

**Northern Territory
Submission to the
Commonwealth Grants
Commission –
Significant changes since the
Draft Report
December 2019**

Introduction

- 1.1 The Commonwealth Grants Commission's (the Commission's) paper *Significant changes since the Draft Report Position Paper CGC 2019-02* outlines expected changes to the methods since the Draft Report and outlines the structure of the Final Report, which is due to be provided to states and the Commonwealth by 28 February 2020. The paper focusses on new changes to methods in specific categories; it does not address state arguments on other method changes.
- 1.2 The Northern Territory notes that methods not addressed in the paper are to be taken as remaining as described in the Draft Report, but the Commission will be re-examining all assessments, including all discounts, to ensure that they pass a reality test and are internally consistent. While the nature of the 'reality test' is unclear, the Northern Territory trusts that the process will accommodate its divergent demographic and geographic characteristics.
- 1.3 The Northern Territory has no comments on the structure of the Final Report, but notes that explanations on the Commission's determinations and responses to states' arguments will be important for ensuring future engagement with the Commission is appropriately focussed and productive.
- 1.4 The Northern Territory notes the minor presentational change to be made to the Mining assessment (returning the assessment of grants in lieu of royalties to the category rather than being included with other Commonwealth payments), methodological changes to the Services to Communities and Stamp duty assessments and acknowledges receipt of the regression results for the wage costs assessment. It has no comments on these matters.
- 1.5 The following sections respond to the remaining changes proposed in *Position Paper CGC 2019-02* regarding disaster recovery expenses, the welfare, services to communities and investment assessments, and proposed revenue base adjustments.

Disaster recovery expenses

- 1.6 The Northern Territory supports the Commission's decision to incorporate local government expenses in the disaster recovery expenses assessment, noting the Commission's advice that all states assist local governments with the cost of natural disaster recovery and that these are unavoidable state costs. Consistent with this change, the decision to unwind the adjustment made to the assessment in the 2019 Update, which removed local government net expenses, is considered appropriate.

- 1.7 The Commission advises that in most states, local governments are required to make a contribution towards natural disaster relief expenses. Accordingly, it intends to deduct a local government contribution from disaster recovery expenses, in order to only recognise state out-of-pocket costs. The Northern Territory considers multiplying the national average rate of contributions by each state's gross local government expenses to determine these contributions is appropriate, as this addresses differences in state policy. However, the Northern Territory considers remoteness should be factored into the determination of the net contribution, given local governments in remote areas are likely to have less capacity to fund disaster recovery than local governments in non-remote areas who are also likely to have greater revenue raising capacity.

Welfare

- 1.8 In the Draft Report, the Commission recognised regional costs disabilities in the child protection and family services component of the Welfare assessment, but removed the assessment of service delivery scale disabilities. The Northern Territory welcomes the Commission's advice that both disabilities will now be recognised in this component. Each of these disabilities recognise different cost drivers and assessment of both is necessary to adequately account for the additional costs of delivering child protection and other welfare services in small, remote communities.
- 1.9 The Other welfare component of the Welfare assessment comprises homelessness services, women's shelters, care of refugees, prisoners' aid, Indigenous welfare services and information, advice and referral services. The Commission advises that expenses associated with homelessness services account for the bulk of expenses, but domestic violence outlays are also likely to be classified to Other welfare and these expenses are likely to have grown in importance with extra resources being directed to these services due to an increased national focus on this issue.
- 1.10 The Commission advises that it no longer proposes to use the bottom quartile of the Index on Household Advantage and Disadvantage (IHAD) as an indicator for assessing sociodemographic needs. This reflects concerns that the available evidence does not support the conceptual case that most service users are from low socio-economic (SES) backgrounds. Instead, the Commission proposes an equal per capita (EPC) assessment – that is, there will be no sociodemographic composition (SDC) disability assessment in the Other welfare component. The removal of the SDC assessment will have the greatest effect on the Northern Territory, reducing assessed needs by \$26 per capita.

