2025 Commonwealth Grants Commission Methodology Review

Northern Territory response to Tranche 2 consultation papers

NORTHERN TERRITORY GOVERNMENT

Document title	2025 Commonwealth Grants Commission Methodology Review
Contact details	Department of Treasury and Finance
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Acronyms	Full form
ABS	Australian Bureau of Statistics
CAEPR	Centre for Aboriginal Economic Policy Research (Australian National University)
Commission	Commonwealth Grants Commission
GSP	Gross State Product
NDIS	National Disability Insurance Scheme
NHHA	National Housing and Homelessness Agreement

Contents

1. Flexibility to consider method changes between reviews

1.1. Response to questions

Q1 Do states agree that there may be situations, such as a significant unanticipated shock or major policy reform, such that there is a case to extend the circumstances when the Commission may need to consider alternative methods between reviews?

The Northern Territory does not agree that there is sufficient need to extend the circumstances when the Commission may need to consider alternative methods between reviews beyond the current arrangements. The Territory considers sufficient and appropriate flexibility exists through the terms of reference process and the Commonwealth Treasurer to respond to major shocks.

Q2 Do states agree that the circumstances supporting the case to extend the Commission's flexibility to change methods between reviews should include:

- **major unexpected developments that have a significant impact on state fiscal positions, are not captured in existing assessment methods, and a change in methods is required for the Commission to achieve the objective of fiscal equalisation?**

The Northern Territory does not support the case to extend the Commission's flexibility to change methods between reviews.

Q3 Do states agree that any consideration of whether method changes are warranted between reviews be undertaken in consultation with the states and the expectation should be that this flexibility would only be exercised in very limited circumstances?

The Northern Territory agrees that if the flexibility is created, it should only be exercised following sufficient consultation with all jurisdictions, and in very limited circumstances.

Q4 Should the extended flexibility to change assessments between reviews in certain circumstances be operationalised in standing terms of reference for updates?

The Territory's position is that no extended flexibility is warranted and therefore the standing terms of reference does not need to change for updates. The Territory submits that terms of reference can be changed on a needs-basis by exception by the Commonwealth Treasurer, rather than embedded into all updates' terms of reference.

1.2. Supporting considerations

The Territory considers that existing terms of reference processes offer an appropriate level of flexibility to enable methodology changes between reviews through the powers held by the Commonwealth Treasurer. Introducing further flexibility may increase administrative burden, expose the Commission to lobbying, create policy neutrality risks, and reduce certainty, stability and simplicity.

The 2025 terms of reference raise two types of shocks: significant unanticipated shocks, such as the COVID-19 pandemic, and where major policy reforms are enacted in between reviews.

The Territory submits that it is not desirable to create flexibility for policy changes. GST methods are already constructed on a policy neutral basis, as balanced against the objective of HFE and other supporting principles, meaning there is already ample opportunity for states' policies to be considered through 5-yearly method reviews. Policy changes are also frequent and routine, meaning that if flexibility is created, there could be potential to undermine GST method certainty and could politicise the role of the Commission by requiring comment or decisions that support (or do not) state policy proposals.

The most cited examples of GST and policy interactions are mining royalty rate changes and stamp duty reforms, such as those proposed by New South Wales prior to the 2020 Review, which are now no longer being pursued. The impact of these policy changes on GST methods have been previously considered, including past reviews and independently in the 2018 Productivity Commission inquiry into Horizontal Fiscal Equalisation. Had flexibility existed between reviews, it appears probable that submissions on these topics could also have been made intermittently between reviews, potentially annually.

In any event, if a major policy change were to occur, it is open for the Commonwealth Treasurer to change the terms of reference at that time.

There is a stronger conceptual case for flexibility in response to unanticipated non-policy shocks, however the Territory considers that such changes are not necessary as the Commonwealth Treasurer already has sufficient flexibility to amend terms of reference if required, and any impacts are time-limited to at most 5 years.

The expansion of flexibility in response to non-policy shocks may require a description of what constitutes an 'unprecedented shock'. As the Commission notes in its consultation paper, a precise definition is unlikely to be feasible as shocks are, by their nature, unanticipated and unpredictable. However, a vague definition has potential to result in uncertainty and opportunistic submissions. Caution should be exercised in drawing too many inferences from the COVID-19 pandemic response, as there is no reason to expect that a future major shock would involve similar circumstances. Historically, the most common types of national shocks are economic in nature.

While the intention is that the discretion will be rarely used, it may be important to recognise that if flexibility is created, administrative work may nonetheless be required to respond to any claims that a shock has occurred, even before considering whether changes are warranted.

To avoid these issues, it is more appropriate for the flexibility to continue to be retained by the Commonwealth Treasurer in consultation with states and territories. The Territory notes the Commission's concern that the current arrangement '*.....places the Commonwealth Treasurer in the position of 'umpire' on changes, where there will always be winners and losers'*. However, this is consistent with the design of the system, and there is merit to this position as the Commonwealth Treasurer is an unaligned party that can have broad and flexible consideration of issues as required in the circumstances, beyond the matters usually considered by the Commission. The outcomes during the COVID-19 pandemic response where the Commonwealth Treasurer consulted with all jurisdictions and decided not to change the terms of reference was supported by a number of states.

The Territory also notes that there was considerable opposition to the Commission's proposed method changes during the COVID-19 pandemic response if the terms of reference had allowed method changes in an update year. The Territory, and multiple jurisdictions, had significant reservations with the Commission's proposed finding that COVID-19 expenses were predominantly due to state circumstances and not policies.

Overall, the Territory submits that the difficulties associated with the provision of greater flexibility between reviews outweigh the potential benefits. The current system offers states with a suitable avenue to address unexpected concerns with the Commonwealth Treasurer, and through 5-yearly reviews.

2. Adjusted Budget

2.1. Response to questions

Q1 Do states agree with the Commission's preliminary view to use:

- **ABS preliminary Government Finance Statistics for year 3**
- **A state's year 3 data if the ABS preliminary data are not available**
- **The final ABS Government Finance Statistics data for the first 4 assessment years (years minus 1 to year 2)**

The Northern Territory supports the Commission's view to use preliminary ABS Government Finance Statistics data for year 3 given the greater level of consistency in data between states. The Territory agrees with the views expressed in the Commission's consultation paper.

Q2 Do states consider the proposed process for implementing adjustments in the 2025 Review adjusted budget is appropriate?

The Northern Territory agrees with the proposed process for implementing adjustments in the 2025 Review. It notes that many of these adjustments are likely a result of the discrepancy between the adoption of accounting standards by states, and different reporting rules used by the ABS, such as on the treatment of leases. There remains an ongoing issue that, over time, ABS data will diverge from state data, and may not be able to be reliably adjusted, as states no longer record data on a comparable basis to the ABS to allow the accurate quantification of the impact of the adjustment. A long-term solution may be desirable to resolve this issue and prevent the proliferation of adjustments, however, it is recognised this may be an issue for the ABS to consider in its Government Finance Statistics reporting framework, such as through the Heads of Treasury Accounting and Reporting Advisory Committee, rather than a method change for the Commission.

3. Administrative Scale

3.1. Response to questions

Q1 Do states support the continuation of the administrative scale expense assessment in its current form?

The Territory considers that the current assessment remains appropriate. There have been no major changes to the conceptual or practical basis for an administrative scale assessment since the 2020 review. The indexation rates appear broadly consistent with growth in administrative scale costs and is supported.

Should the Commission consider a more detailed administrative scale review is warranted, the Territory will work with the Commission to establish what data is required. However, this may require additional time and may not be feasible in the 2025 Review timeframe.

4. Housing

4.1. Response to questions

Q1 Do states agree that the housing assessment remains fit for purpose notwithstanding recent developments in the housing market?

The Territory considers that the housing assessment is not fit for purpose. The current method reduces assessed housing funding in states with above-average overcrowding. The outcome arises due to several interrelated conceptual issues, including that the method does not adjust each jurisdiction's stock to account for private housing shortages, adjust for the average number of persons per dwelling, or recognise the greater level of social housing demand in areas with lesser private stocks.

There are many options to resolve these issues and the Territory provides some suggested changes. However, the goal in reviewing methods should be to achieve the following outcomes:

- The method should not reduce assessed funding in states with lower per capita private housing.
- The method should recognise that states have different overcrowding rates per cohort and adjust the housing assessment accordingly.

The Territory considers that, at a minimum, the current method should be converted from a dwelling-based apportionment to a per capita apportionment, to prevent the assessment from disadvantaging jurisdictions with housing shortages. However, this approach would not recognise that responses to private housing shortages are borne primarily by the state sector, rather than shared between the state and private sector.

The Territory therefore further submits that the method should incorporate an indicator of residual drivers of housing need, such as differences in the private housing stock after the current remoteness, indigeneity and socio-economic factors are taken into account. Homelessness data as measured by the ABS, and in particular, estimates of severe overcrowding, appear useful as an established nationally consistent method to predict these residual drivers. The Territory proposes that overcrowding data could be used to construct an inflator or deflator to assessed state social housing.

The Territory's submissions on housing are related to its submissions in the Welfare category. If the Commission does not adjust the housing method for overcrowding rates, the Territory submits that overcrowding rates should be incorporated into the Welfare category as a driver of homelessness expenditure.

Q2 Do states agree that there should be separate assessments for public and community housing if it results in material change in GST distributions?

The Territory agrees in-principle to this change, however:

- the Territory is in the early stages of increasing its community housing sector and past Territory data is unlikely to be reflective of future circumstances.
- it is unlikely that remote areas in the Territory have similar capacity to support community housing due to different legal and economic circumstances in remote indigenous Territory communities.

Q3 Is the ABS census data on households with members that have long-term health conditions a suitable proxy for households that have high service needs?

The Territory has concerns with ABS census data on long-term health conditions, which appears unreliable and therefore unsuitable for use in Commission methods (refer pages 17-19).

Q4 Do states have data on the cost of servicing different household types that would enable the calculation of a cost gradient?

The Territory does not directly account for disability gradients in this manner and therefore has limited direct data available.

Other issues raised by the Territory

The Territory raises the following issues with the assessment, that:

- The indigenous housing investment assessment should be adjusted such that the loading for dedicated indigenous housing is applied to all social housing in remote indigenous communities, homelands and town camps, to recognise that state circumstances in these areas differ, and that it is generally necessary to provide dedicated indigenous housing (as opposed to mainstream housing) in such regions. The current averaging approach should be retained for areas outside these regions.
- An assessment which recognises the differing rates of Commonwealth Rent Assistance between the states may be warranted.

4.2. Supporting Considerations

4.2.1. Terminology

For the purposes of this section, unless otherwise indicated, the Territory refers to:

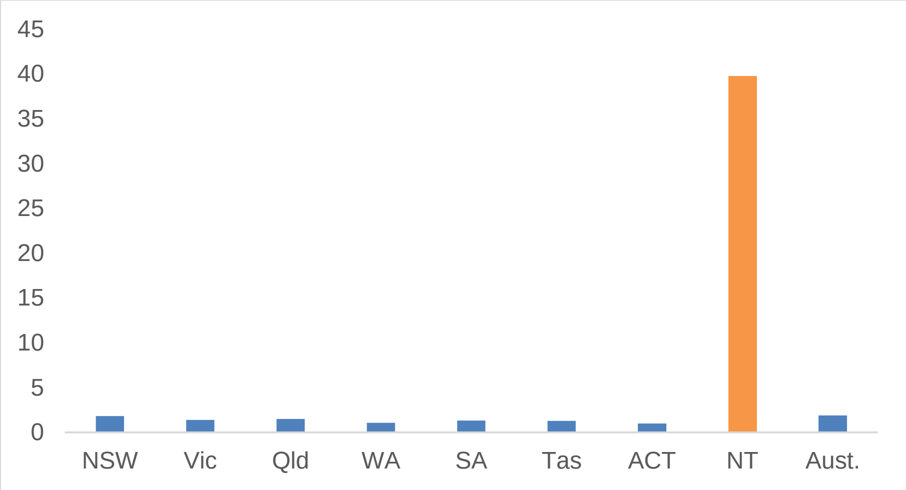
- "Housing stock", "houses", and similar terms, as meaning and being interchangeable with "dwellings" or "households" as recorded by the Census. While it is recognised that there may be differences between estimates and definitions of houses, households and dwellings, the overall data is substantially similar for the purposes of this submission.
- "Social housing" as collectively referring to the range of state-funded housing as used in the current assessment. This includes public housing, community housing and indigenous sector housing.
- "Private housing" as referring to houses that are not social housing, regardless of ownership type.

The Territory's housing assessment submissions should be read together with the Territory's response on the Welfare assessment, given the link between the drivers of housing and homelessness.

4.2.2. Territory housing context

The Territory's housing requirements are predominantly driven by high rates of homelessness, and specifically overcrowding. The Territory has by far the highest rates of homelessness in Australia, at more than 10 times the national average. The Territory accounts for around 11% of national homelessness despite being less than 1% of the national population. The majority of Territory homelessness is due to severe overcrowding, which drives social housing need. The 2021 Census illustrates that Territory severe overcrowding rates are approximately 21 times the national average.

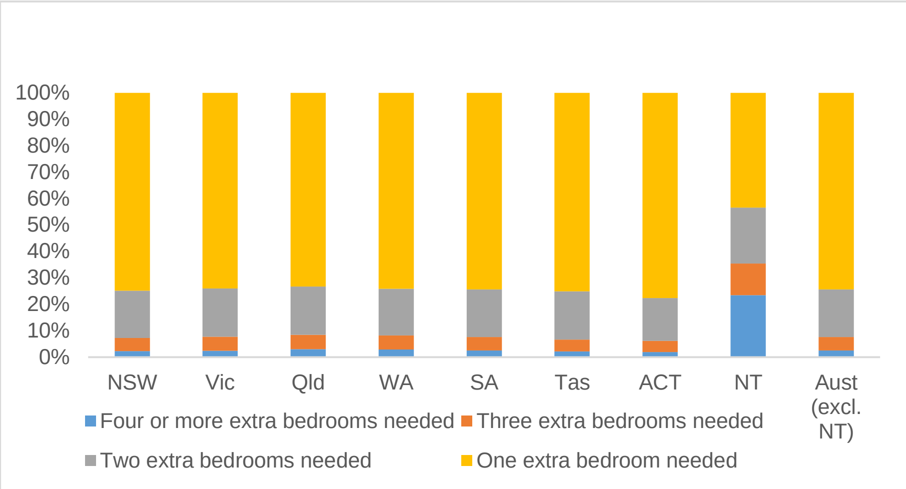
Chart 4.1 Severe overcrowding rate (per 1000 persons), state and territory (2021)



Source: ABS, Estimating Homelessness: Census 2021, Department of Treasury and Finance calculations

The composition of Territory overcrowding is also more severe than in other states, with 24% of Territory persons living in overcrowded homes requiring four or more additional bedrooms, compared to 3% nationally.

