



Northern
Territory
Government

COMMONWEALTH GRANTS COMMISSION 2015 METHODOLOGY REVIEW

The Northern Territory's Submission to the
Commonwealth Grants Commission –
2015 Draft Report

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Executive Summary

The Territory agrees with many of the Commission's proposals, however it has significant reservations and concerns with others.

The Territory's key concerns are summarised in the executive summary below. These concerns, and others, are further expanded upon in the body of the Territory's submission.

The Territory's submission addresses proposals outlined in both the Report on State Revenue Sharing Relativities 2015 Review Draft Report and Staff Discussion Paper CGC 2014-03S – Update and Supplementary Issues for the 2015 Review

The Equalisation Objective and its Implementation

1. The Territory strongly supports the current form of Horizontal Fiscal Equalisation (HFE) which aims to equalise the fiscal capacities of states to allow each state to provide the national average level of services.
2. The Territory has reservations around the Commission's proposed changes to the test for determining average policy and its ability to enhance equalisation outcomes.
3. The Territory does not support the use of materiality thresholds on the basis that they do not enhance equalisation outcomes, and in particular the proposal to increase the disability materiality threshold to \$30 per capita.
4. The Territory does not support the continued use of discounting, which requires judgement and is biased in one direction. Where a conceptual case has been established, and the best available data sourced to measure the associated disability, it is not appropriate to discount that disability. Further, priority should be given to the continual pursuit of addressing data deficiencies between Reviews, with a view to abolishing discounting in the Commission's assessments.

National Partnership Agreement on Remote Indigenous Housing (NPARIH)

5. The Territory strongly disagrees with the Commission's proposal to treat funding under NPARIH such that it affects states' relativities, and proposes that the Commission reconsider its position, and either maintains the current actual per capita treatment of this funding or excludes it from its assessments.
6. The Commission's proposed treatment of NPARIH is considered inconsistent with the principles of HFE and will effectively diminish the level of funding provided to the Territory under NPARIH by around 80 per cent.
7. The Commission's proposed treatment of NPARIH is inappropriate given the funding provided is to address unmet need, not to provide an average level of service. NPARIH is crucial to addressing the long-standing severe shortages of remote

Indigenous housing assets. If NPARIH funding is equalised states with the highest remote housing needs will be disadvantaged.

8. Further, the Commission's proposed treatment of NPARIH is at odds with the intention of the funding as detailed in the original Memorandum of Understanding (MOU) on Indigenous Housing, Accommodation and Related Services and subsequent agreements pertaining to this funding.

Housing

9. The Territory strongly rejects the Commission's proposal to remove the Service Delivery Scale (SDS) factor from the housing category on the basis that services are delivered by local groups and do not require staff to travel. This position does not align with the Commission's view that housing related services are increasingly being delivered by the general government sector nor does it reflect the service delivery model in the Territory. The Territory implements a centralised model to service its large remote and very remote housing stock in order to maximise economies of scale, whereby only a very limited proportion of housing-related services are delivered by community-based officers.
10. In addition to the Indigenous cost weight proposed by the Commission, the Territory contends that further disaggregation is necessary to capture the additional costs of providing services to remote Indigenous households compared to non-remote Indigenous households. The Territory has provided data which clearly shows there is a material cost differential between providing property and tenancy management services in remote and very remote areas compared to outer regional areas.
11. The Territory contends that household size also has a significant impact on states housing expenses, regardless of Indigeneity or remoteness, and proposes that the Commission make a household size adjustment to capture the increased use of housing services by larger households.

Justice

12. The Territory has significant concerns around the quality, and counterintuitive results, produced by the state provided data on offender and defendant use rates, and strongly opposes the use of this data in the Justice category.
13. The Territory considers a more appropriate approach is for the Commission to continue to use 2007 data from the Australian Institute of Criminology (AIC) until such time as the AIC releases an updated data set.
14. Due to the data concerns noted above, the Territory strongly opposes the Commission's proposal to fix Indigenous use rates for the duration of the 2015 Review. The Territory proposes that the Commission delay updating data used in the Justice category until the release of the pending AIC survey data.

Welfare

15. The Territory considers that remoteness significantly impacts the use of child protection services and that this disability should be included in the assessment of the family and child services component of the Welfare category.
16. The Territory considers that an adjustment to states' National Disability Insurance Scheme (NDIS) eligible populations should be made to recognise that the Indigenous population uses disability services more intensively than the non-Indigenous population.
17. The Territory does not support the Commission's proposal to assess states' needs for general welfare services based on the number of single parent households in each state. Single parent households is only one of a number of variables that could be used as a measure of demand for general welfare services. Instead, the Territory proposes that the Commission use states' shares of population in the first quartile of the non-Indigenous socio-economic index for areas (NISEIFA) and the index of Indigenous Relative Socio-Economic Outcomes (IRSEO).

Infrastructure

18. The Territory disagrees with the Commission's assessment that Indigenous students do not impact on state's needs for Schools Education-related infrastructure. The Territory has sourced data from across states, which shows that sizeable Indigenous student populations do have a material influence on school infrastructure requirements, and considers that this data strongly supports the case for maintaining the application of the Indigenous cost weight in the assessment of states' Schools Education infrastructure needs.
19. The Territory supports the Commission's proposal to apply an Indigenous cost weight in its assessment of states' Indigenous housing infrastructure needs, and strongly agrees with Commission staff that applying the cost weight on a state-by-state basis, rather than the national average proportion of Indigenous-specific housing assets, will more appropriately measure differences in states' Indigenous housing infrastructure needs.
20. The Territory is of the view that the Rawlinsons indices adequately reflect changes in input prices, and are a suitable basis for assessing interstate differences in construction costs of both buildings and roads. Therefore, the Territory does not support applying a 50 per cent discount to the capital cost disability for roads infrastructure and a 25 per cent discount to all other infrastructure capital cost disabilities.
21. The Territory does not support the Commission's proposal not to include a physical environment factor in the Infrastructure category. The Territory considers that evidence of material cost differentials for six physical environment characteristics

provides a conceptually strong case for assessing the impact of the physical environment on states infrastructure needs. Further, the Territory contends that the Rawlinsons capital cost indices are not markedly influenced by environmental characteristics, and as such do not represent an alternative to a physical environment factor.

Services to Communities

22. The Territory does not support the proposal to assess uniform tariff subsidies for utility services on an equal per capita basis. The Territory considers that there is a strong conceptual case for a differential assessment of state's uniform tariff subsidies which recognises the impacts of location and diseconomies of small scale, and has provided data to support this.

Health

23. The Territory strongly opposes the removal of the SDS factor from the assessment of community health expenses. The use of National Weighted Activity Units (NWAUs) in the community health assessment does not capture SDS disabilities, as NWAUs are based on data from large hospitals. Large hospitals do not face the same scale disabilities as small hospitals and health clinics in regional and remote areas, where there are high health needs and often large distances between communities and major centres. Failure to capture these SDS disabilities is in contrast to the National Health Reform Agreement (NHRA).
24. The Territory does not support classifying Emergency Department (ED) presentations where demographics have not been recorded based on the user profile of hospitals in the same remoteness region where presentations are known. The Territory contends that the user profile of very remote hospitals, where only 15 per cent of presentations are known, would not appropriately recognise differences in the user profile of all very remote hospitals. Instead, the Territory proposes that the Commission apportion data on ED presentations, where demographic information is not known, based on the user profile of the nearest hospital for which demographic data is known.
25. The Territory does not support the 25 per cent discount to the socio-demographic composition (SDC) factor in the community health assessment as an appropriate way of addressing differences in the user profile of ED and community health services. Instead, the Territory considers that a more appropriate approach would be to use the user profile of EDs based on NWAU data from all triage categories as the proxy for the user profile of community health services.
26. While the Territory strongly supports the assessment of the impact of the private sector on the ED, outpatients, and community health components of the Health category using an economic environment factor, it considers that the level of

substitutability for ED services is substantially higher than 40 per cent as proposed by the Commission.

Post-secondary Education

27. The Territory strongly supports the application of cost weights for Indigenous and remote students but considers that separate loadings be applied to remote and very remote students to reflect that costs increase with remoteness and are not homogenous across these two areas.
28. The Territory does not accept the Commission's proposal not to assess socio economic status (SES) of remote students. The assumption that SES only influences the use of post-secondary education services in some parts of a state and not in others is counterintuitive. To ensure the best equalisation outcome is achieved, the Territory urges the Commission to consider either combining the remote and very remote SES categories to enable cross classification by Indigeneity/SES/remoteness or grouping SES categories within remoteness areas to produce cost gradients.

Services to Industry

29. While the Territory supports the Commission's proposal to apply a regional cost factor to the Services to Industry category, it contends that applying this factor to only 20 per cent of total expenses understates the level of disability in the Territory.

Other Expenses

30. The Territory proposes that the Commission reconsider its position not to differentially assess states' costs of borrowing, on the basis that underlying economic structures and national and external economic environments are the predominant influences driving differences in borrowing costs between states, rather than states' fiscal policies.