- 1.11 While not all users of homelessness, domestic violence and other services in the Other welfare component may be from low SES backgrounds, they appear to form a disproportionately high number of service users. This is evidenced in the Productivity Commission's Report on Government Services (RoGS), which shows that in 2017-18, even after support, only 14.1 per cent of homelessness clients nationally had a labour force status of "employed" and of those, 20.5 per cent still had a need for employment and/or training assistance.¹ Numerous publications from Australia and internationally also point to low or insufficient income as a leading cause of homelessness.²
- 1.12 The RoGS report also evidences the Northern Territory's much greater per capita expenditure (\$106 per capita compared with \$37 nationally in 2017-18) and rates of homelessness (599.4 homeless persons per 10 000 people compared with 49.8 per 10 000 people nationally in 2016).³ Furthermore, the rate of domestic and family violence among homelessness clients is much higher in the Northern Territory than nationally (196.7 per 10 000 people compared to 49.2 per 10 000 people nationally in 2017-18).⁴ This is consistent with ABS crime statistics that show the rate of family and domestic violence assault victims is significantly higher in the Northern Territory than nationally.⁵
- 1.13 An EPC assessment of homelessness, domestic violence, Indigenous welfare and other welfare services expenses will not recognise the higher level of demand in the Northern Territory. The Northern Territory strongly advocates for retention of the SDC disability and use of the IHAD as the best available measure.

Investment

Negative assessment of investment

- 1.14 The Northern Territory supports the Commission's decision to no longer apply capital cost factors to negative assessment investment on the basis that this approach implies a state can receive higher returns on the sale of assets, which is counterintuitive.

¹ Productivity Commission. RoGS 2019, 19 Homelessness services, Table 19A.20. Accessed on 2 December 2019 at <https://www.pc.gov.au/research/ongoing/report-on-government-services/2019/housing-and-homelessness/homelessness-services>.

² For example, Homelessness Australia, Homelessness and poverty. Accessed on 9 December 2019 at https://www.homelessnessaustralia.org.au/sites/homelessnessaus/files/2017-07/Homelessness_and_Povertyv2.pdf and National Law Center on Homelessness & Poverty, Homelessness in America: Overview of data and causes accessed on 9 December 2019 at https://nlchp.org/wp-content/uploads/2018/10/Homeless_Stats_Fact_Sheet.pdf.

³ Ibid. Tables 19A.1 to 19A.2.

⁴ Australian Institute of Health and Welfare. Specialist homelessness services annual report 2017-18. Supplementary tables - Historical tables SHSC 2011-12 to 2017-18, Table 4. Accessed on 2 December 2019 at <https://www.aihw.gov.au/reports/homelessness-services/specialist-homelessness-services-2017-18/data>.

⁵ ABS 4530.0 - Crime Victimisation, Australia, 2017-18. Table 4. Accessed on 2 December 2019 at <https://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/4530.02017-18?OpenDocument>.

- 1.15 The Northern Territory continues, however, to be concerned by the possibility that negative assessed investment can still occur. It urges the Commission to reconsider other options raised in its submission to the Draft Report, in particular, application of a conditional floor.

Capital cost disabilities (factors)

- 1.16 The Northern Territory notes the Commission has decided to measure intrastate differences in the costs of investment by fully utilising the Rawlinsons regional construction cost indices, as opposed to the approach adopted in the 2015 Review, which utilised a combination of the Rawlinsons indices and the Commission's general recurrent regional cost factor. The Northern Territory acknowledges that the change is due to the functionalisation of the Investment assessment and the introduction of category specific regional cost gradients, which do not appropriately reflect differences in construction costs.
- 1.17 While the Northern Territory reiterates its views that Rawlinsons indices do not capture the higher costs associated with constructing infrastructure on Indigenous land or adequately capture infrastructure costs relating to the physical environment, it acknowledges that there does not appear to be an appropriate policy neutral alternative to measure differences in construction capital costs.
- 1.18 The Northern Territory notes that the Commission will not apply Rawlinsons state regional indices to the Health and Justice components of the Investment assessment as regional costs are already recognised in the relevant stock factors, and cannot be removed. The Northern Territory considers this reasonable, given it will avoid double counting.

Land tax

- 1.19 The Northern Territory reiterates its view, that its provided Valuer-General data should be utilised to update the Northern Territory adjustment, given it is recent, accurate and fit-for-purpose.
- 1.20 If the Commission proceeds to estimate the Northern Territory's taxable land holdings as its share of ABS adjusted land values, this should be updated during the review period, with the land values from the Australian System of National Accounts (Cat. no. 5204.0) able to be refreshed annually and renters data from Housing Occupancy and Costs (Cat. no. 4130.0) biennially. This will better ensure the assessment is reflective of the Northern Territory's economic circumstances and aligns with the supporting principle of contemporaneity.
- 1.21 The Northern Territory notes the Commission's proposal to increase the adjustment for the Australian Capital Territory, which recognises the effect of aggregation on its taxable land holdings, from 2 per cent to 10 per cent.