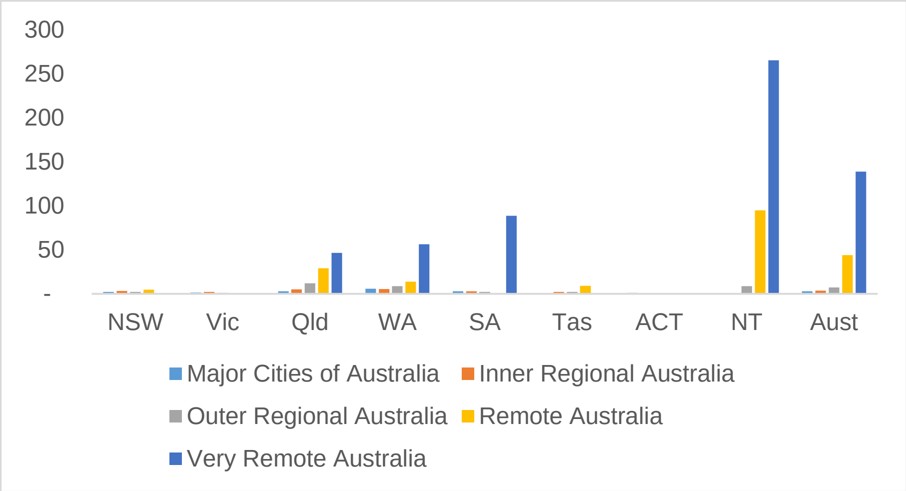
Chart 4.2 Composition of persons living in overcrowded dwellings, by number of additional bedrooms required (%), state and territory (2021)



Source: ABS, Census 2021, Department of Treasury and Finance calculations

Territory overcrowding is disproportionately experienced in remote (15%) and very remote (82%) areas, and largely by the indigenous population. The Territory's overcrowding rate for this cohort are also higher than the national average and when compared to other states with otherwise similar demographics.

Chart 4.3 Indigenous overcrowding rate (per 1000 persons) by remoteness area, state and territory (2021)



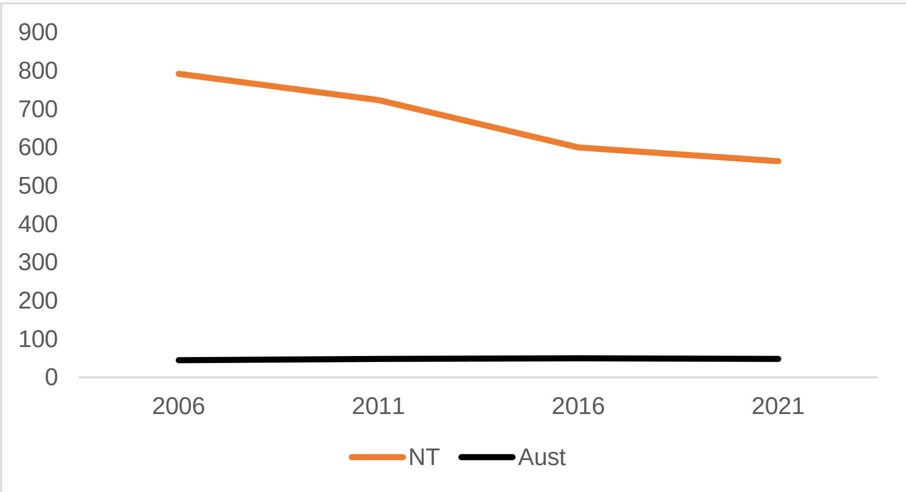
Source: ABS, Census 2021, Department of Treasury and Finance calculations

The origins of Territory overcrowding are complex and attributable to a wide range of historic and current factors. However, a key factor is a lack of housing stock, with Territory very remote populations having significantly fewer houses per capita than in any other state.

This lower rate of stock is predominantly due to a lower rate of remote and very remote private housing. Territory overcrowding is not due to an absence of social housing, with the Territory investing in social housing at rates well in excess of the national average.

The Territory and Commonwealth's sustained investment in remote social housing is improving outcomes, with homelessness continually declining over time, however significantly more investment is needed.

Chart 4.4 Territory homelessness rate per 10 000 population over time



Source: ABS, Estimating Homelessness: Census 2021

4.2.3. Outcomes of the current housing assessment

The housing assessment operates by calculating an average 'social housing use rate' per cohort, being the average proportion of each cohort who use social houses (calculated as a share of dwellings). This use rate is then applied to each state's actual housing stock (with indigeneity and remoteness loadings) to arrive at assessed housing.

For example, the current method assesses a use rate (before loadings are applied) that, on average, 62% of remote, low-socioeconomic, indigenous, households are social houses. This compares with 11% for non-indigenous low-income households in major cities.

A key difficulty with this approach, is that the use rate is applied to each state's total households. This gives the counterintuitive result that a state with lower housing per capita, with higher overcrowding or homelessness rates, is apportioned less funding per capita.

This approach would be equitable if all jurisdictions had a similar capacity for private housing stock available to service its population, however this is not the case. While the Territory invests in social housing in response to those shortages, there remains a considerable gap, which is reflected in overcrowding and homelessness data. The Territory's high overcrowding rates and lower private housing stock are therefore key drivers of its level of expenditure on social housing, which are not appropriately reflected in the housing assessment.

The result is that the current method assesses the Territory as 'overinvesting' in social housing, with Territory actual housing expenses being around 47% than its assessed expenses.

Table 4.1 Ratio of actual to assessed housing expenses

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
2021-22	44.8	142.0	84.2	168.8	83.0	148.3	140.7	147.2

Source: Commonwealth Grants Commission 2023 Update supplementary tables

The housing investment assessment directly quantifies this overinvestment, and shows that, prior to applying loadings for the cost of housing, the current method considers the Territory delivers around 3200 excess social houses, despite current levels of overcrowding and unmet need.

Table 4.2 Northern Territory actual and assessed social housing stock (investment category)

	Actual	Assessed	Difference
2021-22	14,292	11,055	-3,237

Source: Commonwealth Grants Commission 2023 Update

This outcome is driven by the current method's housing stock apportionment approach. The Territory's assessed share of social housing stock is determined by reference to the Territory's share of national dwellings. This reduces Territory assessed expenses due to its lower-than-average share of houses. This is a conceptually perverse outcome, as it reduces the Territory's housing funding due to existing overcrowding.

The lower than average private housing stock per capita in the Territory is due to a range of non-state factors, including economic circumstances, with many Territory very remote indigenous communities being in the lowest percentile of socio-economic advantage. Legislative factors are also significant and relevant, with most communities subject to complex ownership and titling arrangements, including the unique legal relationship for land subject to the *Aboriginal Land Rights (Northern Territory) Act 1976 (Cth)*.

To overcome these disadvantages and provide a similar number of dwellings per capita as other jurisdictions, the Territory is constructing social houses at a higher rate to address this gap. The Territory contends that if other jurisdictions had similar lack of private housing and resulting prevalence rates of overcrowding, they too would address the detriment through additional investment in social housing.

The current method does not account for this, as use rates are fixed per population cohort and housing stocks or overcrowding rates are not an assessed driver of social housing need, resulting in a material detriment to the Territory.

There are many potential options to resolve this issue and provides some suggested changes below. However, the goal in reviewing methods should be to achieve the following outcomes:

- the method should not reduce assessed funding in states with lower per capita private housing.
- the method should recognise that states have different overcrowding rates per cohort and adjust the housing assessment accordingly.

The Territory considers that, at a minimum, the current method should be converted from a dwelling-based apportionment to a per capita apportionment, to prevent the assessment from disadvantaging jurisdictions with housing shortages.

The Territory further proposes using homelessness data as measured by the ABS, and in particular, severe overcrowding estimates, to construct an inflator or deflator to assessed state social housing. This would function as an indicator of residual drivers of housing need (such as differences in the capacity for private housing stock) after the current remoteness, indigeneity and socio-economic factors are applied.

In making this submission, it is recognised that GST assessments are intended to provide state-average policy intensity, and it may be beyond the scope of the GST system to address all Territory housing needs. However, an assessment that considers the Territory is materially oversupplying housing, in the context of far higher than average homelessness rates and constrained capacity for private stock in remote areas should be improved through changes to methods.

4.2.4. Housing adjustments

The simplest adjustment would be to use population shares, rather than dwelling shares, when apportioning housing costs between jurisdictions. This would address some of the above concerns with the housing assessment, including that assessed expenses declines as overcrowding increases, but would not solve all issues. This approach would not recognise that responses to overcrowding are borne primarily by the state sector, rather than shared between the state and private sector.

The housing assessment should be further adjusted to reflect material differences in the per capita housing rate between jurisdictions. Using Census severe overcrowding data is an appropriate proxy measure to account for factors such as the size of houses. The total assessed need should include a social housing use rate which captures populations in severely overcrowded homes that would use social housing if available, as the persistent nature of severe overcrowding indicates that the private sector is not capable of addressing this need without government intervention.

State-average overcrowding rates can be calculated in the usual way and referenced against assessed social housing levels, rather than actuals. Incorporating overcrowding data is expected to be policy-neutral as the resulting assessment will more accurately reflect the state-average share of housing that is not being provided by the private sector.

The preferred approach to improve the assessment is to directly incorporate overcrowding rates into the housing assessment. Rates of severe overcrowding are directly and reliably measured through Census data. As such, an inflator or deflator to state social housing use rates could be constructed to account for differing rates of homelessness after the current method’s demographic drivers are applied. This data is available either in per capita terms, or can be converted as an estimate of bedrooms (and dwellings).

There are various methods to achieve such an adjustment, such as:

- Quantifying a cohort-average rate of overcrowding and determining the additional number of dwellings required to achieve that rate per state,
- Increase a state's total housing stock by this amount, so that states with higher overcrowding are not disadvantaged when apportioning costs between jurisdictions, or
- Adjusting each state's assessed social housing stock by the assessed overcrowding rate, in recognition that persistent overcrowding would, on average require a state social housing policy response, rather than being met in part by the private sector.

The adjustment is expected to only be material for the Territory given the Territory's status as a significant outlier.

4.2.5. Separate assessment for public and community housing

The Territory supports in-principle a separate assessment of public and community housing if material, provided that the drivers of social housing are more accurately identified and assessed as noted above. The ability of an assessment to capture the Territory's unique land tenure arrangements in remote communities and the absence of economic rental markets must be considered in determining whether a community housing assessment is reasonable.

Conceptually, the Territory considers that a community housing assessment should be lower-cost than a public housing assessment, as community housing providers should on average be expected to deliver efficiencies or leverage offsetting non-state revenue sources, particularly Commonwealth Rent Assistance. The Territory presumes that the Commission's proposed method would operate similarly to other methods and determine a state-average use rate of community housing, after relevant drivers are considered.

Currently, the Territory has a relatively small community housing sector, however is in the process of implementing the 10-year Community Housing Growth Strategy 2022-32. For example, the transfer of 501 homes to the community sector in Darwin and Palmerston was announced in January 2024, with further transfers planned in coming years. As this transition is currently underway, past data will not reflect future Territory circumstances. Conceptually however, the Darwin area may otherwise be similar to other outer regional areas and an assessment appropriate.

However, it would remain unrealistic to assess the Territory's (very) remote areas as having community housing capacity, even if that capacity exists in remote areas interstate, due to extreme diseconomies in these regions, as evidenced by the Territory's very low socio-economic status. More significantly, issues relating to the complex land titling circumstances in very remote regions both limit the types of ownership that are possible, and the types of financing that can be accessed. This is a relevant difference from remote and very remote areas interstate.

As an example of the small scale of Territory remote private markets, at December 2023, Alice Springs had 94 house and unit rental listings, and less than 30 listings in each of Katherine and Tennant Creek. Outside of these towns, the rest of the Territory, which is predominantly very remote indigenous communities, has essentially no private rental markets and is extremely constrained in its ability to support a community housing sector. This is different to remote areas interstate, which are likely to have significantly higher private housing capacity.

As set out below, this is partly illustrated by the Territory having fewer Commonwealth Rent Assistance places provided in its remote areas than other states. As such, the Territory submits that while a community housing assessment may be warranted, remote areas in the Territory are expected to have lower capacity than remote areas interstate (and correspondingly higher social housing requirements).

4.2.6. Further Housing Assessment Issues

In addition to the above, the Territory submits there are several other matters which warrant consideration in the Housing assessment, including:

- The averaging of indigenous use rates in the Housing investment assessment is not appropriate as jurisdictions have significantly different non-policy factors which influence indigenous housing use rates, including land rights and native title land coverage.
- Commonwealth Rent Assistance is unevenly distributed between jurisdictions.

4.2.7. Indigenous use rates (investment assessment)

The Territory submits that the indigenous loading applied in the housing investment assessment should be allowed to vary between jurisdictions, and in particular, a loading should be applied to all indigenous occupied housing located in indigenous communities, homelands and town camps.

The housing investment assessment currently determines a state-average rate of indigenous persons living in indigenous dwellings. This is intended to measure ‘what states do’ by recording the average rate at which jurisdictions provide indigenous persons with dedicated indigenous housing, compared to ‘mainstream’ housing services. The proportion does not differ by state, with all states assumed to provide the same split between dedicated indigenous housing and mainstream services.

However, this assumes an artificial level of homogeneity in the provision of indigenous dwellings which does not reflect the reality of state circumstances. In particular, it does not recognise the geographic, legal and historical circumstances of communities, homelands and town camps, including being predominantly or exclusively indigenous-occupied, usually having complex community titling, and the significant cultural considerations which continue to exist in these regions. In essence, the Territory submits that providing dedicated indigenous housing in these areas is due to state circumstance, not policy, and the Territory's higher dedicated indigenous housing rate arises for these reasons.

If this adjustment is not made, the current method assesses that, on average, indigenous social households are provided with dedicated indigenous dwellings around 39%, which is more than the rate in most jurisdictions, other than Queensland, but well below the Territory due to its far higher proportion of remote indigenous communities.

Table 4.3 Proportion of Indigenous households living in indigenous dwellings

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
2021-22	0.346	0.298	0.443	0.215	0.363	0.290	0.000	0.719	0.386

Source: Commonwealth Grants Commission 2023 Update

The Territory submits that the indigenous loading should be applied to all indigenous dwellings in indigenous communities, homelands and town camps. Averaged use rates appear to continue to be appropriate outside these areas.

4.2.8. Commonwealth Rent Assistance

The Territory submits that recognition of differing rates of Commonwealth Rent Assistance by jurisdiction may be warranted. This is because community housing providers in jurisdictions with a greater actual share of Commonwealth Rent Assistance have access to additional non-state revenue sources, reducing the pressure on state expenditure and making such revenue appropriate for equalisation. An adjustment would be conceptually similar to the treatment of other Commonwealth payments.