Regional Costs

31. The Territory does not agree that adopting the Accessibility/Remoteness Index of Australia (ARIA) as the remoteness classification for the 2015 Review warrants the removal of the non-wage assessment. While under ARIA, Adelaide is the reference point for measuring Darwin's remoteness in relation to the nearest city of 250 000 or more people, it results in the additional costs associated with interstate travel and the importation of goods being underestimated. Capital cities on the eastern seaboard are where the majority of interstate travel occurs and from which goods are sourced. As such, the Territory contends that an adjustment to the regional costs assessment should be made to ensure the additional freight and travel costs faced by the Territory are fully captured.

Mining Revenue

32. The Territory considers that the Commission's proposed mineral by mineral assessment appropriately addresses previous grant design inefficiencies inherent in the mining revenue assessment methodology adopted in the 2010 Review.
33. The Territory does not support the Commission's proposal to phase in the impact of increases in the effective rate of royalty on iron ore fines, on the basis that there has been no significant or sudden change in average policy to warrant special treatment by the Commission, or a specific directive to do so. The approach would not reflect circumstances in the application year, would undermine the accuracy of the assessment and create an undesirable precedent.

Commonwealth Payments

34. As noted above and further in the body of the Territory's submission, the Territory strongly opposes the Commission's proposal to change the treatment of NPARIH.
35. The Territory does not support the Commission staff proposal to recommend that the Commission only exercise its discretion on the treatment of Commonwealth payments where doing so will make a material change at the proposed disability materiality threshold and the impact can be assessed reliably. This approach would not result in outcomes that enhance equalisation and would add unnecessary complexity to the equalisation process.

1

The Equalisation Objective and its Implementation

The Territory generally supports the Commission's proposed approach to implementing HFE in its assessments but has significant concerns about the Commission's proposals to:

- determine average state policy on the basis that every tax raised or service provided by one or more state will be considered average policy, provided it is material;
- apply a \$30 per capita materiality threshold in determining whether a disability should be assessed; and
- apply discounts where it has concerns about data reliability.

The equalisation objective and its implementation

- 1.1 Australia's form of equalisation recognises that the heterogeneity of states' circumstances results in stark and unavoidable differences between states' revenue raising capacities and expenditure needs, and that the factors affecting state revenues and expenditures differ greatly.
- 1.2 The Territory firmly believes that the current form of HFE is appropriate due to the combined effects of the acute level of vertical fiscal imbalance between the Commonwealth and the states and territories (states). More importantly, equalisation is necessary due to the fiscal impact of interstate differences in population characteristics, geography, natural resource endowments and economic circumstances.

Objectives of the GST distribution

- 1.3 The achievement of HFE is the only stated objective of the distribution of GST revenue between states, as outlined in the Intergovernmental Agreement on Federal Financial Relations (IGAFFR).

- 1.4 As stated in its previous submissions to the 2015 Review, the Territory strongly supports the continuation of the current HFE system, which aims to equalise the fiscal capacities of states such that they can provide the national average level of services. The Territory considers that the definition of HFE developed in the 2010 Review is appropriate, and strongly supports the Commission’s proposal to adopt this definition for the 2015 Review.

Supporting Principles

- 1.5 The Commission’s implementation of HFE is underpinned by four supporting principles: what states collectively do; policy neutrality; practicality; and contemporaneity. The Territory broadly supports the use of these supporting principles but has concerns about the Commission’s proposals to change the test for determining average state policy, continue applying materiality thresholds and continue the use of discounting.

What states collectively do

Average state policy

- 1.6 The Territory supports the supporting principle of ‘what states collectively do’, as it requires the Commission to develop assessments based on average state policy (an internal standard), rather than what states ‘could’ or ‘should’ do (an external standard). However, the Territory is concerned about the proposed change to the test for determining average state policy.
- 1.7 The Commission has proposed to determine average policy on the basis that every tax raised or service provided by one or more states will be considered as average policy, provided it is material. This is a significant departure from the 2010 Review approach, whereby a tax or service was considered average policy if it was implemented by a majority of states and was material.
- 1.8 The Commission’s view is that the proposed approach to determining average state policy will lead to better HFE outcomes than the 2010 Review approach, which it considers ran the risk of excluding material taxes or services if they were implemented by one state. The Commission also stated that the proposed approach will be simpler to apply, particularly for revenue assessments.
- 1.9 The Territory is not convinced that the proposed approach will enhance HFE. The proposed change, while appearing minor at face value, represents a fundamental shift in how the Commission interprets the key guiding principle of ‘what states do’ and is a departure from the approach that has worked well in the past.
- 1.10 In its second submission to the 2015 Review, the Territory outlined the potential implications of the proposed approach to determining average state policy, including the bias towards only reflecting the policies of the large states, data availability and

quality issues, distortions to the effective average tax rates used in the revenue assessments, increased complexity and potential policy non-neutrality on the part of the large states. On this basis, the Territory does not support the Commission's proposal to change the test for determining average policy. However, the Territory notes that the Commission has applied this approach in developing the assessments in the Draft Report. The Territory urges the Commission to reconsider this issue.

Spend gradient

- 1.11 The Territory welcomes the Commission's decision not to equalise interstate costs using a 'spend gradient'. The Territory agrees with the Commission's view that the spend gradient approach, which assumes that states provide lower quality services in higher cost areas, is inconsistent with the achievement of HFE. As the Territory noted in its first submission to the 2015 Review, if states do provide lower levels of services in higher cost locations, this would be captured in the current assessments. The Territory also asserted that using a spend gradient would effectively be a prescriptive approach, which is inconsistent with 'what states do'.

Policy neutrality

Elasticity adjustment

- 1.12 The Territory supports the Commission's decision not to adopt an elasticity adjustment for the revenue assessments. The Territory considers that elasticity adjustments would increase complexity and introduce the need for judgement due to data reliability, relevance and measurement issues.
- 1.13 Further, analysis by Commission staff suggests that the conceptual relationship (or sensitivity) between a change in tax rates and a change in tax bases is not always evident or probable from a materiality perspective.

Long-term industry support

- 1.14 The Territory supports the Commission's decision not to apply an adjustment to the revenue assessments to recognise the effect of past state policies on differences in states' revenue bases. Developing such an adjustment would require the Commission to apply significant judgement as to how far back in history to look, as well as the extent to which the policy being considered is unique (that is, whether another state in the same position would not have implemented the same policy). The Territory is not aware of an equitable and reliable way in which the Commission could adjust state revenue bases for this purpose.

Practicality

Materiality thresholds

- 1.15 The Territory does not support the use of materiality thresholds, as they do not enhance equalisation outcomes. In principle, the Territory considers that the scope of equalisation should be as broad as possible, and applying materiality thresholds to disabilities is not consistent with the full equalisation of states' fiscal capacities, which is critical for the achievement of HFE.
- 1.16 In its second submission to the 2015 Review, the Territory stated that it was not convinced that the proposed increase in the disability materiality threshold from \$10 per capita to \$30 per capita would result in material reductions in complexity. In any case, the Territory has always believed that simplicity should not be pursued at the expense of achieving equalisation. Arbitrarily increasing materiality thresholds for disabilities only results in removing factors for which a conceptual case for a differential assessment has already been established and deemed material, and does not enhance equalisation outcomes.
- 1.17 The Territory maintains its position as outlined in its second submission, however, the Territory notes that the Commission has developed the assessments in the Draft Report.

Rounding relativities

- 1.18 The Territory supports the Commission's decision to continue presenting GST relativities to five decimal places, as reducing the number of decimal places would not result in any significant simplification gains, nor would it improve perceptions on the accuracy of the GST distribution system.

Discounting

- 1.19 The Territory does not support the continued use of discounting, as it requires a significant level of judgement by the Commission and its bias is one-directional.
- 1.20 The Territory contends that the Commission's liberal use of discounting exacerbates the significant bias towards equal per capita assessments, which exists due to the significant amount of state expenditure already assessed on an equal per capita basis. The Commission applies discounts of up to 50 per cent in several assessments, including the community health component of the Health category, the SDC assessment in the Justice category and the capital cost disability in the Infrastructure category. Further, the Commission assesses about 40 per cent of states' own source revenue and about 13 per cent of operating expenses on an equal per capita basis in the Other Revenue and Other Expenses categories respectively. This is in addition to other equal per capita assessments within the discrete revenue and expense categories.

