component of administrative costs has been set at 40 per cent based on data from departmental annual reports. Non-wage costs reflect average costs (not marginal costs) and include capital costs. The Northern Territory agrees that the non-wage component should account for capital costs with infrastructure and assets associated with those functions not being affected by population growth, but having a different per capita impact depending on the size of a state's population.
- 17.12 The Northern Territory considers the costing and non-wage matters settled, but urges the Commission to reconsider the Northern Territory's proposals and other evidence from small states indicating that the standard staffing approach understates the number of staff required in the minimum departmental structure and this issue would affect all departmental structures (not simply Education).

NT adjustment

17.13 The NT adjustment recognises the Northern Territory's need for 'dual' service delivery models for its Indigenous and non-Indigenous residents. Staff Draft Assessment Paper CGC 2018-01/24-S Administrative Scale stated that the Commission would:

"decide whether to retain the adjustments for the Northern Territory based on State provided evidence about the existence of dual service delivery models".

17.14 Given this, the Northern Territory is surprised by the Commission's proposal to discontinue the NT adjustment on the basis that the "examples provided described service delivery costs rather than administrative scale costs". The Northern Territory sought to evidence that dual service delivery models existed, not that dual administrative functions existed.

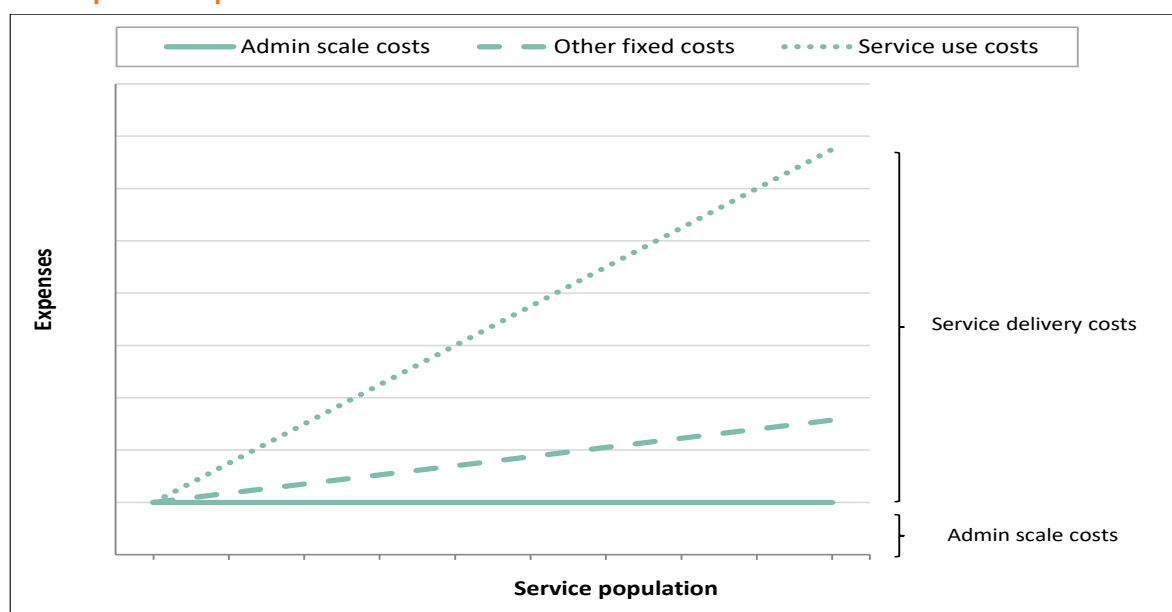
17.15 The Northern Territory's approach evidenced the existence of dual (place-based) service delivery models using examples in the key categories where the NT adjustment is applied. These examples represent the output from additional administrative scale resources (for example, additional strategy, advisory, policy, planning and engagement functions).

17.16 It is difficult to accurately estimate or evidence administrative resources that develop place-based models as many are not identified as specific to the Indigenous or remote population (by nomenclature) and, more broadly, because tailoring services to the needs of Indigenous clients and the remote delivery context is "everyone's business". This means that within an administrative function, any staff member could be working on place-based service delivery models as well as mainstream service models. This results in the overall minimum administrative structure in the Northern Territory being larger than in a state where Indigeneity and remoteness are less complex and have fewer implications for the nature of service provision.

17.17 The Commission's comment suggests it is reclassifying functions that produce place-based delivery models as outside the scope of administrative scale expenses. This means the Commission is shifting these costs into the category of other fixed costs, which are classified as service delivery costs (refer Figure 5). Other fixed costs and service use costs are assumed to increase as service users increase; they are not a minimum fixed cost.

17.18 This proposition may be reasonable if the Northern Territory were to have ‘average’ characteristics in terms of its Indigenous population and its remote population, but it does not. It must plan and prepare to service a population where 30 per cent, not 5 per cent or less, are Indigenous and a population where 40 per cent, not 6 per cent or less, live in remote and very remote locations. This is the service population whose needs must be met from the very start (i.e., the first point in Figure 5). Developing service models for such a population with such atypical socio-demographic characteristics will require a higher level of administrative scale resources and costs. In addition to those minimum structures, there will be additional service delivery costs associated with actually delivering the service, which are captured elsewhere in the Commission’s assessments.