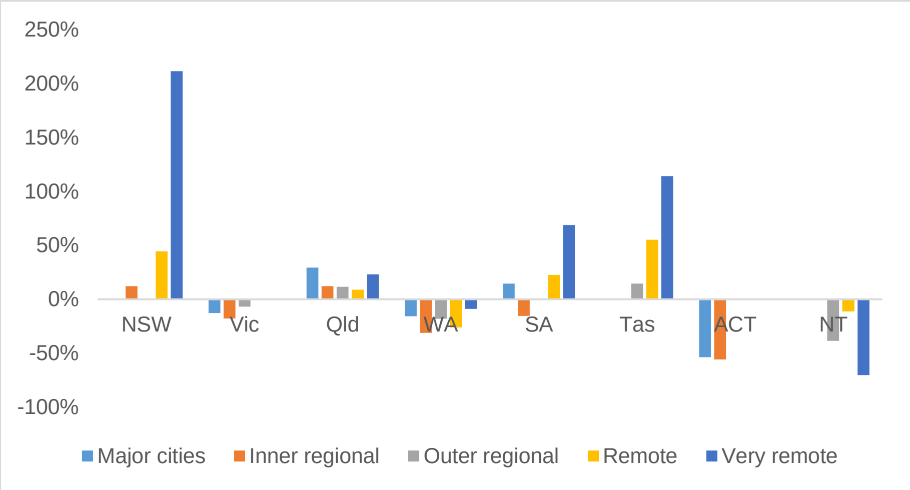
As shown in Charts 4.5 and 4.6, the distribution of Commonwealth Rent Assistance varies between states. Notably, the Territory receives well below its population share of Commonwealth Rent Assistance despite demonstrably having the highest homelessness rates in Australia. For example, 13% of remote and very remote Commonwealth Rent Assistance income units are in the Territory, compared to a Territory remote and very remote population share of 20%, and the Territory comprising 75% of remote and very remote severe overcrowding.

Chart 4.5 Ratio of share of Commonwealth Rent Assistance income units to population share, by indigeneity, states and territories (2022-23)

Note: Ratio is calculated by comparing the share of indigenous and non-indigenous income units receiving Commonwealth Rent Assistance to that cohort's share of the population.

Source: Report on Government Services 2023, housing and homelessness services sector, Department of Treasury and Finance calculations

Chart 4.6 Ratio of share of Commonwealth Rent Assistance income units to population share, by remoteness, states and territories (2022-23)



Note: Ratio is calculated by comparing the share of income units receiving Commonwealth Rent Assistance per state and remoteness area to that area's share of the population. Data not reported for remote Victoria.

Source: Report on Government Services 2023, housing and homelessness services sector, Department of Treasury and Finance calculations.

One option to recognise this impact could be by recognising Commonwealth Rent Assistance as a revenue-side adjustment to the proposed community housing assessment. That is, if a state receives a higher share of Commonwealth Rent Assistance for its community housing sector than its assessed stock, the residual should be redistributed accordingly. This would be subject to the relevant data being available.

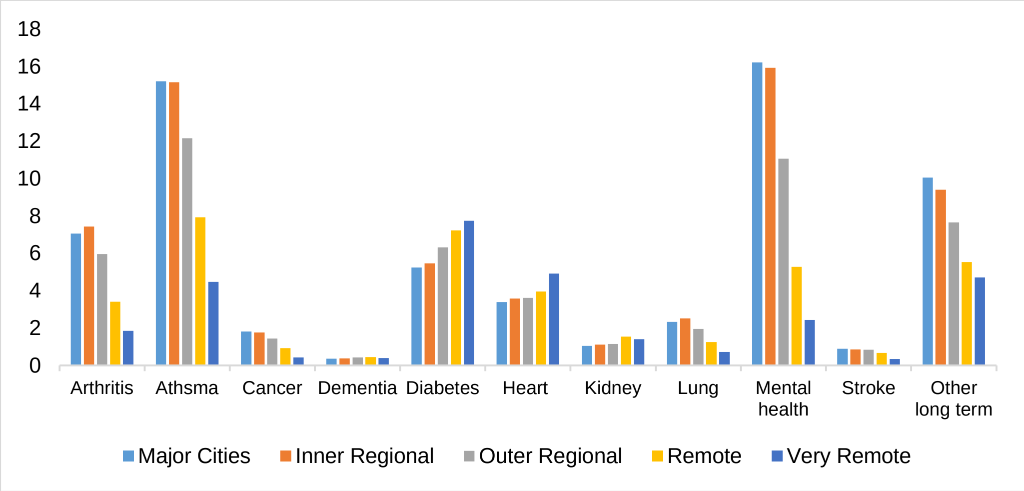
However, as set out in the above submissions on community and public housing, consideration of the Territory's unique legal situation in remote communities, which are an impediment to the provision of community housing (as opposed to public housing), is warranted. The Territory remains restricted in its ability to provide community housing, and therefore, to access Commonwealth Rent Assistance, in remote areas as land structures are less conducive to community housing structures, resulting in higher rates of public housing. The Territory is therefore disadvantaged relative to other jurisdictions by the Commonwealth Rent Assistance scheme excluding public housing, which should be recognised in the housing assessment.

4.2.9. ABS census data on households with long-term health conditions

The Territory submits that the Census long-term health condition data, particularly in aggregate, is not reliable and should not be used to assess the costs to states in providing housing to persons with health conditions, or for any other assessment purpose.

As illustrated in Chart 4.7, for many illness categories, indigenous health as reported by the Census counterintuitively improves with remoteness. It is noted that disease prevalence trends differ between disease types, with some rates increasing, and others decreasing, with remoteness.

Chart 4.7 Indigenous health conditions (age-standardised rate per 100), by remoteness (2021)

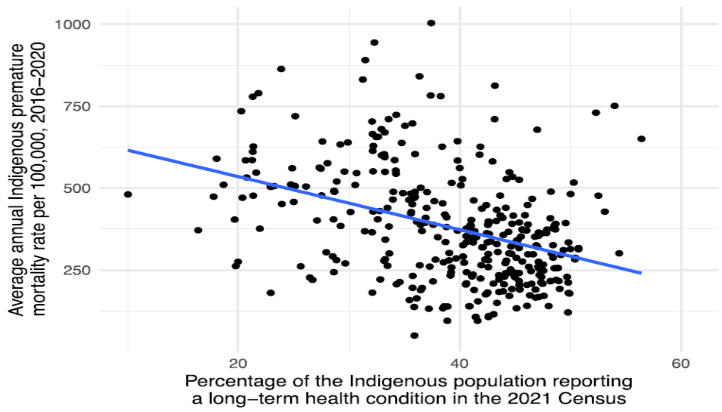


Source: Aboriginal and Torres Strait Islander Remoteness in Australia Data by Remoteness Areas 2023, PHIDU, Torrens University Australia, citing ABS data, accessed February 2024

Similarly, the Australian National University Centre for Aboriginal Economic Policy Research (CAEPR) found an inverse correlation with the Census indigenous health data and socio-economic status, with CAEPR stating that:

> *"For now, these analyses suggest that extreme caution is required when interpreting the long-term conditions census measure for Aboriginal and Torres Strait Islander populations. Not only may there be substantial undercounting of conditions, but this undercounting appears to be greater in areas where people are dying younger (according to mortality rates) and more socioeconomically disadvantaged. Accordingly, responses to the 2021 Census question about long-term health conditions are not included in the IRSEO index."*[1]

Figure 8 The relationship between the prevalence of long-term health conditions reported in the 2021 Census for Indigenous people, and the average annual premature mortality rate, 2016–2020, Indigenous Areas, excluding Tasmania and Victoria



Source: Area Level Socioeconomic Outcomes for Aboriginal and Torres Strait Islander Australians in the 2016 and 2021 Census, N. Biddle and F. Markham, Australian National University Centre for Aboriginal Economic Policy Research, October 2023, accessed February 2024.

[1] Source: Area Level Socioeconomic Outcomes for Aboriginal and Torres Strait Islander Australians in the 2016 and 2021 Census, N. Biddle and F. Markham, Australian National University Centre for Aboriginal Economic Policy Research, October 2023, accessed February 2024.

The Territory agrees with the CAEPR analysis. There are many reasons why the data may be unreliable, particularly due to self-reporting, however it is sufficient to observe that the data is not consistent with expected trends, and therefore highly unlikely to reflect the costs of state service delivery. The Territory notes that similar counterintuitive results also appear to arise for the ABS' National Health Survey and National Aboriginal and Torres Strait Islander Health Survey. This is why the Territory did not suggest using any of these data sets in its Tranche 1 submission on the health assessment.

Overall, the Territory submits that the Census health data is not reliable for use in assessment methods.

4.2.10. Miscellaneous comment - Rental stress as a driver of social housing

The Territory notes the Commission's commentary in its consultation paper on rental stress indicators. While the commentary is provided for context only, the Territory submits that caution should be exercised when interpreting housing market measures as driving state housing expenditure.

Private rental stress is an important statistic for a range of reasons, however has significant limitations as a driver of state housing expenses. By its nature, rental stress measures persons who are paying rent. This excludes or undercounts homeless persons, who are often the highest-need housing clients. Indeed, participation in the private rental market, even in a stressed condition, can be a mitigating factor to needing social housing. This means rental stress can measure a different cohort to the cohort which requires social housing.

The differing contributors of private rental stress to social housing need is illustrated in Table 9 of the Commission's consultation paper, where the Territory's housing need due to rental stress is estimated by Housing Australia at 1800 persons, while need attributable to homelessness is significantly higher, at 5500. Notably, this is the opposite of every other jurisdiction, where rental stress greatly outnumbers homelessness.

Housing Australia also notes that "many people defined as being in rental stress do not perceive themselves to be in financial deprivation" and discusses some of the caveats with this data. The Territory agrees with these caveats and submits that while rental stress data is important, it is not necessarily a dominant driver of social housing in all areas, and particularly, is not a main driver of need in the highest-need jurisdiction.

5. National Capital

5.1. Response to questions

Q1 Do states support the discontinuing of the national capital assessment if the assessment is immaterial

Consistent with the issues discussed in the 2024 Update, the Territory supports discontinuing of the national capital assessment if the assessment is immaterial.

6. Natural Disaster Relief

6.1. Response to questions

Q1 Do states support the continuation of the national disaster relief assessment in its current form?

The Territory supports the continuation of the national disaster relief assessment in its current form. Submissions on disaster mitigation were provided as part of the Territory's Tranche 1 submission. The current natural disaster relief assessment provides clarity and policy neutrality for assessed expenses in what is an otherwise unpredictable and unevenly distributed assessment category. This leaves the current approach appropriate.

Should any major changes to the National Disaster Relief Fund arise, such as following any review of the scheme, this position may warrant revisiting, however until such time, the current approach is broadly appropriate.

7. Other revenue

7.1. Response to questions

Q1 Do states agree with the revenues classified to the other revenue category?

The Territory supports the classification used by the Commission.

Q2 Do states agree that other revenue should be assessed equal per capita?

The Territory supports the equal per capita assessment of the other revenue category.

7.2. Supporting considerations

The Territory submits that there have been no significant changes since the 2020 review and alterations are not required.

8. Payroll Tax

8.1. Response to questions

Q1 Do states support assessing revenue from payroll tax surcharges on the same basis as payroll tax?

Consistent with its Tranche 1 submissions for other tax lines, and position in recent Updates, the Territory supports assessing payroll tax surcharges on the same basis as payroll tax. This is because legally and economically, surcharges have a similar incidence to an increased tax rate, which are appropriately captured by the current payroll tax method.

Q2 Do states support retaining the 2020 Review assessment method and data sources, noting that the Commission will continue to explore the feasibility of an assessment based on the data from the BLADE and/or PLIDA?

The Territory supports retaining 2020 Review method and data, including any relevant changes to data arising from updates, such as those in the 2024 Update. As noted in the Territory's submissions on new issues in the 2024 Update, if any unexpected issues arise from the use of experimental single-touch payroll data, this may warrant further consideration on a needs basis, however the Territory broadly does not have concerns with the payroll tax method.

Q3 Do states support the assessment method including scope for the Commission to move to BLADE and/or PLIDA data in a future update, in consultation with states, if those data would improve the assessment?

For practical reasons, the Territory does not support substituting data outside of the review cycle in an update year. The Territory notes that, relative to other revenue bases, payroll tax is one of the more stable and consistent assessments, such that there are not major concerns with the current method's source data. Payroll tax is however one of the state larger tax bases such that material movements in capacities could require close scrutiny. Logistically, states have significantly compressed timeframes to consider new issues in an update year, making comment on potentially complex issues around state taxable wages difficult. Conversely, if data changes are not material, action outside the review cycle becomes unnecessary.

There has also been a trend in recent updates for unexpected issues to arise in update years. While many of these were unavoidable due to the COVID-19 pandemic's impact on data, it nonetheless highlights the need to minimise the number of issues for discussion annually, so that capacity is reserved for matters requiring urgent attention.

Notwithstanding the above, the Territory supports the Commission progressing this work in advance of the 2030 Review to minimise the quantity of potential issues for consideration, and maximise time available, in that review.

9. Services to Industry

9.1. Response to questions

Q1 Do states support replacing total factor income as measure of industry size with the chain volume measure of industry value-add to assess the need for spending on industry regulation?

The Territory supports replacing total factor income as measure of industry size with the chain volume measure of industry value-add to assess the need for spending on industry regulation, for the reasons set out in the Commission's paper.

Q2 Do states support the development of an average or representative base year to index changes in the chain volume of production?

The Territory agrees with the Commission's reasons for developing a representative base year, as a mechanical necessity to mitigate the impacts of data revisions, and therefore supports the proposal.

Q3 Do states support the reintroduction of the number of businesses as a driver of need for regulatory spending if it is material?

The Territory prefers a simpler assessment, however is not opposed to the reintroduction of the number of businesses as a driver of need for regulatory spending if it is material and reduces the volatility of the assessment category.

Q4 Will states be able to identify spending on the net-zero transition and provide it to the Commission to develop an assessment?

The Territory broadly agrees that net-zero transition is an emerging cost which faces all jurisdictions. However, there are substantial practical considerations which would need to be addressed in creating an assessment, specifically, how state and territory expenses are determined and the suitable driver. While some net-zero transition projects will be able to be identified, it may be difficult to separately quantify the component of state spending specifically attributable to the net-zero transition from other energy or sectoral investments.

The Territory has not identified a single suitable driver, however there is a strong evidential and conceptual case that Territory assessments should be above per capita allocations due to factors such as geography, industry composition, infrastructure deficits, and diseconomies of scale.

Q5 Can states identify and provide data on potential drivers of state spending on the net-zero transition?

The Territory considers that development of a policy-neutral driver would be complex, contentious, and may not be feasible in the 2025 Review timeframe. However, it is submitted that there is a reasonable conceptual and evidential case that the Territory would be expected to bear a significantly higher than per capita share of net-zero transition costs due to factors such as geography, industry composition, infrastructure deficits, and diseconomies of scale.