- 1.21 As a result, the Commission's use of discounting further dilutes equalisation outcomes, and creates a significant bias towards an equal per capita distribution, despite data and conceptual evidence that suggests that a more differentiated assessment outcome better captures differences in states' expenditure needs and revenue-raising capacities.
- 1.22 By applying a discount to an assessment, the Commission inherently assumes that the assessment would otherwise overstate the disability being assessed. The Territory is not aware of any evidence that this is always the case. For example, the Commission applies a 12.5 per cent discount to the regional costs factor for police services, to reflect its concerns about the age and comparability of the data. The discount effectively assumes that the police factor overstates regional costs, however, it does not consider the likelihood that the data may actually understate the regional costs of police services.
- 1.23 The Territory's firm view is that where there are data deficiencies in the Commission's methodology, the priority should be to address data quality rather than ignore or discount conceptually sound and unavoidable disabilities because of data limitations.
- 1.24 Further, the Territory remains concerned about the Commission's use of arbitrarily-sized discounts. The Territory considers that if the Commission is satisfied that a disability exists and has sourced the best available data to measure it, it is not appropriate for the Commission to discount the impact of that disability by up to 50 per cent.
- 1.25 In addition to the three levels of discounts it uses (12.5 per cent, 25 per cent and 50 per cent), the Commission has also applied significant judgement to discount some input data. For example, in the Housing category the Commission has applied an Indigenous cost weight of 40 per cent, despite the available data showing that maintenance costs relating to Indigenous public housing tenants are about 81 per cent higher than for non-Indigenous tenants, while tenancy management costs are 43 per cent higher. Similarly, in the Services to Communities category, the Commission has estimated that 40 per cent of states' total utilities expenditure relates to subsidies for smaller remote communities, despite state-provided data showing that this proportion is around 43 per cent.
- 1.26 The Territory urges the Commission to review the use of discounting in its assessments, with a view to minimising the impact of discounts, particularly where a strong conceptual case for a differential assessment has been established. The Territory acknowledges that there can be limitations to the scope and reliability of existing data and remains committed to assisting the Commission in seeking data improvements wherever possible.

Contemporaneity

1.27 The Territory agrees with the Commission's view that the current three-year averaging approach provides an adequate balance between contemporaneity and stability of GST relativities. The Territory supports the principle that relativities should be contemporary but recognises the data limitations that are inherent in the Commission's assessments.

Use of non-annual and lagged data

1.28 In principle, the Territory supports the use of the most up-to-date data, provided it is reliable and fit for purpose. This entails applying newly available data to the assessment years to ensure that the GST relativities reflect, as closely as possible, state circumstances in the application year.

Backcasting

1.29 The Territory supports backcasting major changes in Commonwealth-state financial arrangements where this can be done reliably and the data changes are material. This approach supports the contemporaneity of the Commission's assessments.

Priority issues

1.30 The 2015 Review Terms of Reference direct the Commission to consider the following issues as a priority:

- developing a new Mining Revenue assessment;
- the treatment of mining related expenditure;
- the treatment of National Education Reform Agreement (NERA) funding to ensure that the recognition of educational disadvantage embedded in the NERA arrangements is not unwound;
- the appropriate treatment of the NDIS arrangements;
- developing a Transport Infrastructure assessment and the appropriate treatment of transport infrastructure payments; and
- appropriately capturing Indigeneity in the assessments.

1.31 The Territory's position on each of these priority issues is provided in the relevant assessment category chapters of this submission.

2

Payroll Tax

The Territory supports the Commission's proposal to:

- maintain the 2010 Review methodology for assessing states' capacities to raise payroll tax revenue, including the exemption of payrolls below an average threshold.

- 2.1 The Territory supports the Commission's proposal to maintain the 2010 Review methodology for assessing states' payroll tax revenue capacities.
- 2.2 As noted in the Territory's second submission to the 2015 Review, the Territory considers that the current methodology, which assesses states' capacities to raise payroll tax revenue using the value of taxable payrolls, sourced from Australian Bureau of Statistics (ABS) Compensation of Employees data, adjusted to exclude general government sector workers and small employers, appropriately measures states' capacities to raise payroll tax revenue. Further, the Territory considers that the adjustment to exempt small firms from payroll tax reflects average state policy, is practical, and is policy neutral.

3

Land Tax

The Territory supports the Commission's proposal to:

- maintain the 2010 Review methodology for assessing states' capacities to raise land tax revenue.

The Territory does not support the Commission's proposals to:

- continue to apply a medium discount to the Land Tax category.

The Territory accepts the Commission's purpose to:

- combine metropolitan improvement levies with the property part of fire and emergency services levies and to assess this using the value of properties.

- 3.1 The Territory supports the Commission's proposal to maintain the 2010 Review Methodology for assessing states' land tax revenue capacities, however, the Territory does not support the continued application of a medium discount.
- 3.2 The 2010 Review methodology measures states' capacities to raise land tax revenue using state revenue office (SRO) data on the value of land, which captures the progressivity of average tax rates, and enables the aggregation of land by the land holder. The Territory considers that this methodology appropriately measures states' capacities to raise land tax revenue, is policy neutral and reflects average state policy.

Discounting

- 3.3 While the Territory acknowledges the Commission's concerns regarding the data used in the land tax category, it does not accept that it warrants a discount. The Territory's view is that every assessment includes a certain degree of uncertainty and that in the first instance the Commission should seek to resolve data issues rather than apply a discount. The Territory considers that the SRO data represents the best available data to assess states' capacities to raise land tax revenue.

- 3.4 The Territory does not support the continued application of a 25 per cent discount to the land tax category, on the basis that there is no evidence to suggest that there are inherent errors in SRO data, or whether or not these assumed errors have a material impact on the assessment outcome.

4

Stamp Duty on Conveyances

The Territory supports the Commission's proposals to:

- include stamp duty on the transfer of motor vehicles in this category;
- move expenses relating to first home owners to the Housing category;
- discontinue the land rich adjustment for Tasmania; and
- increase the revenue bases of states that do not levy duty on non-real property.

- 4.1 The Territory supports the Commission's proposed changes to the methodology for assessing states' capacities to raise revenue from stamp duties.
- 4.2 The Territory considers that the proposed methodology, which assesses states' capacities to raise stamp duty revenue using SRO data on the value of transactions, adjusted to capture differences in the types of property subject to stamp duty, is appropriate. Further, the Territory considers that the existing and proposed adjustments to the category reflect average state policy, are practical, and are policy neutral.
- 4.3 The Territory supports the assessment of stamp duty on the transfer of motor vehicles in the Stamp Duty on Conveyances category, as the assessment is conceptually and methodologically more aligned to this category than the Motor Taxes category.
- 4.4 Further, the Territory supports the cessation of the land rich adjustment for Tasmania, which was previously made to reflect differences in how states tax the sale of an entity which holds land, on the basis that it is no longer material.

Stamp Duty on Non-Real Property

- 4.5 Broadly, the Territory supports the Commission's approach of adjusting state revenue bases to reflect differences in the types of property subject to stamp duty. This is consistent with the principle of 'what states do' and is generally supported by other states.

- 4.6 However, Victoria, Tasmania and the Australian Capital Territory argue that they abolished stamp duty on non-real property in accordance with the IGAFRR and therefore no longer have capacity to raise this revenue.
- 4.7 Although Victoria, Tasmania and the Australian Capital Territory no longer levy stamp duty on non-real property, the Territory's view is that it is still average policy to do so as the remaining states continue to levy the tax despite the IGAFRR. As such, the Territory is of the view that states' shares of non-real property should still be included in the assessment of their respective revenue bases, in order to reflect what states do.

5

Insurance Tax

The Territory supports the Commission's proposals to:

- maintain the 2010 Review methodology for assessing states' capacities to raise insurance tax revenue;
- include revenue from fire and emergency services levies imposed on insurance premiums in this category; and
- exclude premiums relating to workers compensation insurance from the revenue base.

- 5.1 The Territory supports the Commission's proposal to maintain the 2010 Review methodology for assessing states' insurance tax revenue capacities.
- 5.2 The Territory considers that the current methodology, which assesses states' capacities to raise insurance tax revenues using the value of premiums paid on insurance, sourced from the Australian Prudential Regulatory Authority and excluding premiums that are not normally taxed by states, is appropriate.
- 5.3 The Territory considers that both the adjustment to exclude workers compensation insurance from the assessed revenue base and the proposal to include fire and emergency services levies imposed on insurance premiums are practical and consistent with the principle of 'what states do'.

6

Motor Taxes

The Territory supports the Commission's proposals to:

- maintain the 2010 Review methodology for assessing states' capacities to raise motor tax revenues;
- move the assessment of stamp duty on the transfer of motor vehicles to the Stamp Duty on Conveyances category;
- include the assessment of fire and emergency levies on motor vehicles in this category; and
- consult with states in relation to potential changes to the category arising from heavy vehicle reform.

- 6.1 The Territory supports the Commission's proposal to maintain the 2010 Review methodology for assessing states' capacities to raise motor tax revenue. The Territory considers that the current methodology, which uses ABS data on the number of light and heavy vehicles, is appropriate.
- 6.2 The Territory supports the Commission's proposal to move the assessment of revenue from stamp duty on the transfer of motor vehicles to the Stamp Duty on Conveyances category, as the assessment methodologies are more closely aligned. Further, the Territory's view is that the proposal to include revenue from fire and emergency levies on motor vehicles is practical and reflects 'what states do'.
- 6.3 Given that the national heavy vehicle reform agenda may result in changes to states' capacities to raise revenue from heavy vehicles, the Territory welcomes the Commission's proposal to consult states on any required amendments to the Motor Taxes category to reflect the outcomes of the reforms.

7

Mining Revenue

The Territory supports the Commission's proposal to:

- undertake a mineral by mineral assessment, with separate assessments of iron ore, coal, gold, onshore oil and gas, copper, bauxite, nickel and 'all other minerals'.

The Territory does not support the Commission's proposal to:

- phase in the impact on GST shares of increases in the effective rate of royalty on iron ore fines.