Figure 5: Graphical depiction of administrative scale costs



Source: Commission illustration from CGC 2018-01/24-S Administrative Scale, p5.

17.19 The Commission acknowledged the level of engagement with Indigenous communities reflects the centrality of Indigenous people in the provision of government services in the Northern Territory and has proposed that \$1.8 million be included in the Department of the Chief Minister administrative scale structure. The Northern Territory welcomes the recognition of additional cost functions in the Department of the Chief Minister, but considers it is not simply Indigeneity that is central to the provision of services, but also remoteness. The allowance for the Department of the Chief Minister should not replace, but be additional to, the existing NT adjustments.

- 17.20 The Northern Territory did not dispute the observation that it is now average policy for states to recognise Indigenous priorities in policy formulation and service delivery strategies but, as the Commission observed, the Northern Territory's circumstances are far more complex. Where there are Indigenous functions within the Commission's proposed structures, the Northern Territory considers these are not adequate for its circumstances. This is evidenced by the discussion on Education in the Northern Territory's earlier submission. The Commission allows for a combined Wellbeing/Indigenous/Disability/Community branch. In the Northern Territory's minimum structure there would be a standalone Indigenous branch.
- 17.21 In the proposed Health minimum structure, there is an Indigenous branch under the Public Health division. This captures part of the Indigenous and remoteness implications for the Northern Territory. Policy and planning functions in the Northern Territory have a broader focus (and resource requirement) encompassing primary health care, hospital services and human resources, for example, initiatives relating to the transition of primary care services to community control, culturally secure service provision, stakeholder engagement and consumer participation, remote outpatient service delivery models (for example, renal services), research functions and funding, and Aboriginal workforce advisory and development functions.
- 17.22 In other service delivery areas – housing, welfare, services to communities and police – it is not clear to the Northern Territory that provision has been made in the revised structure for Indigenous functions. As discussed in the previous section, if other states had to make the same level of effort to develop place-based service delivery models as the Northern Territory then it would be expected that an adjustment would apply to the administrative structure of all states (rather than being removed).
- 17.23 Place-based service delivery models (and associated infrastructure) for the Northern Territory's population cannot be produced with the average level of administrative scale functions. Instead, the Northern Territory requires additional core head office functions and considers that the current approach – the NT adjustment – is a transparent way of ensuring that these additional costs are recognised and accounted for in the Commission's assessments.

18. Wage costs

The Northern Territory:

- Notes that no changes are proposed to the methodology for the Wage Costs disability.
- Continues to object to discounting of the assessment, noting that while it may reduce volatility in outcomes, it also reduces recognition of relative needs.

- 18.1 The Commission proposes to retain the current methodology for the wage costs assessment, which uses regression modelling of private sector data from the Characteristics of Employees survey (CoES). The model controls for differences in attributes known to affect wage levels (for example, work experience and qualifications) and adjusts for differences in the composition of industry and occupations between states. The model estimates the influence that a state has on the wages of comparable private sector workers as a proxy for pressures on public sector wages in each state.
- 18.2 The Northern Territory agrees with the Commission's decision that the econometric model produces the best estimate of differences in wage costs. While use of public sector CoES data in the model would be preferable, the Northern Territory acknowledges the Commission's decision not to use this data due to concerns regarding policy neutrality.
- 18.3 The Northern Territory supports the Commission's decision that in the absence of strong evidence for the influence of national markets and a sound method for measuring the impact of that influence, no changes will be made to the wage costs assessment. This is consistent with the Northern Territory's views and evidence provided in its submission.
- 18.4 The Commission intends to continue to apply a 12.5 per cent discount to the wage costs assessment, despite states' arguments and evidence (including information from the Northern Territory), as it considers the issues³⁰ giving rise to the discount have not markedly changed. The Commission also considers that the discount assists in reducing the volatility in outcomes for states, which can change markedly between assessments.
- 18.5 The Northern Territory continues to hold the view that the assessment understates its wage differential. The discount compounds this outcome, and therefore, should be removed. It believes that analysis relating to the influence of the national labour market shows that private sector wages are a suitable proxy even though movements in the public sector may lag behind those in the private sector. The regression model also contains an extensive array of control variables.

³⁰ Namely, the potential for inaccuracy in how well the data measures wage costs, controls for differences in productivity between states and acts as proxy for pressures in public sector wages.

- 18.6 The best measure would be public sector data, which the Commission will not use. Accordingly, the Northern Territory believes the current approach and data are the best available, and outcomes should not be discounted on the basis of concerns regarding uncertainty or methodological issues.