Q6 Do states expect there to be a sufficient increase in state net-zero transition spending to warrant a separate assessment, within or outside of the business development assessment.

The Territory is engaged in a range of net-zero related projects, however quantifying the potential scale of expenditure would require a clear definition. For example the Middle Arm Sustainable Development Precinct is an infrastructure project that will create a development-ready location for private investment in renewables and low-emission energy and fuels, advanced manufacturing and low-emissions minerals processing. Currently, this project is in the design and development phase, so state expenditure is relatively low. However, costs are expected to increase as the project progresses to construction, anticipated from 2026, subject to relevant approvals. The Territory investment is yet to be determined and involves private sector and Commonwealth investment, including a $1.5 billion equity investment allocation as at the 2023-24 Budget. This provides some indication of potential project scale.

9.2. Identifying net-zero expenditure

The Territory does not currently separately record net-zero transition costs. At present, there is no commonly understood definition of what constitutes 'net-zero transition' expenditure. A reporting framework may be created in future as work progresses on standardised climate-based financial reporting which could resolve some of the below issues however is not available at this time.

Net-zero transition accounting is challenging as it is not a specific service provided by state governments and rather is part of a broader service category, such as services to the community (domestic energy supply) or services to industry (including agricultural, mining and manufacturing initiatives), or achieved through government entities not ordinarily included in the assessment process such as energy sector government-owned corporations.

While the below is not exhaustive (and recognising that the circumstances in the Territory are different to other states), it is useful to consider examples of projects which might comprise the net-zero transition. A major contributor to state emissions is the domestic energy sector. However, the majority of domestic energy costs are services to communities' costs, not net-zero transition costs. States have a domestic energy function regardless of their emissions profile. Rather, the net zero transition cost is better conceptualised as the marginal component of each state's energy costs required to lower the state's emission profile.

To illustrate, consider a state with a coal-fuelled power plant. The state may seek to replace directly or incentivise replacement of the plant with a lower-emission facility as part of its net-zero transition. However, the majority of the cost of replacing the plant is incurred to maintain the supply of energy to the domestic market, with only the marginal additional cost of transitioning between coal and lower emissions technology being 'for' the net-zero transition. To further illustrate the complexity, a state with an ageing asset may be better placed to transition to a lower-emission facility than a state with a newer asset that has yet to reach replacement age. Indeed, in many circumstances there may not be a net cost but a net benefit.

Costs will therefore be difficult to delineate as in reality major investment decisions are rarely due to one factor in isolation but are a mix of considerations according to the policies and priorities of the Government of the day.

The mechanism by which states invest can also be complex and create accounting challenges. Energy markets are a mix of regulation, private sector investment, indirect investment through government-owned corporations, Commonwealth involvement, and direct state investment.

The issues are not limited to the energy sector. Investment for the mining or manufacturing sectors may support the net-zero transition if it reduces those emissions, including in other jurisdictions (such as critical minerals supply). Economic investment in the Territory to diversify from the offshore gas sector is a significant driver of Territory services to industry. As set out below, these are relevant for the Territory as the Territory has a disproportionate share of emissions due to geographic circumstances and historic industry composition.

These issues are interrelated with identifying an appropriate driver. For instance, it may be possible to use drivers to build the assessment by apportioning a part of the services to communities urban energy expenses category to the net-zero assessment category. This would avoid the need to directly measure the category.

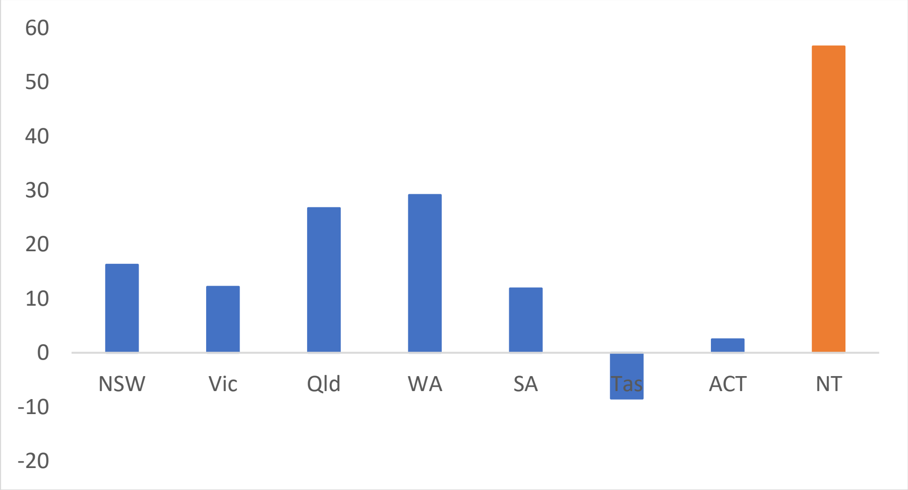
Lastly, the Territory queries if the net-zero transition costs could be accounted for through different mechanisms than a separate assessment. For example, states with cheaper energy generation from high-emitting sources (i.e. states with domestic thermal coal) could be considered as having a cost-advantage in the services to community assessment rather than cost-disadvantage in a net-zero transition assessment.

9.3. Identifying net-zero drivers

The Territory considers that net-zero transition costs would not be equal per capita, due to factors such as geography, industry composition, infrastructure deficits, and diseconomies of scale.

This is illustrated in national carbon emissions data, which shows the Territory has (and historically, has had) the highest emissions per capita of all jurisdictions.

Chart 9.1 Emissions per capita (carbon dioxide tonne-equivalent per capita) (2020-21)



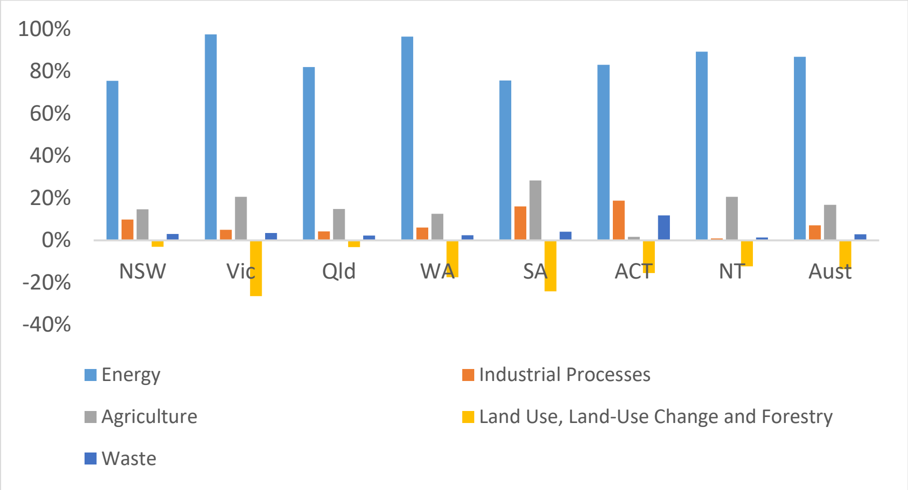
Source: National Greenhouse Accounts 2021

Chart 9.2 Emissions per gross state product (carbon dioxide tonne-equivalent per $GSP) (2020-21)

Source: National Greenhouse Accounts 2021

A component analysis is useful in understanding the drivers of this headline emission figure. At a component level, the Territory has an above-average portion of emissions its emissions arising from the agricultural sector.

Chart 9.3 Components of state emissions (%) (2021)

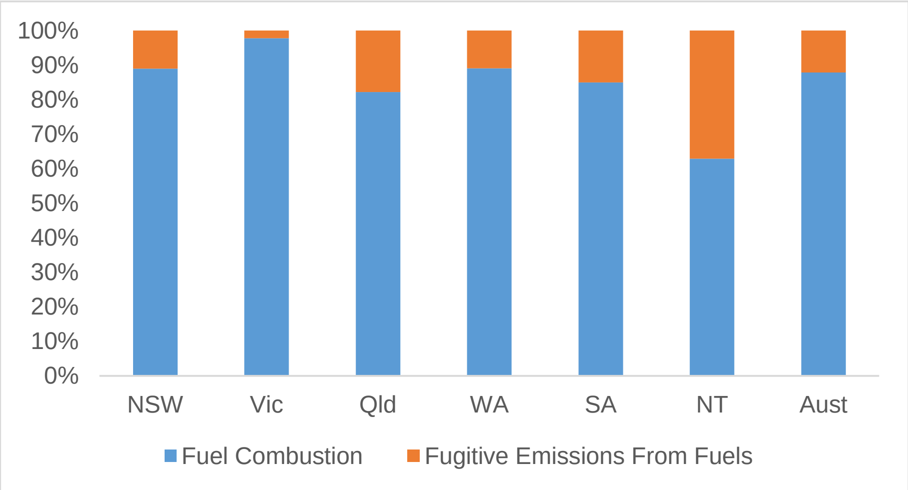


Note: Tasmania excluded as a net-zero state.

Source: National Greenhouse Accounts 2021

Further, and more significantly, while the Territory has a similar total proportion of its emissions from its energy sector relative to the national average, the composition of that energy sector's emissions is noticeably different, being disproportionately driven by fugitive emissions from fuels (such as the onshore processing of offshore gas), rather than fuel combustion (i.e. domestic energy generation).

Chart 9.4 Proportion of energy sector emissions from fuel combustion and fugitive emissions (%) (2021)

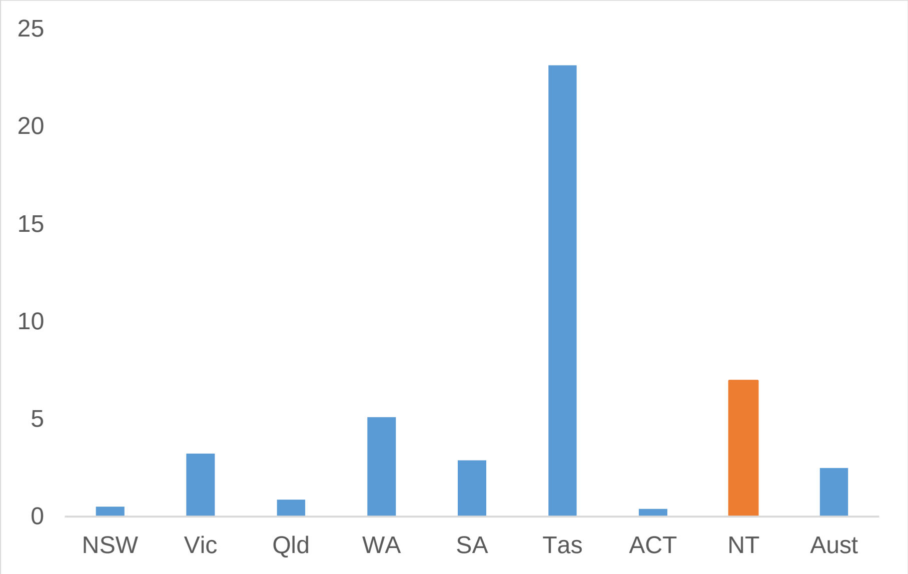


Note: data unavailable for ACT and Tasmania.

Source: National Greenhouse Accounts 2021

Similarly, the ability for states to abate carbon emissions is uneven, as illustrated by the differences in abatement due to land management and forestry. This is most significant for Tasmania which is able to achieve net zero emissions through land use abatement. The Territory also has above-average per capita emissions offsets arising from land use, though insufficient to offset its higher emissions from other sectors.

Chart 9.5 Emissions reduction from land use, land use change, and forestry (carbon dioxide ton-equivalent per capita) (2021)



Source: National Greenhouse Accounts 2021

The Territory submits that these factors are largely the result of geographic circumstances. High Territory agricultural emissions are expected given the Territory's large physical landmass and physically large cattle farms. Fugitive fuel emissions are also intuitive, arising from the Territory's relatively larger mining sector and onshore processing of offshore gas for export compared to its population share. Territory land use abatements arise from activities such as savannah fire management which are possible due to the large bushland areas in the Territory. Future Territory emissions could be significantly impacted by any similar geographically-based emissions sources or abatement opportunities, including further development of onshore gas or petroleum, particularly in the Beetaloo sub-basin, creation of carbon-capture facilities, or new large-scale renewable energy industries, such as prospective solar energy export projects.

Each of these circumstances are predominantly a feature of the Territory's geography and industrial base, rather than its population. Drivers of net-zero transition in other states are more likely to be related to domestic energy generation, which are more significantly driven by population factors.

It is also relevant to note that the Territory's domestic energy market context is different from other states. The Territory (as with Western Australia) is not connected to the National Energy Market. This means there are significant grid stability and capacity considerations in any emissions and renewables discussion.

The 2022 Northern Territory Electricity Outlook Report[2] contains commentary on the challenges to balance renewable energy and grid sustainability and stability in the Territory.

> *"Transitioning to renewables is critical, but it is not easy. Electricity networks and systems everywhere are currently working out how to transition from fossil fuels while keeping electricity supply reliable and secure, and at the same time seeking to minimise the cost of the transition.*

[2] Utilities Commission of the Northern Territory, 2023

The challenge in the Territory is greater than elsewhere in Australia. The Territory's three power systems are very small, isolated, and have a lack of diversity of potential renewable energy sources (almost exclusively solar photovoltaic [PV]).

In an electricity system, demand and supply must be perfectly matched in real time or the system can collapse. In the past, demand fluctuations have been managed by the ability of synchronous generators (in the Territory, largely gas generators) to ramp up or down to match changing demand and provide important services that help the system maintain a stable frequency and voltage. Solar PV generation (without storage) does not have this capacity. Further, as solar PV generation is non-synchronous and intermittent, it can introduce supply fluctuations and does not currently provide some of the services needed to maintain a secure system.

The Territory is also seeing large numbers of residential and commercial customers connecting rooftop solar PV systems. These systems can help reduce emissions and costs for those customers, but are not subject to the same technical requirements and control as traditional larger generators. They are also reducing minimum demand from the system during daylight hours, which brings new technical challenges that need to be managed.

Several of the current large gas generators in Darwin are also aging and due to be retired within the next few years. This provides both an opportunity and a challenge as part of the transition to renewable generation. As a result, this increased renewable generation introduces increased complexity in managing the system and there will be a need for significant new investment to keep the system reliable and secure…."

In making this submission, the Territory recognises that not all emissions reduction costs will be borne by states. It is open for the private sector or other investors (including the Commonwealth) to contribute to emissions reductions without state or territory funding. There are also emissions reduction policies which can be achieved at no direct fiscal cost, or which may generate revenue (though may incur other costs, such as foregone economic development). Nonetheless, the above context illustrates the higher baseline emissions challenges faced by the Territory when compared to its population share.