7.1 In general, the Territory supports the Commission's proposed Mining Revenue assessment, which includes separate assessments of states' capacity to raise royalties from those minerals that raise the most revenue, with all other minerals assessed together. However, the Territory has concerns with the Commission's proposal to phase in the impact of the change in the treatment of revenue from iron ore fines.

Mineral by Mineral Assessment

7.2 The Territory supports the Commission's proposal for a mineral by mineral assessment of states' mining royalty revenue, as this approach reduces the potential for grant design inefficiency, while also maintaining an appropriate balance between reflecting states' fiscal capacities, what states do and policy neutrality. The proposed assessment approach is consistent with that suggested by the Territory in its submissions to the GST Distribution Review, as an appropriate alternative to the two-tier assessment adopted in the 2010 Review.

7.3 The consideration of a new Mining Revenue assessment stems mainly from concerns about grant design inefficiency in the two-tier assessment developed in the 2010 Review. These concerns arose following Western Australia's decision in 2010 to remove the concessional royalty rate of 3.75 per cent that applied to around half the iron ore fines produced in that state. This effectively set the royalty rate for all iron ore fines produced in Western Australia at 5.625 per cent in 2010-11. The design of the two-tier assessment meant that iron ore fines would have moved to the high

royalty rate group, in which they would be assessed against a significantly higher effective average royalty rate. In GST distribution terms, the impact would have been a redistribution away from Western Australia that exceeded the additional royalty revenue raised.

- 7.4 The Territory's view is that the proposed mineral by mineral assessment effectively addresses the main issues surrounding the Mining Revenue assessment. Combining iron ore fines with lump iron ore reduces the potential for grant design inefficiencies, as the average effective royalty rate will more closely reflect the actual royalty rate for both minerals. In addition, assessing both iron ore fines and lump iron ore in a single component reflects the convergence of iron ore royalty rates in Western Australia, by far the largest iron ore producer in Australia. While the mineral by mineral assessment is not perfectly policy neutral, the Territory believes it addresses the more significant issue of grant design inefficiency.
- 7.5 The Territory acknowledges the policy neutrality concerns that accompany a mineral by mineral assessment approach. However, as noted by the Commission in its Draft Report, in practice, states' mineral royalty policies are not influenced by anticipated changes in the distribution of GST revenue, but rather respond to fiscal and macroeconomic factors.

Phasing in the full impact of the iron ore fines assessment

- 7.6 The Territory's view is that the Commission's primary objective in developing a new Mining Revenue assessment should be to address the deficiencies of the assessment methodology adopted in the 2010 Review, not to ease the impact of its proposed methodology changes on a particular state. The Commission's proposal would not result in improved equalisation outcomes, as it applies different assessment methodologies to different states.
- 7.7 The Commonwealth Treasurer's direction through the Terms of Reference of every Update since the 2010 Review that iron ore fines remain in the low royalty rate group ensured that the increase in Western Australia's royalty rate for iron ore fines was not reflected in the distribution of GST revenue. As a result, Western Australia's capacity to raise royalties from iron ore fines production has been significantly understated in the equalisation process in recent years.
- 7.8 Without a similar directive for the 2015 Review, the Territory's view is that the Commission should not artificially adjust Western Australia's assessed revenue raising capacity in the Mining Revenue category to ease the impact of the methodology change on Western Australia at the expense of other states. The significant difference between Western Australia's assessed revenue under the two-tier system of the 2010 Review and the mineral by mineral assessment proposed under the 2015 Review is the result of specific directions provided by the

Commonwealth Treasurer in previous Terms of Reference, rather than a reflection of sudden changes in average policy or circumstances, which might warrant consideration of special treatment by the Commission.

- 7.9 Attempting to reduce the impact of the mineral by mineral assessment on a particular state not only compromises the accuracy of the assessment, but also sets an undesirable precedent. Further, it would not deliver relativities that are appropriate to the application year. Consequently, the Territory does not support phasing in the full impact of increases in the effective rate of royalty on iron ore fines.

8

Other Revenue

The Territory accepts the Commission's proposals to:

- maintain an equal per capita assessment of state revenues not captured in other categories due to the lack of a reliable assessment method;
- differentially assess fire and emergency services levies in appropriate revenue categories; and
- continue to assess gambling taxes and user charges on an equal per capita basis due to the lack of reliable data or methods that would allow for a differential assessment.

- 8.1 The Territory supports the Commission's proposal to maintain the 2010 Review methodology for assessing state revenues that are not differentially assessed. Revenues assessed on an equal per capita basis in the Other Revenue category include those for which a reliable or material assessment could not be developed.
- 8.2 The Territory notes that almost half of total state revenue is captured in this category, and therefore does not affect states' assessed GST revenue shares. The Territory considers that differential assessment is always preferable to an equal per capita assessment for the purposes of HFE. The Territory supports continued investigation into methods and approaches that enable the Commission to differentially assess state revenues when possible.

Removal of Fire and Emergency Services Levy

- 8.3 The Territory supports the Commission's conclusion that fire and emergency services levies are taxes rather than user charges and supports the proposal to differentially assess states' capacities to raise this revenue within the Land Tax, Insurance Tax and Motor Taxes categories. The Territory considers that it is average state policy to impose fire and emergency services levies and that states' capacities to raise this revenue should be differentially assessed to reflect 'what states do'.

9

Treatment of Commonwealth Payments

The Territory supports the proposals to:

- assess payments made in 2011-12 to 2012-13 in accordance with the recommended treatments outlined in Appendix 2 of the 2015 Review Draft Report, except for the proposed treatment of NPARIH;
- adopt the treatment of each Commonwealth payment commenced in 2013-14 as set out in Table B-1 of Attachment B to the Commission Staff Discussion Paper CGC 2014-03-S;
- continue to backcast payments under the National Agreements on Skilled Workforce Development, Affordable Housing and Disability Services on an equal per capita basis;
- assess states' shares of Students First funding based on the difference between what states receive in each of the assessment years, backcast using the distribution in 2015-16 and what states would have received had the Commonwealth funds been distributed among states only on the basis of the Schooling Resource Standard amounts for different students and the numbers of such students in each state;
- backcast the NHRA funding using the 2014-15 NHRA distribution in the Commonwealth's Mid-Year Economic and Fiscal Outlook, adjusted for cross-border payments;
- only backcast payments not made in the application year when they are the result of major change in Commonwealth-state financial arrangements;
- not backcast any of the payments made in the assessment years but not made in the 2015-16 application year because their cessation is not the result of major change in Commonwealth-state funding arrangements;
- not backcast Commonwealth payments commencing in 2014-15 and 2015-16 as set out in Table B-2 of Attachment B to the Commission Staff Discussion Paper CGC 2014-03-S because they are not the result of major changes in

Commonwealth-state financial arrangements; and

- retain the current approach to assessing Water for the Future funding unless data and other information from the states can establish that environmental spending is now the main purpose of the third component of the program and that the interstate pattern is not overly influenced by state policy.

The Territory does not support the proposals to:

- change the treatment of the NPARIH such that it impacts on states' GST revenue shares; and
- recommend that the Commission only exercise its discretion on the treatment of Commonwealth payments where doing so will make a material change at the proposed disability materiality threshold and the impact can be assessed reliably.

9.1 In general, the Territory supports the Commission's proposed treatment of Commonwealth payments, except for the proposed change to the treatment of NPARIH. The Territory further does not support the Commission staff proposal to limit the Commission's use of discretion regarding the treatment of Commonwealth payments to changes that would be material.

9.2 The Territory has provided more detailed responses to the proposed treatment of Commonwealth payments related to priority issues and proposed changes from the Commission's previous treatment in the relevant assessment category chapters of this submission.

NPARIH

9.3 The Territory strongly opposes the Commission's proposed change to the treatment of NPARIH, such that payments from 2013-14 onwards will affect states' GST revenue shares. The Territory notes that this would result in a redistribution of around \$70 million away from the Territory in 2013-14, around 80 per cent of the revenue received by the Territory under the agreement in that year.

9.4 The Territory's view is that the proposed treatment of NPARIH by inclusion is invalid for three reasons:

- the Commonwealth has stated that the funding provided to the Territory under the previous Strategic Indigenous Housing and Infrastructure Program should be quarantined from the fiscal equalisation methodology;
- the funding is provided to meet the acute shortage of remote Indigenous housing assets inherited by the Territory from the Commonwealth after the Northern Territory Emergency Response, and as such is the result of previous Commonwealth policy; and

- the funding provided is to address unmet need, and as such, needs are not assessed.
- 9.5 A detailed response regarding the Territory's views on the Commission's proposed treatment of NPARIH is provided in Chapter 14: Housing.