19. Geography

The Northern Territory:

- Supports removal of the interstate non-wage cost assessment (location adjustment) for Darwin, Hobart, Canberra and Perth.
- Notes that there will be no change to the geography underlying the Indigenous Relative Socio-Economic Outcomes Index (IRSEO), but considers it remains the best geographic measure of Indigenous SES.
- Notes that the Commission is using a range of methods to capture the impact of SDS and has discontinued use of a SDS-specific geography.
- Proposes revisions to the general regional cost gradient to account for the insufficiency of the underlying admitted patient gradient.
- Advises that for categories where there is a direct assessment of regional cost issues and SDS, any issues with those methods are discussed in the relevant chapter.

19.1 Consistent with the Commission's request, the Northern Territory confines its response to matters of exception, although the opportunity is taken to express its strong support for the removal of the location adjustment for Darwin.

19.2 The Northern Territory notes there are not resources available to undertake the planned examination of the level of geography used for IRSEO³¹. Regardless, it considers that IRSEO remains the best available geographic socio-economic measure for the Indigenous population.

19.3 The Northern Territory agrees with the Commission's statement that SDS and regional costs are two distinct concepts and disabilities. It notes there is substantial (but not perfect) overlap in the regions in which these disabilities occur as well as in the jurisdictions that experience those disabilities the most. The Northern Territory notes the Commission has discontinued use of the 2015 Review approach to defining SDS areas³², instead using remoteness areas (the same measure as the regional costs disability) to simplify the assessment and reduce reliance on judgement. It does not object to this change provided that the SDS assessments capture relevant communities and adequately assess needs. It notes that methods for capturing SDS differ between categories and the SDS disability may be assessed separately or combined with regional costs.

³¹ Some states expressed concerns that the broad level of geography (Indigenous areas) used for IRSEO may mask the diversity of disadvantage in different sub-areas, particularly in urban areas.

³² Defined as 50 kilometres from a town of 5000 people.

- 19.4 Given this variation, comments on the suitability and adequacy of SDS and regional costs assessments are made in relevant category chapters rather than in this chapter. The Northern Territory strongly supports the Commission's regional cost assessments; however, issues with the proposed assessment approach are raised in the Services to Communities and Justice chapters. Comments in this chapter focus on the general regional cost gradient.

General cost gradient

- 19.5 Where a regional cost gradient cannot be directly measured (or reliably extrapolated from related data) and a strong conceptual case exists, the Commission employs a general cost gradient. The general gradient incorporates regional costs, but not SDS, and is applied in five categories³³. The general gradient is the average of the regional cost gradients for schools and admitted patient services. The Commission is unable to use the police gradient (as per the 2015 Review) because it now incorporates SDS.
- 19.6 The Commission is using IHPA's admitted patient treatment remoteness area (PTRA) adjustment as the measure of admitted patient regional costs used in calculating the general gradient. The derivation of the PTRA adjustment occurs as a separate and secondary process after determining the costs of care in remote hospitals including case-mix, patient complexity and all other adjustments such as the patient residential remoteness area (PRRA) adjustment. As remote patients are likely to be treated in remote hospitals, to some degree regional costs will be captured in PRRA adjustment derived in IHPA's first step multivariate modelling. What is captured in the second step is residual regional cost impacts that are not otherwise accounted for in the PRRA adjustment.³⁴
- 19.7 The residual nature of the PTRA adjustment, and the fact that hospitals tend to be based in larger regional towns and not in smaller communities, particularly in very remote areas where relevant child and family, community development, environmental and other services must be delivered, means that the use of the admitted patients regional cost gradient is inadequate as the measure for the general regional cost gradient. To address this, the Northern Territory suggests that more weighting is given to the schools regional cost gradient or the Commission uses the PRRA adjustment for emergency services as the health regional cost gradient used to derive the general gradient.

³³ Welfare (child protection and family services component); Services to Communities (community development and protection of the environment components); Roads (rural roads component), Services to Industry (regulation components); and Other Expenses.

³⁴ IHPA. Understanding the NEP and NEC 2018-19. Accessed on 23 August 2019 at <https://www.ihoa.gov.au/>.

20. Other disabilities

The Northern Territory:

- Considers an APC assessment of land rights expenditure appropriate.
- Considers both native title and land rights expenses data should continue to be identifiable in the annual Assessment System.

20.1 The Northern Territory notes the cross-border and national capital allowances disabilities are applicable to the ACT and NSW and as such has not provided commentary. The exception is the proposed cross-border capital stock factor for health capital expenses, which is discussed in the Health chapter.

20.2 While Northern Territory land rights expenditure is influenced by the Commonwealth imposed *Aboriginal Land Rights (Northern Territory) Act 1976*, as identified by the Commission, an additional four states have similar legislation to grant land to Indigenous Australians. The Northern Territory notes the Commission's view that states tend to provide land rights services in cost-effective ways, with differences in states' expenses reflective of their circumstances. For the assessment to adequately recognise what states do, the Northern Territory considers an APC assessment of land rights expenditure across all states appropriate.

20.3 Given native title expenses are currently assessed APC, the Northern Territory considers a similar approach to assessing land rights expenses reasonable, and that both data sets continue to be identifiable in the annual Assessment System to aid transparency.