The above submission should not be considered to be exhaustive. There are many other possible drivers which impact state net-zero transition pathways. For example, as noted in the Territory's submissions on motor vehicle revenue, electric vehicle uptake is expected to be constrained in most of the Territory (other than the major urban centres) due to population dispersion, physical distance, and lack of economies of scale to support facilitating infrastructure. The Territory's higher population dispersion is therefore a factor which increases Territory net-zero transition costs relative to states with a greater urban population concentration.

In conclusion, while the Territory has not identified a driver of net-zero transition costs, it is submitted that geography is a major factor, and that any new driver should recognise the higher costs in the Territory due to non-population circumstances.

10. Investment

10.1. Response to questions

Q1 Do states support smoothing user population growth to reduce volatility, with an associated reduction in contemporaneity?

The Territory supports smoothing user population growth for the investment assessment to reduce volatility. The Territory considers this an acceptable trade-off with contemporaneity.

Q2 If user population growth were to be smoothed, do states support a 3-year moving average of growth rates?

The Territory supports a 3-year moving average growth rate.

Q3 Do states support freezing the component shares of the value of assets for the life of the 2025 Review?

The Territory supports this approach in-principle, subject to the identification of an appropriate baseline reference period.

10.2. Supporting considerations

As has been discussed in previous Reviews, the Territory broadly considers that the investment assessment is a poor measure of state needs. The assessment is underpinned by an assumption that states invest to accommodate population growth and sell assets when there is negative growth. As discussed in the 2020 Review, this is a necessity of a zero-sum assessment regime, but is not particularly realistic.

There are numerous difficulties in a jurisdiction the size of the Territory. For example, the Territory has a significant infrastructure deficit compared to other jurisdictions and often is required to invest in advance of population growth to reflect either historically poor infrastructure (such as remote housing), or because facilitating infrastructure is required before areas can be lived in or economic development occurs (such as rural roads and water supply). However, it is recognised that a Commission method to accommodate these issues is unlikely to be feasible, leaving a population growth model as a necessary, if problematic, assessment method.

A key difficulty with population growth assessment is the intrinsic volatility of population growth in small areas. As the Territory's population is small in nominal terms, and has substantial in and outflows, minor changes can have large consequences for population growth rates. When multiplied through the investment assessment, these small changes can have substantial impacts on overall annual assessment outcomes, with the effect of contributing to significant budget uncertainty and volatility. However, as capital costs are often fixed, large and expensed over many years, the Territory cannot feasibly adjust its actual investment budget or stock to accommodate annual assessed changes in population growth.

The suggestion to smooth population growth should assist in reducing assessment volatility and is therefore supported. It is also partly conceptually reasonable, as states are more likely to change investment pipelines in response to sustained changes in population growth rates rather than sporadic annual movements.

The Commission paper also discusses fixing asset shares for the 2025 Review period. The Territory agrees with the proposal for the reasons set out by the Commission, including that the current method is not necessarily resulting in a higher-quality assessment, that national revaluation issues undermine the benefits of contemporaneity, that data burdens are significant, and because the change may assist in reducing annual volatility.

The key issue will be determining an appropriate reference period. For example investment opening stock shares appear to have changed slightly in 2021-22, the year most impacted by the COVID-19 pandemic, compared to the three years prior. It may be appropriate to exclude COVID-19 impacted years, or select an average of prior years, in determining the relevant reference period.

A separate difficulty could arise if Commonwealth investment policies significantly change during the review period. As the Commonwealth announced changes to its infrastructure pipeline following the 2023 Infrastructure Review, this could be a relevant issue if ratios are fixed for the Review period. However, this would only be a temporary issue as ratios would be updated 5-yearly in any event.

11. Other expenses

11.1. Response to questions

Q1 Do states agree with the expenses classified to the other expenses category?

The Territory agrees that there does not appear to be material changes since the 2020 Review which warrant adjustments to this assessment category.

Q2 Do states agree that other expenses should be assessed equal per capita?

The Territory agrees that there does not appear to be material changes since the 2020 Review which warrant adjustments to this assessment category.

12. Net Borrowing

12.1. Response to questions

Q1 Do states agree that the conceptual basis for the net borrowing assessment remains unchanged?

While there have been significant changes to state overall debt levels and shares since the 2020 Review, the conceptual case set out in that Review remains broadly unchanged. As such, the Territory has not identified new issues since the 2020 Review which warrant changes to the net borrowing assessment for the 2025 Review.

Q2 Do states support smoothing population growth to reduce volatility in the net borrowing category if a change is made to smooth population growth in the investment assessment?

The Territory supports smoothing population growth to reduce volatility in the net borrowing category if a change is made to smooth population growth in the investment assessment.

13. Roads

13.1. Response to questions

Q1 Do states support retaining the 2020 Review method of assessing urban road length, using population as the driver for large towns?

The Territory supports continuing the urban road length assessment using population drivers. The Territory considers the significant debate and controversy surrounding the urban transport assessment as highlighting the potential difficulties in a more complex assessment approach while retaining policy neutrality. The simplicity and relative stability of the assessment method are factors in favour of retaining this method.

Q2 Do states agree that the 2020 Review synthetic rural road network should not be updated?

In summary, the Territory agrees that the current approach should not be updated. The Territory's view is that there has not been significant national changes which warrant a wholesale update to the current rural road length assessment. However, this may be an area for future review as the current approach ages, and in recognition that the current approach has substantial limitations and judgement applied. Should the Commission's view differ from its consultation position, a second round of consultation may be required to understand the impacts of any change.

As noted in the Commission's consultation paper, work is currently underway on creating new national road service level standards. This has not yet progressed to the stage of developing a national road database, however if this were to progress to such a point, may provide a separate and policy neutral assessment method for consideration in a future review as an alternative to, or way of validating, the synthetic road network.

Q3 Do states agree that traffic volume should continue to be assessed using data from the Bureau of Infrastructure and Transport Research Economics and the National Transport Commission?

The Territory considers that this data appears, at the present time, to be the best-available nationally consistent dataset and therefore supports its continued use.

14. Gambling Taxation

14.1. Response to questions

Q1 Do states agree that there is no reliable method for differentially assessing gambling taxes? If not, what do states consider to be a reliable method of assessing state gambling taxes?

The Territory submits that an equal per capita assessment is the appropriate method for assessing gambling taxes, as population is the primary driver of gambling capacity, there is a lack of evidence for a differential assessment, and data is influenced to a large degree by state policies. This may be either a deliberative or non-deliberative assessment.

Q2 Do states agree that state gambling taxes should be assessed equal per capita in the other revenue category?

The Territory agrees that gambling taxes should be assessed equal per capita in the other revenue category.

14.2. Supporting considerations – Introduction and summary

The Commission consultation paper asks states to consider possible drivers of a gambling assessment as an alternative to the current equal per capita approach. Without limiting submissions, three potential options are discussed: an activity-based approach such as turnover, a population-based approach on propensity of different groups to gamble, and a broad revenue approach, such as on household disposable income.

The consultation paper rejects each approach and, in summary, the Territory agrees with that analysis.

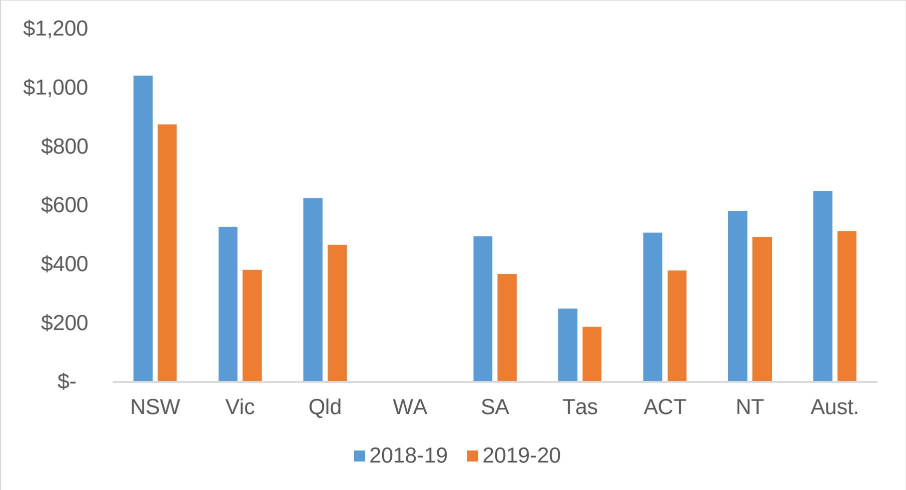
A minor point of distinction is that while the Commission has essentially nominated a non-deliberative equal per capita assessment, the Territory considers that gambling revenue may alternatively be assessed on a deliberative equal per capita basis. In either case, the Territory supports an equal per capita assessment.

14.3. Activity-based model

The Territory agrees with the Commission consultation paper and does not support an activity-based model. A fundamental difficulty with a turnover model is that activity is heavily influenced by a states' policies to allow gambling, not the states' underlying capacity to gamble. That is, turnover effectively measures state policy effort, rather than capacity, and therefore is not conceptually appropriate for fiscal equalisation purposes.

An example is the prohibition on community gaming machines in Western Australia, which causes zero activity despite having the ability to raise revenue if it had policies like other jurisdictions. Conversely, states with more gaming machines typically have more activity. Charts 14.1 and 14.2 illustrate that differences in community gaming machine expenditure per capita per jurisdiction correlate with the number of machines per capita, with the latter determined by state policy.

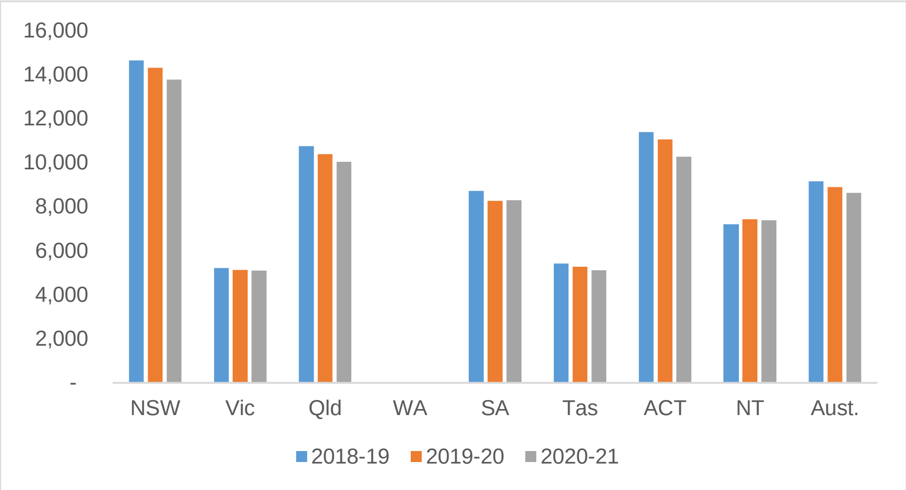
Chart 14.1 Community Gaming Machine Expenditure by state ($ per capita) (2018-19, 2019-20)



Note: data from 2019-20 was impacted by the COVID-19 pandemic.

Source: Australasian Gaming Council 'A Guide to Australasia's Gambling Industries Facts, Figures and Statistics, Chapter Three Australia's Gambling Expenditure, 2018/19, 2019/20'

Chart 14.2 Community gaming machines per capita (number per million adults)



Source: Australian Gambling Statistics, 38th edition, 1995-96 to 2020-21

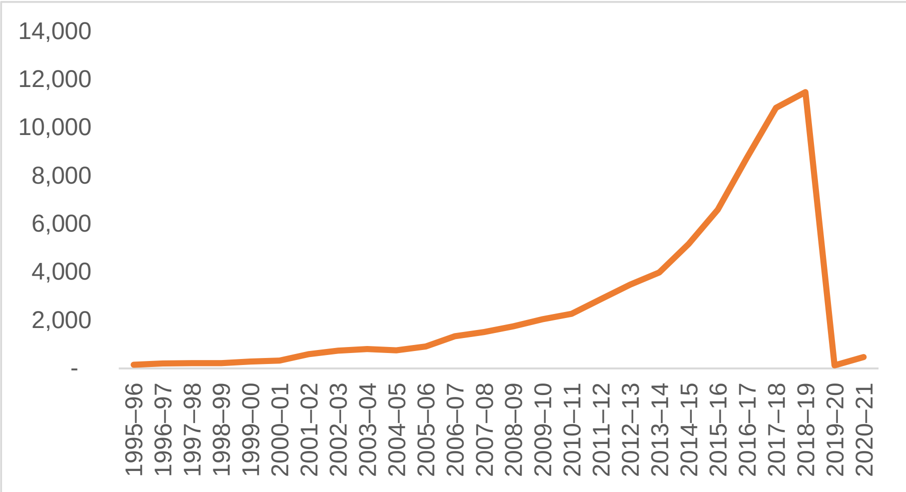
Similar issues arise across other gambling revenue lines. Casinos and lotteries for instance are subject to specific licence conditions which are set according to state policy. An example is the historical absence of gaming machines in the Canberra casino.

Wagering turnover likewise has some state policy influence, with for example advertising rules differing between jurisdictions. However, the greater issue for wagering is that activity data is not reliable by state. Prior to 2017 most wagering data was reported in the jurisdiction where the betting entity (i.e. bookmaker) was located. Since 2020, all states other than the Territory[3] now impose a point of consumption tax which operates on the location of the better, not the betting entity.

[3] The Territory continues to impose a tax on the gaming profit of betting entities located in the Territory. However, while notionally imposed on gaming profit, the tax is capped at 1 million revenue units per entity annually ($1.35 million in 2023-24) and operates similar to an annual licence fee.

The Australian Gambling Statistics, which is the most cited source of Australian gambling activity data, advises that to avoid double counting wagering data between point of consumption taxes and the Territory's wagering tax, wagering data was re-estimated from the 37th edition onward, i.e. from 2018-19, resulting in a time-series break. This break had a very significant impact on the national distribution of wagering data, as shown in Charts 14.3 and 14.4.