Introducing Materiality Thresholds to the Commission's Consideration of the Treatment of Commonwealth Payments

- 9.6 The Territory does not support the Commission staff proposal outlined in Staff Discussion Paper CGC 2014-03-S, to recommend that the Commission only exercise its discretion in relation to the treatment of Commonwealth payments, where doing so will make a material change at the proposed disability materiality threshold, and the impact can be assessed reliably.
- 9.7 The Territory's view is that this proposal would significantly disadvantage states receiving relatively small project payments for functions for which needs are not assessed, as it would prescribe automatic inclusion of such a payment. Further, the proposal would particularly disadvantage the smallest states relative to the larger states, as payments to small states are less likely to be material at the national level than a payment for a similar purpose to a large state.
- 9.8 The Territory's view is that the treatment of Commonwealth payments should be based on whether or not the payment increases a state's capacity to provide services or infrastructure for which needs are assessed, not the size of the payment, as the materiality of the payment depends on the number of states receiving funding, and the amount provided to each state.
- 9.9 The Territory also considers that the proposed introduction of materiality thresholds to the Commission's assessment of Commonwealth payments would add additional complexity to the equalisation process, and would be significantly less transparent than the current principles-based method to determining the appropriate treatment for Commonwealth payments. The Territory considers that the proposal is unnecessary and would not serve to improve equalisation outcomes, and as such, it is not supported.

10

Schools Education

The Territory supports the Commission's proposals to:

- use actual enrolments as the broad measure of use for all age groups, with an adjustment for policy differences for pre-Year 1 students;
- use regression analysis based on Australian Curriculum, Assessment and Reporting Authority (ACARA) data to estimate Indigeneity, SES, remoteness and SDS cost weights for government and non-government students;
- assess the expenditure of Commonwealth NERA funding for government schools based on the average schooling resource standard (SRS) amount of government students in each state;
- assess Commonwealth funding for non-government students such that it does not affect the GST relativities; and
- apply the assessment of transport of rural students for all student transport expenses.

- 10.1 The Territory supports the Commission's proposed assessment of the Schools Education category.
- 10.2 In Staff Discussion Paper 2014-03-S, provided to states subsequent to the Draft Report, Commission staff proposed updates to the regression model used to estimate student cost weights. The changes reflect new ACARA data and address concerns raised by a consultant engaged by the Commission to examine the model. The proposed updates affect the government and non-government student loadings for remoteness, Indigeneity and SES, as well as the method for calculating the SDS cost weight.
- 10.3 The following is the Territory's position on issues raised in the Draft Report, taking into account the updates in the Staff Discussion Paper.

Using Actual Enrolments as a Broad Measure of Use

10.4 The Territory supports the Commission's proposal to use actual enrolments as the measure of use for all age groups, with an adjustment to the distribution of pre-Year 1 students to remove the impact of policy differences in the age of enrolment of students prior to Year 1. The proposed assessment is based on enrolment numbers published by the ABS¹ and provides a contemporary and comprehensive measure of school enrolments for all states, disaggregated by student characteristics.

Distribution of Pre-Year 1 Students

10.5 The Territory supports the use of Year 1 enrolments as a proxy for the distribution of pre-Year 1 students. This is a simple method for removing the influence of policy differences and does not require the Commission to apply any judgement. Further, this method is based on readily available ABS data.

10.6 Given that states generally provide 13 years of school education regardless of the age at which a child starts school, the Territory considers that the use of actual enrolments is conceptually sound. However, data on pre-Year 1 enrolments prior to 2014 is not directly comparable across states as South Australia's gradual intake policy resulted in some of its students being enrolled in pre-Year 1 longer than students in other states. If actual enrolments are to be used, an adjustment is necessary to address the effect of policy differences on pre-Year 1 student numbers. The Territory notes that South Australia started implementing a single intake policy for pre-Year 1 at the beginning of the 2014 school year, bringing its policy in line with other states. The Commission will therefore be able to use actual enrolments for all age groups once this policy change is reflected in the assessment years.

Student Cost Weights

10.7 The Territory supports the application of cost weights to recognise the higher cost of providing school education to disadvantaged students.

10.8 The Commission has proposed to use a regression model based on ACARA data to estimate cost weights for Indigenous students, students from low SES backgrounds, remote students and students in small, sparsely populated communities. These cost influences would be assessed for both government and non-government students, although the applicable cost weights would be calculated separately.

10.9 The Territory supports the Commission's proposed approach. As stated in its second submission to the 2015 Review, the Territory considers that ACARA data is a reliable basis for estimating student cost weights, as the data is comparable across states and covers a broad range of student characteristics.

¹ Cat. No. 4221.0, Schools, Australia, 2013

- 10.10 The Commission proposes to base its assessment of SDS on ACARA student data, rather than state-provided data, as was the case in the 2010 Review. The Territory supports this proposal due to the comparability of ACARA data, as stated above.
- 10.11 The Territory's position on the use of ACARA data to estimate SDS cost weights is provided in Chapter 24: Service Delivery Scale.

State Funding for Non-Government Students

- 10.12 The Territory supports the Commission's proposal to assess state expenditure on non-government students by using cost weights derived from a regression of ACARA data. In the 2010 Review, non-government students were assessed as costing a fixed proportion of the assessed cost of government students, as this was consistent with average state policy at the time. However, recent changes in the policies of the majority of states necessitate a reconsideration of this approach.
- 10.13 In 2013, five states signed the NERA, which requires states to provide funding to non-government students on a needs basis. Under the NERA, states' funding for non-government students reflects the additional funding requirements of disadvantaged students, including but not limited to, Indigenous students, remote students, students from low socioeconomic backgrounds, students with low English language proficiency, students with a disability and students enrolled in small schools.
- 10.14 Given that the 2010 Review approach no longer reflects what states do, the Territory supports the proposal to assess non-government students using ACARA-based cost weights, which reflects the recent changes in average state policy.

Commonwealth NERA Funding

- 10.15 The Territory supports the proposal to assess Commonwealth NERA funding for government schools based on the difference between what states actually receive, and what they would have received under the SRS model, to ensure that differences in the negotiated base funding amount between states are equalised.
- 10.16 Commonwealth NERA funding comprises base per student funding, with additional funding (also referred to as loadings) to recognise the additional needs of Indigenous students, students in remote areas, students from low socioeconomic backgrounds, students with low English language proficiency, students with a disability and students attending small schools.
- 10.17 As required by the 2015 Review Terms of Reference, the principal consideration in determining the appropriate treatment of Commonwealth NERA funding should be to ensure that there is no unwinding of the recognition of educational disadvantage embedded in the NERA funding arrangements. The Territory's view is that the proposed assessment meets this requirement, as the loadings component of

Commonwealth NERA funding would be excluded from the assessment, with only differences in the base funding amounts being equalised.

Commonwealth Funding for Non-Government Students

10.18 The Territory supports the Commission's proposal to assess Commonwealth payments for non-government students and the related expenditure on an actual per capita basis, so that it does not have an impact on states' assessed fiscal capacities. The Territory's view is that this approach recognises that states have no policy influence over the related expenditure.

Student Transport

10.19 The Territory supports the Commission's proposal to base the student transport assessment on the number of rural students and the average distance travelled by these students, rather than a combined assessment of urban and rural student transport costs, as the vast majority of states' student transport expenses relate to the transport of rural students. The Territory also notes that the Commission has found that an assessment of urban student transport costs would not be material.

11

Post-secondary Education

The Territory supports the Commission's proposals to:

- move all vocational education and training (VET) costs previously assessed in the Services to Industry category to the Post-secondary Education category; and
- apply cost weights for Indigenous and remote students, but considers that there should be different loadings for remote and very remote students.

The Territory does not support the Commission's proposal to:

- not assess SES for remote students.

The Territory accepts the Commission's proposal to:

- net off user charges revenue from category expenses.

11.1 The Territory generally supports the Commission's proposed assessment of Post-secondary Education expenses but has significant concerns about the method for applying the remoteness loading and the proposal not to assess SES for remote students.

VET Expenses

11.2 The Territory supports the Commission's proposal to move all VET expenses previously included in the Services to Industry category to the Post-secondary Education category. Most of these expenses relate to funding provided to private registered training organisations, and the Territory's view is that it is appropriate that this should be assessed with other VET expenses.

Cost Weights

11.3 The Territory strongly supports the application of cost weights to recognise the higher service use rates and input costs relating to remote and Indigenous students. In the 2010 Review, the Commission applied a remoteness cost weight of 35 per cent (applying to remote and very remote students) and an Indigeneity cost weight of 30 per cent, based on state-provided data. The cost weights are additive, meaning a

weight of 65 per cent applied for remote Indigenous students. The Commission has proposed to update these cost weights using data provided by states prior to the Final Report.

- 11.4 Due to its demographic characteristics, the Territory is more sensitive to the size of loadings applied to Indigenous and remote students than other states. Consequently, the Territory has significant concerns about the proposed application of a single remoteness loading to remote and very remote students. The Territory considers that costs are not homogeneous across remote and very remote areas and that they increase with remoteness.
- 11.5 The Territory recognises this effect in determining the loadings to be applied to Annual Hours Curriculum (AHC) rates for remote Territory students. Table 11.1 shows that in 2015, the Territory will provide loadings of up to 23 per cent for students in 'Remote 1' areas (Tennant Creek, Nhulunbuy and Jabiru) and up to 91 per cent for students in 'Remote 2' areas (areas more than 50 kilometres away from Darwin, Palmerston, Katherine, Batchelor, Alice Springs and the Remote 1 areas). The Territory considers that there should be similar disaggregation in the remoteness loading applied in the Commission's Post-secondary Education category.

Table 11.1 – Northern Territory AHC rates and remoteness loadings, 2015

	Base rate	Remote loading ¹	Remote loading ²
	\$ per AHC	% of base rate	% of base rate
Arts, Entertainment, Sports and Recreation	9.67	18	71
Automotive	12.89	13	53
Building and Construction	12.89	13	53
Community Services, Health and Education	9.67	18	71
Finance, Banking and Insurance	8.60	20	79
Food Processing	15.03	11	45
Textiles, Clothing and Footwear, and Furnishings	9.67	18	71
Communications	9.67	18	71
Engineering and Mining	11.82	14	58
Primary Industry	9.13	19	75
Process Manufacturing	10.74	16	64
Sales and Personal Service	10.74	16	64
Tourism and Hospitality	8.60	20	79
Transport and Storage	9.67	18	71
Utilities	9.67	18	71
Business and Clerical	7.52	23	91
Computing	8.60	20	79
Science, Technology and Other	9.67	18	71
General Education and Training	13.42	13	51
Commercial Fishing (deckhands)	10.74	16	64
Cooking	12.80	13	53

1. Remote 1 loading is \$1.70 per AHC and applies to students attending institutions in Tennant Creek, Nhulunbuy and Jabiru.

2. Remote 2 loading is \$6.83 per AHC and applies to students attending institutions in areas more than 50km from Darwin, Palmerston, Katherine, Batchelor, Alice Springs and the Remote 1 areas.

Source: Northern Territory Department of Business

User charges

11.6 The Territory accepts the Commission’s decision to net off all post-secondary education user charges against post-secondary education expenses rather than assessing them in the Other Revenue category, as this revenue is generally used to meet state spending on non-subsidised training hours.

Assessing Socioeconomic Status

11.7 The Territory welcomes the Commission’s consideration of an SES assessment to recognise the different post-secondary education use rates between people from low and high socioeconomic backgrounds. However, the Territory is concerned that the Commission proposes not to assess SES disabilities for remote students due to the lack of a discernible relationship between service use and SES in remote and very remote areas as measured by the IRSEO Index.

11.8 On a conceptual basis, the Territory does not accept the assumption that SES only influences use of post-secondary education services in some parts of a state and not in others. The Territory's view is that the lack of a clear relationship between post-secondary education service use and the IRSEO SES measures for remote and very remote areas is a function of the small number of high SES people in these areas, rather than evidence that SES does not influence service use. The Territory urges the Commission to consider ways of overcoming this issue to ensure that the SES influences on service use in remote and very remote areas are not overlooked. The Territory's position on this issue, including options for achieving a more intuitive representation of the impact of SES on service use, is detailed in Chapter 26: Indigeneity.

12

Health

The Territory supports the Commission's proposals to:

- combine the health assessments into a single Health category;
- adopt a direct assessment method for all components based on data from the Independent Hospital Pricing Authority (IHPA) instead of the Australian Institute of Health and Welfare (AIHW);
- assess the impact of the private sector using economic environment factors; and
- assess category expenses net of user charges.

The Territory does not support the Commission's proposals to:

- discontinue the assessment of SDS for community health; and
- adopt substitutability factors of 40 per cent for EDs and outpatients services, which understate the level of substitutability for these services.

The Territory proposes that the Commission:

- apportion data on ED presentations where demographic information is not known based on the user profile of the nearest hospital for which demographic data is known.

12.1 The Territory supports the Commission's proposal for a single Health Category with separate assessments for admitted patients; EDs; outpatients; non-hospital patient transport; and community health. In general, the Territory also supports the proposed direct method of assessment (instead of the previous subtraction method) including application of SDC, location and economic environment factors.

12.2 The direct assessment method calculates national average spending per capita for population groups cross-classified by Indigeneity, remoteness, SES (using IRSEO/NISEIFA) and age. This approach will better capture the relative use and cost of providing services to particular population sub groups. In particular, the use of

IHPA data rather than AIHW data better distinguishes the relative costs of patient sub groups regardless of the hospital at which they receive treatment.

- 12.3 The cost pressures associated with different population sub groups differ from those arising from wages and other factors which increase the cost of providing services in particular locations. Differentials in those costs will be captured in the location factor in each component of the Health category.
- 12.4 The Territory supports the assessment of economic environment factors in the ED, outpatients and community health components. The Commission has sought views on the proposed proportion of substitutable services in each of these components. The following sections provide the Territory's views on substitutability and other issues related to the assessment, primarily:
- SDS issues associated with health services;
 - proxies for classifying ED presentations where demographics have not been recorded;
 - discounting the SDC factor in the community health assessment; and
 - the approach to deriving economic environment factors.

Assessment of SDS Disabilities

- 12.5 In the 2010 Review, a conceptual case was established by the Commission that SDS impacts the costs of providing community and other health services, based on state-provided data and data from the AIHW. Despite there being no significant changes in the way in which health services are provided since the 2010 Review, the Commission now proposes to discontinue the assessment of this disability in the community health assessment.
- 12.6 The Territory strongly opposes this proposal and is firmly of the position that the Commission should retain the assessment of SDS for community health expenses.
- 12.7 In the Territory, health services are provided in remote and very remote communities due to high health needs and the often large distances between communities and major centres. The failure to assess SDS will particularly disadvantage the Territory with its small, dispersed population.
- 12.8 The Territory argues that the use of NWAU data to measure states' community health expenditure needs does not capture SDS disabilities, as it is based on data from large hospitals, which do not face the same SDS disabilities as small community health clinics.
- 12.9 The Commission's failure to recognise SDS contrasts with the NHRA, which recognises that small hospitals in regional and remote areas cannot achieve economies of scale and that costs per activity are higher compared to large hospitals.

These hospitals are block-funded in recognition that activity-based funding would be insufficient to cover the costs of operating the hospital. This is also the case for community health services; patient characteristics and differentials in wage costs do not sufficiently capture the SDS disabilities associated with providing services in remote areas.

- 12.10 SDS recognises that services are provided, but the inputs per user are not fully utilised, or are not as productive as in other areas, particularly in small, isolated communities. This is evidenced in a study by Zhao and Malyon (2010) on the provision of primary health care services in remote Territory communities². The study shows that average per capita expenditure was highest in clinics servicing populations of less than 200 people, regardless of remoteness. Average per capita expenditure declined with increasing population except for the last population category (1000+ people) where it increased, likely due to these clinics providing a wider range of services including outreach services to smaller communities.
- 12.11 Staffing costs comprised over 70 per cent of expenses for primary health clinics in the study. Accordingly, the study evaluated population to staff ratios (full-time equivalent staff numbers) finding the lowest ratio in small, 'very remote' clinics (<200 population, 400 kilometres or more from the nearest hospital) of 31 people per full-time equivalent employee (31:1). Within this category of remoteness, the ratio among clinics servicing the largest population group (1000+) was 92:1. For clinics servicing 1000+ people in the least remote locations (<200 kilometres from the nearest hospital) the ratio was 211:1.

Adjustment for ED presentations without demographic information

- 12.12 The Territory proposes that the Commission should apportion data on ED presentations where demographic information is not known based on the user profile of the nearest hospital for which demographic data is known, rather than the user profile of other hospitals in similar remoteness categories, due to significant differences in the demographic characteristics of patients in hospitals in the same remoteness categories across Australia.
- 12.13 The Commission has obtained detailed activity data from IHPA to calculate the SDC factor for the ED component of the Health category. There are, however, presentations in hospitals where there is no demographic data and the proportion of these presentations increases with remoteness; up to 85 per cent of presentations in very remote hospitals do not have demographic data. The Commission proposes to use the user profile of hospitals in the same remoteness region to extrapolate demographic data for those presentations.

² Zhao Y, Malyon R. Cost Drivers of Remote Clinics: Remoteness and Population Size. Australian Health Review 2010; 34:1-5.

- 12.14 While this approach would be better than allocating a user profile based on large hospitals (as previously proposed), the Territory is concerned that the user profile of very remote hospitals, which is based on data for just 15 per cent of presentations, would not be representative of very remote hospitals where demographic data has not been provided. This will especially be the case where there are marked differences in the Indigenous proportion of the service population.
- 12.15 Demographic information on ED presentations at Territory hospitals is provided to IHPA. Accordingly, it is likely that data from Tennant Creek Hospital (TCH) and Gove District Hospital (GDH) are included in the user profile for the very remote category. Indigenous patients comprise about 69 per cent of emergency presentations at TCH and 45 per cent at GDH. This reflects underlying differences in the demographics of their service populations, with GDH servicing a large non-Indigenous population in the mining township of Nhulunbuy as well as the surrounding region, whereas the population of Tennant Creek is predominantly Indigenous. More broadly, over 60 per cent of the service populations for these hospitals are Indigenous people.
- 12.16 Table 12.1 shows the number of block-funded, very remote hospitals (as classified by IHPA), excluding TCH and GDH, by the Indigenous proportion of the population of the SA2 area that each hospital is located within. Although the SA2 geography tends to cover a large area, it does reflect the tendency of very remote hospitals to service a wider area than simply the township in which they are located (this is the case for GDH and TCH, which service areas beyond the SA2 of each hospital’s township).