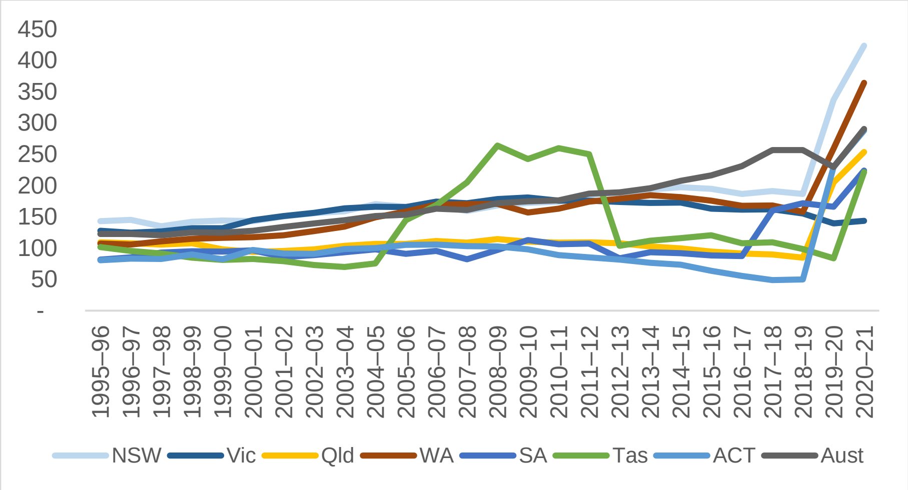
Chart 14.3 Wagering expenditure ($ per capita), Northern Territory



Note: scale differs from other jurisdictions' wagering expenditure chart

Source: Australian Gambling Statistics, 38th edition, 1995-96 to 2020-21

Chart 14.4 Wagering expenditure ($ per capita), excl. Northern Territory



Note: scale differs from Northern Territory's wagering expenditure chart

Source: Australian Gambling Statistics, 38th edition, 1995-96 to 2020-21

The data has not yet stabilised. The annual change in the 38th release, the only publication since the wagering method change, saw the Territory's per capita expenditure increase by over 260% between 2019-20 and 2020-21, from the second lowest of all jurisdictions at $127 per capita, to the highest of all jurisdictions, at $465 per capita. The wagering data method change also coincided with the onset of the COVID-19 pandemic, raising further data reliability and fitness for purpose concerns. The Territory submits that, in addition to its general opposition to using activity data due to policy concerns, it would take at least until the 2030 Review to be able to determine if the reported wagering data is reliable, and in the interim, the data should not be used.

14.4. Population-based model

The Territory has reviewed prevalence of gaming data and considers the evidence either illustrates that an equal per capita assessment is appropriate, or that there is not reliable or consistent evidence to support a non-equal per capita assessment.

While there is voluminous literature on gambling prevalence, most studies focus on harm minimisation, rather than revenue raising capacity. Caution needs to be exercised when seeking to infer gambling capacity from prevalence data, as gaming intensity varies from gaming participation. This is most clear for lotteries, with 63.8% of the population having reported participating in a lottery or scratchie in 2022, but this class of gambling only contributing 8-12% of gambling expenditure from 2001-02 to 2019-20[4].

Similarly, caution should be adopted when considering 'problem gambling' prevalence. While this can be a measure of gambling intensity, it is only a partial measure. Importantly, as problem gambling is related to income, a low-income gambler becomes a problem gambler at a lower gambling expenditure level than a high-income gambler. Nonetheless, problem gamblers are overrepresented in gaming profit, with a 2017 study finding that "*Overall, more than forty percent of gambling expenditure by regular gamblers, aggregated across all activities, was accounted for by the 17% who experienced problems.*"[5]

[4] Gambling in Australia, Australian Gambling Research Centre, Australian Institute of Family Studies
[5] *Gambling activity in Australia*, 2017, Australian institute of Family Studies.

Prevalence data would also need to draw from a suitably large cohort to be useable for Commission purposes. Studies often have limitations at a national level, particularly low sampling in remote areas.

It is also recognised that state policies impact gambling prevalence. At least one study[6] found that while socio-economic status was a predictor of community gambling losses, this was partly driven by a higher density of machines in those areas, a factor which is controlled by state policy.

Notwithstanding these concerns, the Territory has considered several prevalence studies. A recent Australian Institute of Family Studies report[7] found, consistent with several other studies, that gambling is higher among (young) males, compared to females. However, as explained in the Commission's paper on Welfare, gender differences are not expected to be a material driver for an assessment as there are only small gender differences between states.

A recent 'Ten to Men' study on gambling participation by men found:

> *"Compared to adult Australian males who did not gamble in the past 12 months, men who gambled were significantly more likely to be younger, born in Australia, mainly speak English at home and have a higher household income. They were significantly less likely to have a partner, be married or have a university degree. The two groups did not significantly differ in other socio-demographic characteristics."*[8]

The study also found that problem gambling was more likely for young men, and less likely with persons having a partner, being employed, having a university degree, high income. The study found that remoteness, indigeneity, country of birth, and cultural and linguistic diversity were not significantly correlated.

A 2017 Australian Institute of Family Studies report[9] found that:

> *Regular gamblers, viewed by activity, have quite different profiles. For example, compared to the Australian population:*
>
> - *lottery participants were over-represented among older couples living without children;*
> - *EGM participants were over-represented among people for whom welfare payments formed their main source of income;*
> - *bingo participants were over-represented among retired women living alone;*
> - *regular race or sports bettors were over-represented among men on higher incomes, yet the race bettors were more likely to be older and live in outer regional/remote areas; and*
> - *sports bettors were more likely to be younger and live in an inner-regional area or major city.*

And that "*...Those who experienced problems were generally more likely to be young, single, unemployed or not employed (excluding retirees and full-time students), Indigenous, men, living in rental accommodation, in a low socioeconomic area, and were more likely to draw their income from welfare payments than those who had no problems."*

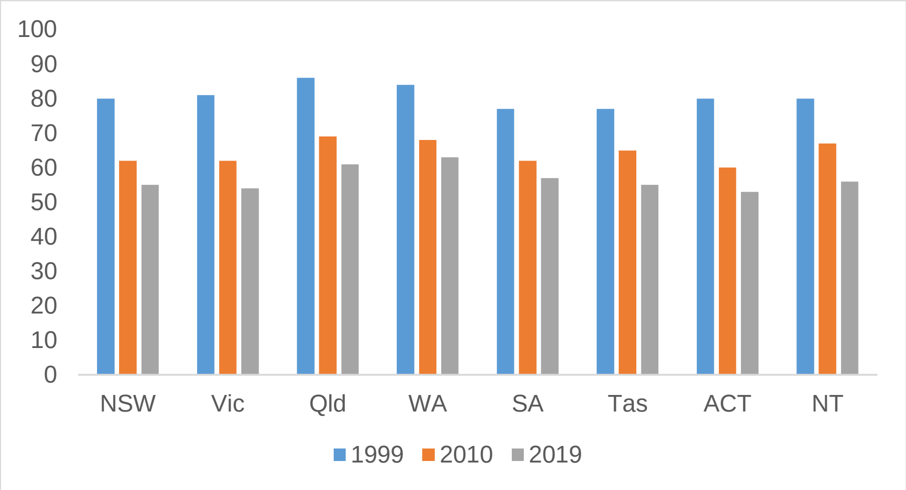
The studies indicate that sociodemographic factors differ between gambling types, and some indicators, particularly income, may move in different directions across games. There also appear to be relatively few

[6] Rintoul, A., Livingstone, C., Mellor, A., & Jolley, D. (2013). Modelling vulnerability to gambling related harm: how disadvantage predicts gambling losses. Addiction Research & Theory, 1(4), 329–338
[7] Gambling participation and experience of harm in Australia, Australian Institute of Family Studies, 2023
[8] *The Australian Longitudinal Study on Male Health*, Ten to Men, 2020-21
[9] *Gambling activity in Australia*, 2017, Australian institute of Family Studies.

differences that are relevant at a state level. Given this, it appears simpler and more reliable to assess the dominant driver as being population, rather than sub-population cohorts.

The Territory has also considered data from the Australasian Gaming Council, which provides summary data on prevalence and problem gambling studies, as set out in Chart 14.5. While there are difficulties in comparing data between surveys and over time, if demographic factors were the dominant driver of state gaming capacity, some consistent cross-sectional trends between states would be expected. The data however does not appear to indicate any particular pattern in gaming prevalence between jurisdictions.

Chart 14.5 Gambling participation rates (% of adult population)



Source: Australasian Gaming Council, A Guide to Australia's Gambling Industries Facts Figures and Statistics Chapter Nine Gambling Participation 2019/20

Overall, the Territory's view is that the case for demographic drivers causing different revenue capacities between states is not sufficiently supported by evidence, and that an equal per capita assessment is appropriate.

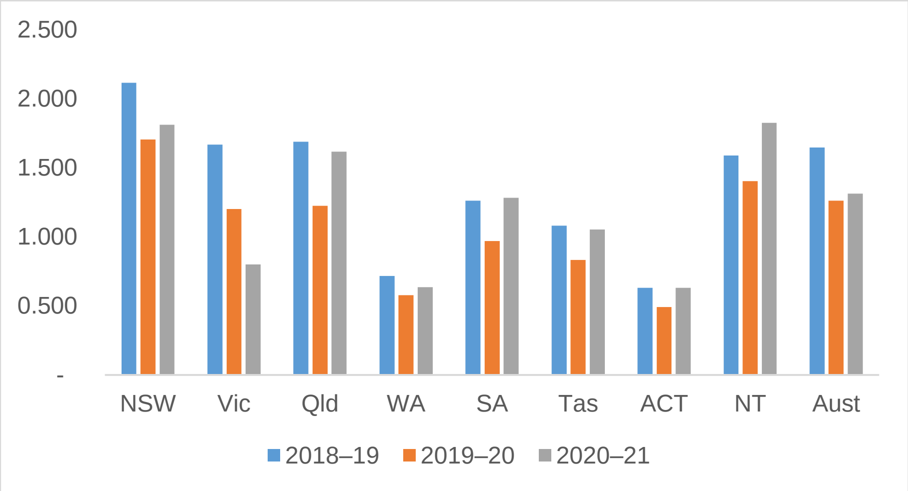
14.5. Broad revenue model

A broad revenue model is mechanically similar (albeit conceptually different) to a demographic model. This is because the broad model essentially chooses a single demographic factor, such as household disposable income, as the basis of the assessment. As with the demographic measure, this approach does not appear supported by evidence. In particular, the data set out above indicates that some types of gambling are more prevalent for lower-income households, and some are more prevalent for higher-income households.

Conceptually, there is a case for gambling to increase with declining incomes, reflecting social, behavioural and environmental factors. However, gambling may also increase with incomes, reflecting higher capacity to gamble. It is not conceptually clear whether a state with higher or lower income relative to its population share should be assessed as having a corresponding, or opposite, gambling capacity.

Chart 14.6 shows the proportion of disposable income and gaming expenditure by states. The significant differences between some states is likely due to state policy. However it also indicates that, at a high level, income does not appear to be a strong predictor of gaming expenditure, which supports the views set out in the Commission's consultation paper and past reviews that a broad revenue assessment is not appropriate.

Chart 14.6 Gabling expenditure to household disposable income (%)



Note: 2019-20 and 2020-21 impacted by COVID-19 pandemic

Source: Australian Gambling Statistics, 38th edition, 1995-96 to 2020-21

15. Geography

15.1. Response to questions

Q1 Do state support continuing the current methodology for estimating regional costs and service delivery scale effects?

In summary, the Territory agrees with continuing the current methodology for estimating regional costs and service delivery scale effects. Largely, this is due to a lack of alternative suitable, nationally-consistent data or methods. However, geography remains an area of general concern for the Territory as remoteness categories are broad and provide an artificially homogeneous representation of regions. It is recognised that these issues largely pertain to the ABS' adopted remoteness definitions, and that it is unlikely to be feasible for the Commission to depart from these categories. Accordingly, the Territory supports existing approaches.

Q2 Can states identify any data to measure differences in non-wage costs between major cities?

The Territory considers that this aspect was appropriately discussed in the 2020 Review and there has not been new data identified.

15.2. Supporting considerations

Geography is one of, if not the, most-important factors impacting the Territory's assessed GST requirements. Geography is not an assessment category and is instead incorporated into the various assessment categories as part of the socio-demographic component, alongside indigeneity and socio-economic status. Geography involves at least two considerations, the geographic definitions applied, and the method for calculating the cost gradients between those geographic regions.

15.3. Geographic definitions

In most categories, Commission methods adopt ABS remoteness categories, though some different definitions are applied in some circumstances, such as in the urban roads assessment. The Territory continues to express its concern that remoteness is a relatively blunt measure of needs. This includes, but is not limited to, that remoteness definitions do not take regional service quality into account, such as the accessibility of roads in each region, particularly during the Territory's wet season, when relatively short lengths of road may become impassable.

However, it is recognised that ABS remoteness are longstanding, widely available and highly consistent. Issues against adjusting remoteness categories set out in the 2020 Review continue, such as a lack of ability to disaggregate state costs further (i.e. an "extremely remote" category), due to the very small populations and data points in these areas, which continue to be a barrier to the creation of any alternative method. As such, the Territory does not suggest moving away from this system for the present review.

In terms of "what has changed" since the 2020 Review, the major change for the Territory is the reclassification of Wadeye from very remote, to remote. This impacts around 10% of the Territory's remote and very remote population. Nationally, Wadeye was the only area moved out of the very remote category in the 2021 revisions. From a Territory demographic, cost and service delivery perspective, there has been no material change in Wadeye circumstances to suggest it has become less costly to service, as would support a reclassification to a less remote region. Indeed, Wadeye's intercensal population declined.

This issue arises as the ABS remoteness categories are drawn from distance and population, but does not consider other relevant factors, such as accessibility or road condition. For example, while Wadeye is closer to Darwin than some other Territory communities, the roads routinely flood in the wet season. At the time of writing, roads to Wadeye are impassable. This contrasts with say Tennant Creek, which is (appropriately) classified as 'very remote' due to its further distance from Darwin, but is located on the Stuart Highway and is significantly more accessible by road than Wadeye.

The change illustrates the sensitivity of the Territory to arbitrary remoteness changes that do not genuinely reflect changes in its demographics or service cost profile. Even within the Territory, it is difficult to argue that costs in Wadeye would be similar to other remote (as opposed to very remote) regions in the Territory, such as Alice Springs or Katherine, which are significantly larger and far more accessible.

To the extent that remoteness provides an inaccurate measure of service delivery costs or demographic circumstances, greater weight becomes placed on the other assessment variables, such as indigeneity and socio-economic status. The Territory identified some concerns with socio-economic status assessment in its Tranche 1 submission, including the use of relatively broad quintiles, and in some categories, is not applied in remote areas. The Territory has submitted that the overall design of the socio-economic assessment warrants review in the 2030 Review.

15.4. Geographic cost gradients

Broadly, the Territory submits that the current cost gradients are appropriate. The Territory considers that there have not been major changes since the 2020 Review to warrant a reconstruction of the methodologies. For example, the Rawlinson's index is supported as it is the most available and consistent measure of national capital costs on a policy neutral basis. The other specific gradients are discussed in their respective sections. The general gradient, being the average of schools and hospitals data, while continuing to have some conceptual concerns, remains the best-estimate of service delivery costs in regions where costs cannot be specifically estimated for a category. There has not been material changes in this respect since the reasonably extensive commentary in the 2020 Review.

15.5. Response to Tranche 1 submissions

The Territory also seeks to make comment on some submissions by other states in Tranche 1 consultation in respect of remoteness loadings. While the below is not exhaustive, it illustrates that the Territory's view is that significant caution should be exercised by the Commission in considering whether to adjust remote gradients or remoteness data, particularly if the changes have not had the advantage of detailed response submissions by the most impacted states. The Territory submits that some of the issues raised by other states purport to be remoteness-based, however the analysis can be superficial and may have alternative considerations or causes that have not been explored.