Table 12.1 – Indigenous proportion of service population, very remote block-funded hospitals

	0%-19%	20%-39%	40%-59%	60%-79%	80%-100%	Total
Number of hospitals	28	10	6	4	2	50
Per cent of total	56%	20%	12%	8%	4%	100%

Source: IHPA, National Efficient Cost Determination 2014-15, Appendix A, Table 4; 2011 Census data, sourced using TableBuilder Pro. Excluded GDH and TCH.

- 12.17 Over half of block funded, very remote hospitals, largely located in Queensland, South Australia and Tasmania, have service populations where less than 20 per cent are Indigenous. Accordingly, a user profile that is strongly influenced by these hospitals would not be representative of the user profile of GDH and TCH which service predominantly indigenous populations. This would substantially and incorrectly understate the use of ED services by Indigenous patients in Territory hospitals.
- 12.18 The Territory proposes that a more accurate proxy would be to apply the user profile of the nearest hospital for which there is demographic data on presentations or to use user profiles from remote and outer regional hospitals, stratified by the estimated Indigenous proportion of the service population.

Data and Discounting in the Community Health Component

- 12.19 The Territory opposes the application of a 25 per cent discount to the SDC factor in the community health assessment. The discount is applied because the Commission considers that data on ED NWAUs may not be completely accurate in capturing the profile of people using community health services. However, no data is provided to support this conclusion.
- 12.20 While the Territory supports the use of ED NWAU data as a proxy for community health services, the Territory proposes that data from all triage categories should be used, as failure to include triage categories 1-3 biases the assessment toward the nature of community services in non-remote locations.
- 12.21 The triage rating system rates how urgently a patient needs attention, not the nature or severity of a condition. It is also subjective, with no reliable or valid system of cross checks to ensure that patients are allocated to triage categories in a consistent manner. Substantial differences in inter-rater reliability have been found both within and between hospitals in the Territory. The Northern Territory Department of Health does not believe this to be a Territory-specific issue.
- 12.22 Furthermore, in remote communities, primary health care clinics attend to patients in the first instance and do provide resuscitation and other care where people require immediate treatment as these are often the only providers of medical services to hand.
- 12.23 The use of all triage categories would remove any bias and provide for a more appropriate assessment of community health services across all remoteness classifications.
- 12.24 The Territory's view is that the evidence does not indicate that discounting is required, as it is not an appropriate response to any potential differences in the profile of users. Whatever proxy is chosen, it should be applied to the whole of community health expenditure.

Assessment of the Impact of the Private Sector

- 12.25 The Territory strongly supports the use of the ARIA remoteness classification, as it classifies Darwin as Outer Regional and appropriately recognises that it has the characteristics of a moderately accessible town rather than those of a highly accessible/major city in terms of private sector provision of admitted patient services. Accordingly, the Territory acknowledges that there is no longer need for an adjustment for this in the admitted patients component of the Health category.
- 12.26 The Territory strongly supports the assessment of the impact of the private sector in the ED, outpatients, and community health components of the Health category using an economic environment factor. However, the Territory remains of the view that

the level of substitutability of ED services is substantially higher than 40 per cent as proposed by the Commission.

- 12.27 More concerning is that the Commission has aligned the level of substitutability in the outpatients component with the ED placeholder of 40 per cent. ABS National Health Survey data indicates at least 50 per cent of outpatients had not been admitted in the past 12 months and at a minimum, this should guide the minimum level of substitutability more than consistency with the ED placeholder. Furthermore, even though attendance at outpatients may be due to a condition which resulted in an earlier admission; this would not preclude patients from using private sector services for some tests and other services. Rather, patients' choices will be guided by familiarity (from their prior admission), convenience or other reasons.
- 12.28 The Territory supports the placeholder of a substitutability factor of 75 per cent for the community health component. There is a high level of substitutability between community health and general practitioner (GP) services and greater government provision of community services in the Territory is necessary due to it having the lowest number of full-time workload equivalent (FWE) GPs per capita of all jurisdictions (67 FWE GPs per 100 000 population compared to 96 FWE GPs per 100 000 population nationally).
- 12.29 The Commission has proposed a common approach to calculating the economic environment factor based on bulk billed benefits paid by Medicare, 'standardised' by Indigeneity and remoteness. While the Territory acknowledges the intent of the method, it notes that the classification by Indigeneity relies on Medicare's voluntary Indigenous Identifier. Given the voluntary nature of the identifier, the question of Indigenous status is not regularly asked (as occurs for address) and it is asked primarily in relation to new registrations (not existing registrations). It is therefore likely that Indigenous status is understated in the Medicare data.
- 12.30 AIHW reported that in 2006 only about 28 per cent of the Indigenous population had identified as Indigenous in the Medicare data and identification across age groups differed with 50.5 per cent of children aged 0-4 years identifying as Indigenous compared with only 19.2 per cent of those aged 50 years and over³. If such a shortfall still exists, it will have implications for the quality of the Commission's approach to standardisation. This may be further compounded by differences in the level of identification between jurisdictions and/or remoteness areas resulting in the misclassification of costs between Indigenous and non-Indigenous sub-groups.

³ AIHW 2010. National Best Practice Guidelines for Collecting Indigenous State in Health Data Sets. Cat. no. IHW 29, Appendix A.

13

Welfare

The Territory supports the Commission's proposals to:

- use the AIHW unit record data, disaggregated by Indigeneity and SES to derive the SDC factor for child protection services, however the Territory's view is that remoteness also significantly impacts the use of child protection services;
- assess residual aged care expenditure and revenue on an equal per capita basis for all states except Western Australia;
- assess disability services expenditure during the transition period of the National Disability Insurance Scheme (NDIS) using the population eligible for NDIS, rather than using Disability Services Pension recipient numbers, however the Territory proposes that the Commission should assess Indigenous use rates for the existing disability services component of the assessment; and
- use states' numbers of Commonwealth concession card holders as a basis for assessing states' welfare concession expenditure.

The Territory does not support the Commission's proposals to:

- assess states' needs for general welfare services based on the number of single parent households in each state; and
- not include a cost of living adjustment.

13.1 In general, the Territory is satisfied that the Welfare category captures the principal drivers of states' welfare expenses. However, the Territory proposes that the Commission should include an Indigeneity disability in its calculation of the SDC factors for the existing disability services component, and should use IRSEO and NISEIFA as indicators of states' general welfare user populations, rather than numbers of single-parent households.

Family and Child Services

Socio-demographic composition

13.2 The Territory strongly supports the Commission’s proposal to recognise the impact of SES and Indigeneity on the cost of providing family and child services, using AIHW data. The Territory considers that the AIHW child protection records are more representative of the need for family and child services in remote Indigenous communities, than the state data used in the 2010 Review.

Remote Indigenous cost weight

13.3 The Territory considers that there is a strong conceptual case to also recognise additional costs of providing child protection services to remote Indigenous children. Remote Indigenous communities experience high levels of socioeconomic disadvantage, violence, psychological distress and family dysfunction.⁴ This increases both the use and cost of child protection services as remote Indigenous children who come to the attention of child protection authorities have more complex needs.

13.4 For example, the Aboriginal Child Placement Principle, which all states have adopted, requires that Indigenous children under care be placed with Indigenous people living in close proximity to family and community when possible. In the Territory this increases costs because it is significantly more expensive to provide out-of-home-care services in remote areas, particularly care relating to high-need Indigenous children.

13.5 The Territory also employs Remote Aboriginal Family and Community Workers who provide culturally appropriate support to Indigenous parents and also deliver early intervention programs. These workers also act as interfaces between the child protection system and Indigenous families. The Territory Government also provides an extensive range of services to build the confidence and parenting skills of Indigenous parents, which are targeted at remote Indigenous communities.

13.6 While the Territory has been unable to compile cost data to quantify the impact of remote Indigeneity on costs in the time available for preparing this submission, the Territory strongly supports further investigation into data and methods that would enable the Commission to make this assessment in the future.

Aged care services

13.7 The Territory supports the Commission’s proposal to assess expenses and Commonwealth payments relating to aged care services on an equal per capita basis for all states except Western Australia, and to backcast this treatment across all assessment years.

⁴ Berlyn, C., & Bromfield, L. M. Child protection and Aboriginal and Torres Strait Islander children. National Child Protection Clearinghouse Resource Sheet, 10.

- 13.8 The Territory's view is that the Commission's proposed assessment of aged care services is appropriate, as it reflects a major change in Commonwealth-state financial relations following the introduction of new aged care and related disability services arrangements, whereby the Commonwealth funds all expenses on basic community care and National Disability Agreement services for older people in all states except Western Australia.