A preliminary observation is that some submissions appear to suggest that if any uncertainty exists, it is appropriate to reduce cost gradients through discounting. The Territory submits this is not conceptually correct and gives biased results. Discounting always moves an assessment toward an equal per capita method and is therefore only appropriate if there is both a conceptual and evidential case that the undiscounted cost gradient gives a result which is too far from an equal per capita method.

That is, "uncertainty" in a discounting context, should mean that there is evidence that assessed costs are excessively high relative to a per capita assessment, not that there is any general source of uncertainty in estimation methods. This is particularly important as remote areas, by definition, are the least-populated areas and are always expected to have the smallest datasets and most statistical variation.

For example, the Victorian submission on services to communities water data suggests that because data was only drawn from a smaller number of states, remote loadings should be discounted. This is not a conceptually valid reason to apply discounts, as there is no conceptual or evidential argument to suggest that the assessment is excessive or that service costs do not increase with remoteness. A sampling approach which focusses on jurisdictions with larger remote areas is a statistically valid approach to estimating remote gradients.

It is also noted that both New South Wales and Victoria submitted that central police costs should be apportioned on an equal per capita basis, rather than in line with the Commission's regression model and/or that remoteness gradients should be reduced. New South Wales appears to go further and submit that central costs should be allocated on a reverse remoteness gradient which favours metropolitan residents. The Territory considers these submissions are not supported conceptually or by evidence.

The available police activity data, which is already incorporated into Commission methods (including already incorporating a split between offender-related duties and general duties), is that police activity increases with remoteness at above per capita rates. It is logical that states with higher offences would also require correspondingly higher centralised costs, to ensure overall police system capacity is in line with state-wide demand.

The largest component of Territory police centralised costs are IT service charges. Many IT assets and services are provided in remote areas, including computers, tablets, phones and satellite communication facilities. These costs are expected to be higher in remote areas due to the usual remoteness and service delivery scale issues, including diseconomies of scale, more locations/assets per capita, higher travel costs, and the requirement for specialised assets such as satellite communications. Similar considerations apply for other central cost centres such as police air travel and fleet management (particularly noting the extremely large distances travelled in the Territory), procurement services, and various inventory and asset management functions.

Other large Territory centralised cost centres include family domestic and sexual violence services, tactical response teams, and major crash investigation teams. The size of each of these teams is elevated due to higher activities from, or the costs of delivering in, remote areas. Even for costs that may superficially be considered equal per capita, such as induction and training, can be higher due to elevated personnel turnover rates and travel in remote areas. Examples of remoteness contributing to higher centralised costs are numerous. It is sufficient to note that police activity data is already assessed by the Commission and it is conceptually and evidentially appropriate to continue the current apportionment approach.

16. Welfare

16.1. Response to questions

Q1 Do states agree that the state NDIS contributions can be collected from the Commonwealth Budget papers rather than from the states?

The Territory agrees that the NDIS contributions can be collected from the Commonwealth Budget papers.

Q2 Do states agree that the current NDIS assessment is fit for purpose?

The Territory agrees the current NDIS assessment is fit for purpose.

Q3 Do states support the development of a homelessness services assessment?

The Territory strongly supports the development of a homelessness services assessment and submits that the current equal per capita assessment is not achieving the objectives of fiscal equalisation. However, the Territory recommends the Commission consider other approaches to measuring homelessness service drivers, such as ABS homelessness shares.

Q4 Will states be able to identify spending on homelessness services and identify where that spending is reported in the Government Finance Statistics classifications?

The Territory expects to be able to provide this data.

Q5 Do states support the proposed drivers to assess homelessness spending, noting further work is to be undertaken on mental health conditions as a potential driver?

The Territory strongly supports any assessment of homelessness which is not an equal per capita assessment.

In terms of data, the Territory's preference in order is as follows:

- Census homelessness enumerations, which is the most direct, simple, policy neutral and reliable, measure of relative state homelessness spending drivers
- the Australian Institute of Health and Welfare data. The Territory has several data concerns, with the result that the proposed metrics are poor explainers of Territory homelessness, and therefore of the national distribution of homelessness need:
  - The Territory considers mental health is a poor explainer of homelessness, and that housing availability and family and domestic violence are important factors which may warrant a new loading/s for the assessment, but do not appear reliable or are not contained in the Commission's selected dataset.
  - Client data is also policy-constrained in (and biased away from) the Territory, as existing services have been limited by historic equal per capita funding arrangements.

Q6 Do states support combining the other welfare, non-NDIS aged care and National Redress Scheme components and assessing spending using the 2020 Review method for other welfare (equal per capita assessment method with regional and wage cost factors)?

The Territory supports this proposal on the basis of materiality and simplicity. Regional and wage cost factors are relevant to non-NDIS aged care in the same way as other welfare, however in any event, expenses in this category are relatively small. While the conceptual case for not applying wage and remoteness loadings to National Redress Scheme expenses was explained in the 2020 Review, the adjustment is not material. Current annual data requests are disproportionate to the very small distributional impact. The Territory supports combining the assessment with other welfare.

Q7 Do states support the Commission ceasing to collect state spending on the National Redress Scheme?

The Territory supports this on the basis of materiality and simplicity.

Other Issues

While the most significant issues to the Territory in the welfare category are the homelessness matters discussed below, the Territory has also reviewed the remaining components of the Welfare category and supports the continuation of existing methods. For example, the Territory considers that the child protection assessment continues to use the most appropriate, robust, nationally consistent and policy neutral data available, which remain appropriate for the 2025 Review.

16.2. Supporting considerations

16.2.1. Homelessness

The Territory strongly supports a differential assessment for homelessness services. Homelessness services are a state expenditure which do not follow an equal per capita trend between jurisdictions. The current assessment is highly inequitable, specifically disadvantages the Territory, and does not achieve fiscal equalisation.

The Territory discusses alternative approaches compared to the Commission's consultation paper by using Census homelessness data, however ultimately the Territory's view is that any differential assessment is preferred over an equal per capita method.

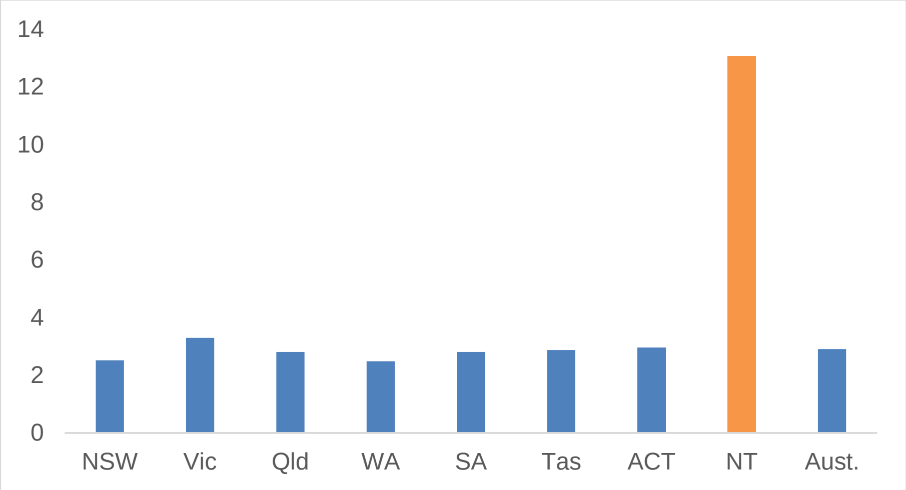
In summary, the Territory's view is that the Commission's identified homelessness drivers, particularly mental health rates, are likely to under-assess homelessness in the Territory. The Territory submits that homelessness rates, such as measured by the Census, are a superior indicator of the drivers and distribution of homelessness expenses nationally.

The Territory's homelessness submission should be read alongside its submission on housing as the two issues are related. Specifically, the Territory has prepared the below homelessness submission using Census homelessness data excluding severe overcrowding, on the basis that overcrowding should be incorporated as an adjustment to the housing assessment as a measure of differences in private housing per state. If the housing method is not adjusted for overcrowding, it will be appropriate to include overcrowding as a driver of homelessness service demand.

16.2.2. Territory homelessness context

As set out in the Territory's housing assessment submission, the Territory has by far the highest rates of homelessness of any jurisdiction at around 11% of national homeless persons, compared to a population share of less than 1%. Of this, the highest Territory rates are due to severe overcrowding, which forms part of the Territory submission on the housing assessment. Excluding overcrowding, the Territory continues to have above-average homelessness rates, at over 4 times the national average.

Chart 16.1 Homelessness (excluding overcrowding) rate per 1000 population, state and territory (2021)



Source: ABS, Estimating Homelessness: Census 2021

In this context, an equal per capita method, which effectively assumes that all states have the same homelessness rate, leaves one jurisdiction essentially unable to provide an average, equal or reasonable standard of services. This approach cannot be regarded as achieving the objectives required in the GST system.

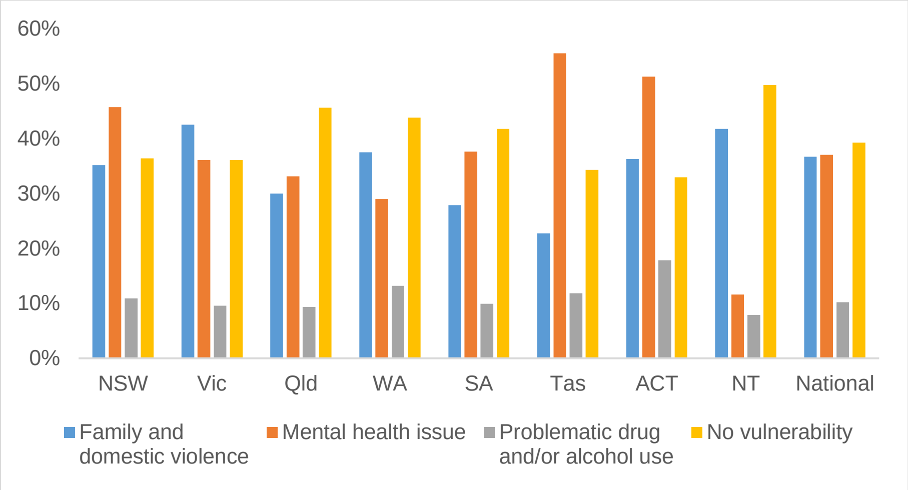
16.2.3. Drivers of Australian Institute of Health and Welfare client data

The Commission paper proposes using Australian Institute of Health and Welfare client data, with policy impacts removed through demographic data drivers in the usual way, as an assessment of state homelessness service funding need. The Territory supports this approach relative to an equal per capita assessment, however submits that the approach has limitations and is unlikely to explain Territory homelessness circumstances.

The causes of Territory homelessness are complex and a mix of current and historic drivers. It is beyond the scope of this submission to explain all possible factors, with the below focussing on the current data as published by the Australian Institute of Health and Welfare. Terminology herein largely adopts wording as used by the Australian Institute of Health and Welfare.

The drivers of Territory homelessness are different to other jurisdictions. The Australian Institute of Health and Welfare reports that, nationally, a considerable proportion (33%) of homelessness clients have a mental health issue. In several jurisdictions, mental health issues are the most prevalent vulnerability category for homelessness service clients. However, in the Territory, clients with mental health issues account for only 12% of homelessness clients, by far the lowest proportion of any jurisdiction, as shown in Chart 16.2 below.

Chart 16.2 Proportion of clients with select vulnerabilities (2021-22)



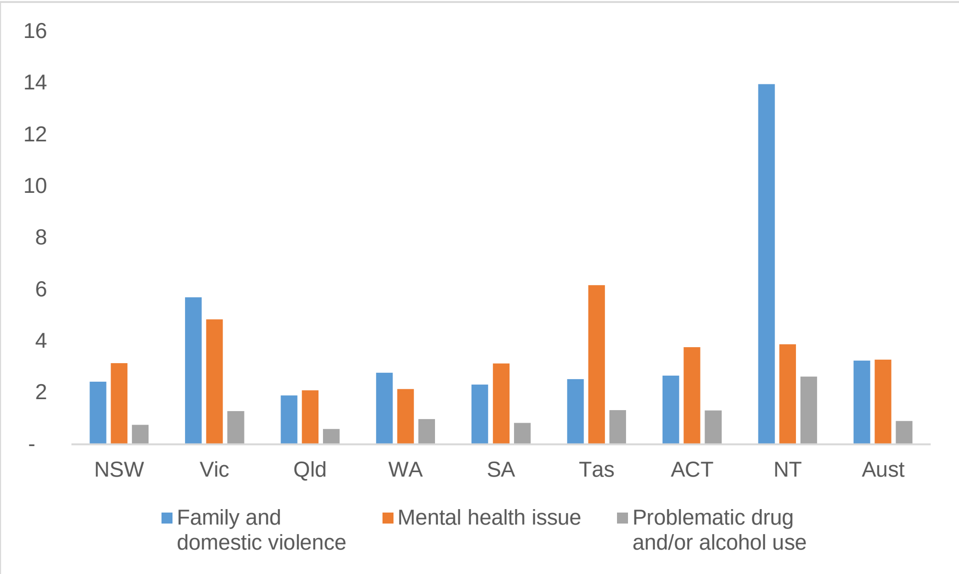
Note Percentages do not add to 100 as clients can present with multiple vulnerabilities

Source: Australian Institute of Health and Welfare specialist homelessness services data tables.

This is not due to the Territory having lower rates of homelessness clients with mental health issues. In per capita terms, the Territory has a higher rate of homelessness clients with a mental health issue than the national average.

Instead, the Territory's data is driven by a disproportionately high proportion of clients relating to other causes. The Australian Institute of Health and Welfare data shows that domestic violence is the most significant vulnerability category in the Territory, accounting for around 45% of the Territory's homelessness clients, a far larger share than the national average. Noting the Territory's higher overall number of homelessness clients, this gives a rate of homelessness service clients citing family and domestic violence reasons at around five times the national average and more than double the next nearest jurisdiction.

Chart 16.3 Homelessness service clients with select vulnerabilities, rate per 1000 population (2021-22)

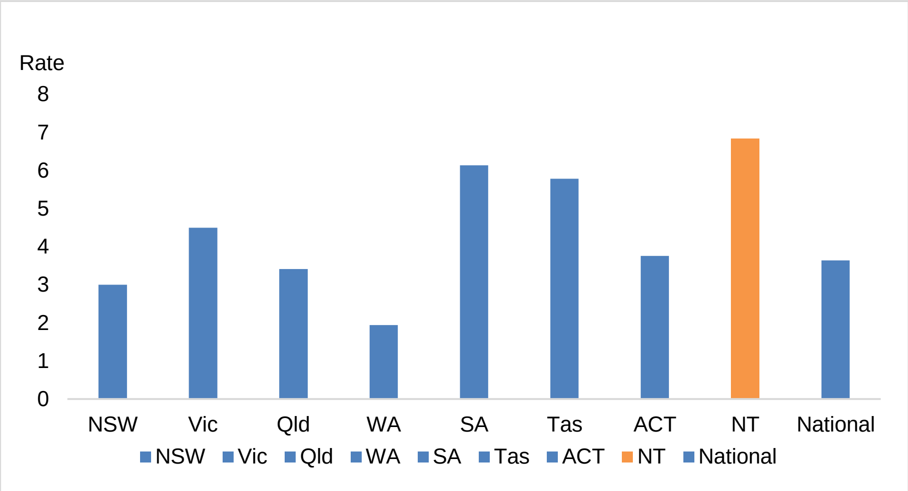


Source: Australian Institute of Health and Welfare specialist homelessness services data tables, Department of Treasury and Finance calculations.

The Commission has explained that it does not intend to use family and domestic violence data due to data reliability concerns. The Territory agrees that this data may not be nationally reliable and observes that on current Australian Institute of Health and Welfare data, there are very significant differences in family and domestic violence rates between some states, such as New South Wales and Victoria, which are not conceptually expected. Nonetheless, simply disregarding the data is not an ideal solution, as this is likely to cause the assessment to under-predict one of the main Territory homelessness drivers.

The Territory also has the highest rate of homelessness attributable to a lack of accommodation, at around twice the national average (chart 16.4 below). This also reflects (and may result in) the Territory having the highest proportion of clients with 'no vulnerability', at 50% compared to the national average of 39% (Chart 16.2 above).

Chart 16.4 Rate of homelessness clients citing accommodation related reasons, per 1000 population (2021-22)

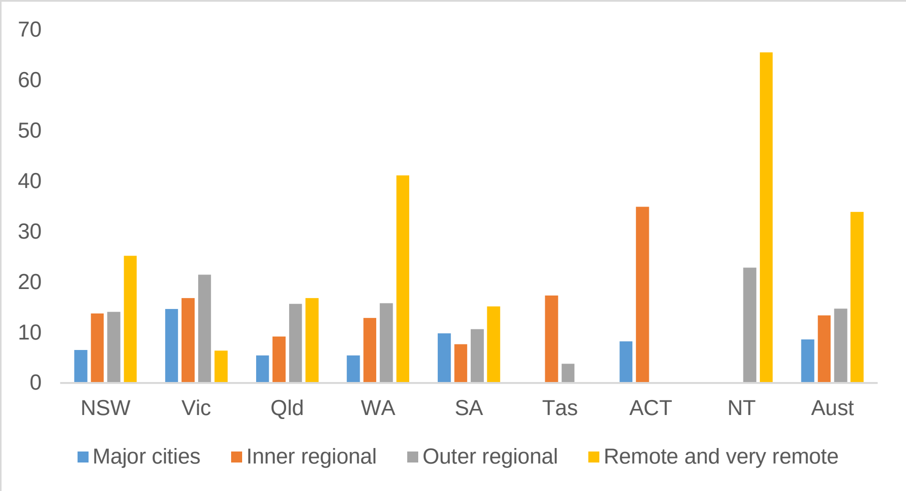


Source: Australian Institute of Health and Welfare specialist homelessness services data tables, Department of Treasury and Finance calculations.

Publicly available Australian Institute of Health and Welfare data is not sufficiently disaggregated by all of the Commission's usual demographic cohorts, particularly by both remoteness and indigeneity by state, to allow a complete analysis by cohort and jurisdiction. However, it is expected that Territory homelessness would remain at a higher rate after accounting for demographic and geographic factors.

For example, applying a national average homelessness client rate by remoteness under-explains Territory remote homelessness rates by around half, and significantly over-assesses rates in all other jurisdictions except Western Australia.

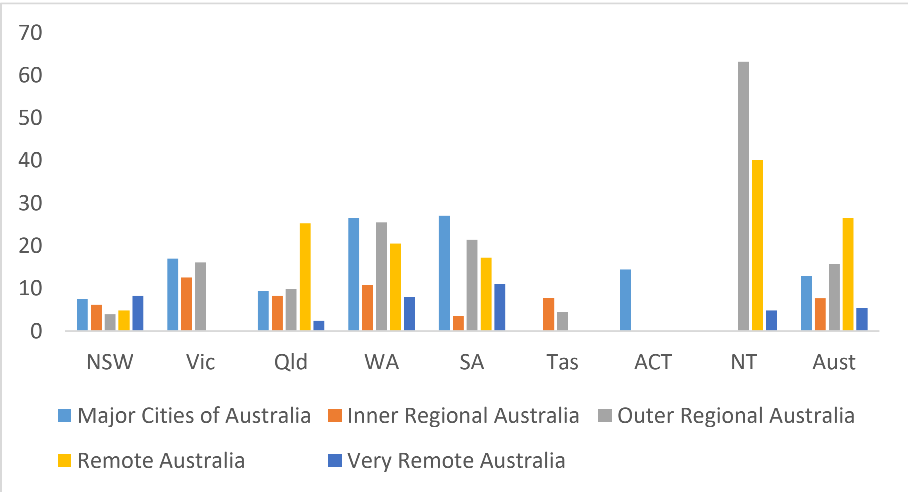
Chart 16.5 Homelessness clients by remoteness (rate per 1000 population)



Source: Australian Institute of Health and Welfare specialist homelessness services data tables.

A comparison of Census homelessness data illustrates a similar issue, with Territory indigenous homelessness (excluding overcrowding) persisting at well above national rates after accounting for remoteness, indicating that demographic factors are unlikely to fully predict Territory homelessness.

Chart 16.6 Indigenous homelessness (excluding overcrowding), rate per 1000, by remoteness area, state and territory (2021)



Note: the number of indigenous homeless persons in 'very remote' are low, at 410 nationally and 147 in the Territory, which is relevant when comparing in rate terms.

Source: ABS, Census 2021, Department of Treasury and Finance calculations

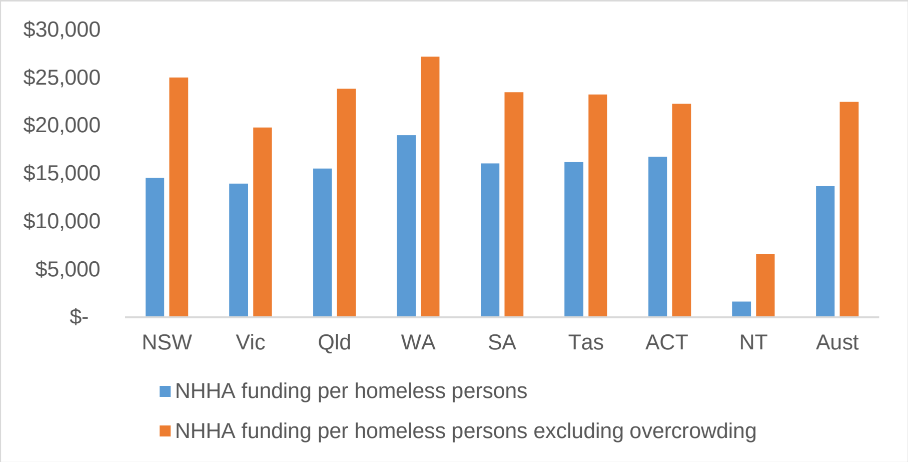
The Territory submits that in the above context, it is likely that the Commission's proposed method will not capture all relevant drivers and under-assess the Territory's service delivery needs. However, the proposed method will still be superior to, and demonstrate the need to move away, from an equal per capita method.

16.2.4. Appropriateness of client data as measure of state expenses

Separately to the above, the Territory submits that client-based data is policy-constrained due to past and current funding agreements. Client data is likely biased toward a per capita assessment due to the policy influence of major funding methods, such as the National Housing and Homelessness Agreement (NHHA) and Commission's current method. While client data normally reflects 'what states do', the Territory has been constrained to a greater extent than other jurisdictions due to its larger demographic need relative to current equal per capita funding, meaning that Territory demographics are underrepresented to a greater degree in client data relative to other measures of homelessness need.

An illustration of the inequity of the current funding distribution is shown in Chart 16.7, which demonstrates that the NHHA currently funds the Territory at around $1648 per homeless person, compared to a national average of $13 701 (noting the NHHA provides funding for both housing and homelessness). Excluding overcrowding, the Territory NHHA rate is $6634 per homeless person, compared to a national average of $22 499.

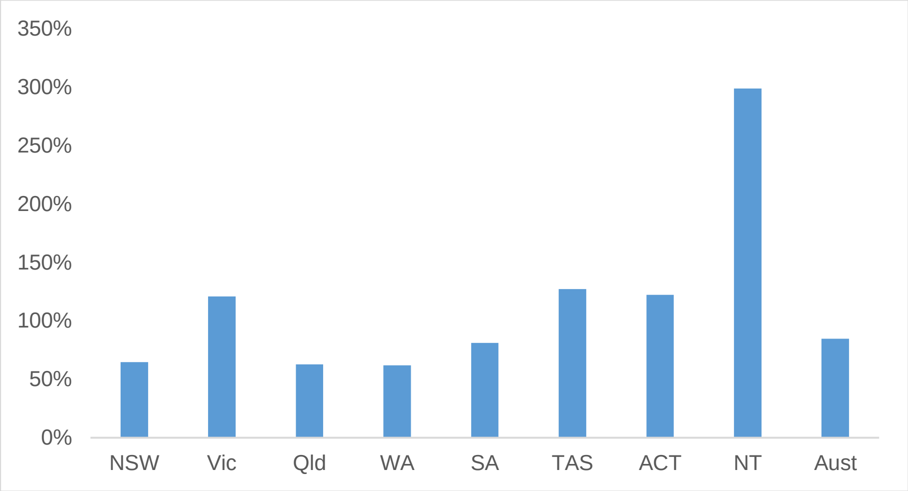
Chart 16.7 National Housing and Homelessness Agreement funding per homeless person ($ per person) (2022-23)



Source: Report on Government Services, Department of Treasury and Finance calculations.

This correspondingly places a significantly higher burden on the Territory to fund homelessness services. As illustrated below, Territory expenditure on homelessness services is around 300% of NHHA funding, compared with all other jurisdictions at less than 130%. This expenditure is despite the Territory being the jurisdiction with the lowest fiscal capacity.

Chart 16.8 Ratio of state and territory government total recurrent real expenditure on homelessness services to National Housing and Homelessness Agreement funding (%) (2022-23)



Note: A proportion of less than 100% indicates that reported state homelessness expenditure was lower than NHHA funding allocations, and vice versa.

Source: Report on Government Services, Department of Treasury and Finance calculations.

In the above context, the Territory submits 'what states do', and client data generally, is policy-constrained and will bias outcomes against Territory demographics. In contrast, Census homelessness counts are less policy-influenced.

However, notwithstanding this concern, the Territory agrees that an assessment based on client data will be superior to an equal per capita assessment.

16.2.5. Alternative approach – Census data

The Territory proposes an alternative to using client data is to use homelessness measures as the driver of state homelessness service expenses, on the basis that the predominant and best driver of state homelessness service costs is the size of the homeless population.

The main reasons to not use Census data would be if the data is not reliable, or is policy impacted, or for some other reason is not fit for purpose. The Territory considers these issues do not arise. Homelessness counts are directly enumerated in the Census. The data is robust, nationally consistent, policy-neutral, available at disaggregated geographic and demographic levels, and aligns with expected conceptual trends both between jurisdictions and over time.

The Census data is widely cited by homelessness advocates and service providers as a reasonable basis for assessing homelessness need and is generally considered fit for purpose. While states would not be expected to fully service all homeless persons in their jurisdiction, the Census data on shares of the homeless population are, the Territory submits, a valuable (and potentially dominant) reflection of the size of the equalisation task.

Due to the Territory's status as a significant outlier, it is unlikely that other methods of calculating an average homelessness driver will align with actual Territory homelessness needs. Instead, averaging may entrench disadvantage by either failing to account for relevant drivers, such as domestic violence and private housing stock levels, or by reflecting historic under-funding such as the NHHA and current GST method equal per capita funding allocations. An indirect method using drivers is also significantly more complex than an estimate based on census homeless population share results.

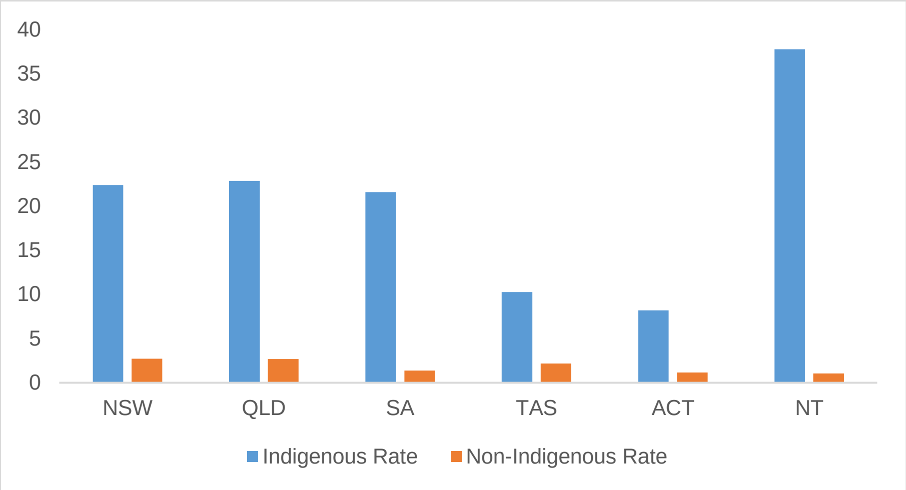
The Territory submits that Census homelessness data, and in particular, shares of total homelessness by state, are appropriate for use to assess the drivers of state relative homelessness expenditure needs.

16.2.6. Discussion on family, domestic and sexual violence

The Territory submits that consideration of the impact of family, domestic and sexual violence on various categories may be warranted. Family, domestic and sexual violence poses an inordinate impact on Territory services across a range of categories, including welfare, as discussed above, however also in other categories such as police, courts, prisons and potentially health. However, it is recognised that national family, domestic and sexual violence datasets appear experimental, not consistent between all jurisdictions or in a time series, and therefore difficult to convert into an assessment.

While the data is at an experimental stage, ABS family, domestic and sexual violence defendant data provides insights into the extreme nature of Territory family, domestic and sexual violence, and the resulting service delivery demands, which are not experienced in any other jurisdiction. As set out below, the ABS data illustrates that Territory indigenous family, domestic and sexual violence finalisation rates are around 65% higher than the next highest jurisdiction.

Chart 16.9 Family and domestic violence defendants finalised, by indigeneity (2021-22)



Note: indigenous reporting excludes VIC and WA. The ABS notes data may be impacted by COVID-19, however data in earlier years are limited.

Source: ABS, Criminal Courts, Australia, experimental family and domestic violence statistics.

The Territory submits that as this data develops, further consideration may be warranted in a future review as a cost driver, either as a component of existing categories, or as a standalone category.