Disability Services

Existing Disability Services

- 13.9 The Territory supports the proposal to use states' NDIS-eligible population instead of the number of people receiving the Disability Support Pension in the assessment of existing disability services user populations. The Territory's view is that the proposed methodology aligns with the changes to Commonwealth-state funding arrangements for disability services and better reflects the service use population across states.
- 13.10 However, the Territory proposes that the Commission should also assess Indigenous use rates in the SDC factor for the existing disability services component of the Welfare category.
- 13.11 Census data shows that Indigenous people under 50 years of age are twice as likely as non-Indigenous people under 50 years to have a disability where they need assistance for core activities, and as such, the Territory contends that a conceptual case exists for a differential assessment of Indigenous status.
- 13.12 The Territory understands that data for 2013-14 is not yet available to test the materiality of an Indigeneity disability and that the scheme is in its transition stages, however the Territory's understanding is that NDIS user data will be available before the Final Report and can be disaggregated by Indigeneity, and as such, it should be assessed.

DisabilityCare Australia

- 13.13 The Territory supports the Commission's proposed treatment of DisabilityCare Australia expenses during the trial and transition phases of NDIS, including the proposal to continue to make separate assessments for existing disability services and NDIS-related services during the transition period, with both based on the NDIS-eligible population.
- 13.14 During full implementation, the Commission has proposed to assess state contributions to the scheme on an actual per capita basis. The Territory considers this approach to be appropriate, given that during full implementation states' contributions will be based on population shares and will not be subject to differences in state policies.

- 13.15 The Commission has proposed that Commonwealth payments including state draw-downs of the Medicare Levy from the DisabilityCare Australia Fund will have an impact on states' relativities. The Territory supports this proposal and considers that Commonwealth payments that increase states' capacities to fund disability services should impact on relativities.
- 13.16 Further, the Territory supports the Commission's proposal to treat Commonwealth contributions to NDIS funding, and any purchases by the NDIS of state services, as having no impact on state relativities.

General Welfare Services

Concessions

- 13.17 The Territory supports the Commission's proposal to assess state concession expenses using Commonwealth concession card holder numbers, on the basis that all states use Commonwealth concession cards as an indicator of eligibility for receiving state concessions.

Other general welfare- socio-demographic composition

- 13.18 The Territory does not support the Commission's proposed measure of disadvantage for the general welfare component of the Welfare category, and proposes that the Commission use states' populations in the first quartile of NISEIFA and IRSEO instead of the proportion of one-parent families with dependent children in state populations.
- 13.19 In the 2015 Review Draft Report, the Commission proposed to use SEIFI to determine need for general welfare services because it was an individual measure of disadvantage which more closely aligned with the target group.
- 13.20 However, following the release of the Draft Report, the Commission stated in Staff Discussion Paper CGC 2014-03 that the ABS will not update SEIFI to reflect 2011 Census data. Commission staff have therefore proposed to use states' shares of single parent households with dependents derived from the 2011 Census.
- 13.21 The Territory does not support this approach because disadvantage is multi-faceted and is difficult to capture using a single variable. Further, while the Territory accepts that single parent households may be a high use population group, it is a very limited measure of total demand for general welfare services.
- 13.22 The Territory proposes that states' population in the first quartile of NISEIFA and IRSEO should be used instead, because the measures are specially designed to capture disadvantage. The Territory notes the Commission's concern with using an area-based approach but the Territory's view is that equalisation is still better served by using an area based measure rather than attempting to capture disadvantage using a single variable.

13.23 The Territory contends that while disadvantaged people may live in non-disadvantaged areas (and vice-versa), the general pattern of use of general welfare services by individuals would be more closely aligned with the population of state living in highly disadvantaged areas than a state's number of single-parent families. Further, Commission staff have not provided any information supporting its claim that single-parent families are more intensive users of general welfare services compared with any other population group.

Cost of living adjustment for welfare services

13.24 The Territory considers there is a conceptual case for recognising the impact of cost of living on the demand for welfare services but accepts that there is currently no data available to quantify this impact. If new data on this issue were to become available, the Territory would support incorporating it into the Welfare category.

Location and SDS

13.25 The Territory strongly supports the Commission's proposal to recognise the impact of differences in interstate wages and regional costs on the cost of delivering family and child, disability and general welfare services.

13.26 The Territory also strongly supports the proposal to assess a SDS disability for the child protection component of family and child services, due to the indivisibility of labour and significant unproductive travel time incurred, particularly in providing child protection services to small, remote communities.

13.27 The Territory's views on further issues surrounding location and SDS disabilities are provided in chapters 22: Wages Costs, 23: Regional Costs, and 24: Service Delivery Scale.

14

Housing

The Territory supports the Commission's proposals to:

- include public non-financial corporation (PNFC) expenses and revenue as well as general government expenses and revenues in this category;
- make separate assessments of gross housing expenditure and revenue;
- use Census data on households residing in social housing to measure states' user populations instead of Commonwealth pensioner numbers; and
- apply an Indigenous cost weight, but contends that the cost weight should be higher than 40 per cent.

The Territory does not support the Commission's proposals to:

- remove the SDS factor from the Housing category;
- assess first home owners expenses on an equal per capita basis; and
- change the treatment of NPARIH, such that it affects states' relativities.

The Territory proposes that the Commission:

- should apply a remote-Indigenous cost weight to capture the additional costs of providing housing services to remote Indigenous households compared with non-remote Indigenous households; and
- make a household size adjustment to capture the increased use of housing services by larger households.

14.1 The Commission's proposed methodology for assessing states' housing needs significantly understates the use and costs of providing social housing services in the Territory. Under the methodology proposed in the Draft Report, in 2012-13, the Territory's assessed net expenses represent just 37 per cent of its actual expenses,

with the Territory's assessed expenses being over \$500 less than its actual expenses per capita⁵.

- 14.2 The Territory acknowledges that while direct comparisons of assessed and actual expenditure can be misleading, due to differences between individual state policies and the national average, the difference between the Territory's assessed and actual expenses in the Housing category are not attributable to policy influences, but rather are indicative of the level of need for social housing in the Territory, as standards are not notably higher in the Territory than elsewhere.
- 14.3 The Territory considers that its housing services policies are broadly consistent with those of other states, and as the state with the highest per capita housing needs arising from unavoidable demographic characteristics, the Commission's proposed assessment does not adequately capture the impact of differences in state circumstances on states' expenditure needs.
- 14.4 The Territory proposes that the Commission make several adjustments to its proposed assessment methodology to ensure a more appropriate outcome in the Housing category, including:
- assessing the impact of household size on states' expenses;
 - applying a remoteness gradient to the Indigenous cost weight;
 - increasing the Indigenous cost weight;
 - reinstating the SDS factor in the Housing category; and
 - continuing to assess NPARIH on an actual per capita basis.

Appropriateness of the overall assessment approach

- 14.5 The Territory generally supports the Commission's approach to assessing states' social housing expenses based on differences in states' socio-demographic composition, particularly the differential assessment of the impact of Indigeneity and remoteness on states' housing services expenses. The Territory accepts the Commission's use of Census data on household characteristics rather than pension recipient data as the basis for assessing social housing user populations, as Census data allows a more direct assessment of social housing use, is up to date and not policy influenced. However, assessing social housing use by households, rather than by individuals significantly understates the costs associated with providing social housing in the Territory. This is predominantly due to the Territory's higher than average household size.

⁵ Northern Territory actual expenses per capita divided by updated SDC calculations. The Territory notes that states' assessed service expenses outlined in the Housing attachment of the Draft Report are incorrect.

- 14.6 According to 2011 Census data, the Territory's share of total households, for which landlord, income and Indigenous status are known is 0.75 per cent of the national total, compared to the Territory's population share of 1.04 per cent. However, the Territory has the highest share of social housing households of all states, with social housing households comprising 15.8 per cent of total Territory households, compared with a national average of 4.8 per cent.⁶
- 14.7 The Territory contends that this is not due to the Territory making above-average effort to provide social housing, but rather, is a reflection of the above average social housing needs of the Territory population, predominantly due to the Territory's large remote Indigenous population, as well as the larger than average size of Territory households.
- 14.8 The Commission's underlying assumption behind the appropriateness of its proposed methodology is that:
- "...the demand for housing is household based rather than individual based. In terms of demand, a household of one is the same as a household of four."⁷*
- 14.9 The Territory strongly rejects this assumption. While the proposed approach to calculating states' SDC factors indicates the likelihood of different population groups to live in social housing dwellings, it assumes homogeneity of household composition across Australia, understating housing needs for those states with larger than average households and ignoring the different ways in which different population groups use social housing services.
- 14.10 The average household in a social housing dwelling in the Territory does not reflect the national average, with above average household size for both non-Indigenous and Indigenous tenants, higher rates of overcrowding, and increased likelihood for several adult tenants to be residing within one dwelling. According to 2011 Census data, the median Australian household contains 2 people, compared with 3 people in the Territory. For Indigenous households, the Australian median household size is 3 people, whereas in the Territory, the median is 5 people.

Remote Indigenous Cost Weight

- 14.11 The Territory strongly supports the application of an Indigenous cost weight in the Housing category, to recognise the increased costs associated with providing housing services to Indigenous tenants, however the Territory's view is that the Commission's proposed cost weight of 40 per cent significantly understates the additional costs to the Territory associated with remoteness and Indigeneity.
- 14.12 The Territory notes that the Productivity Commission data used to calculate the Indigenous cost weight excludes data for all of the Territory's remote Indigenous

⁶ 2011 Census data, extracted using Table Builder.

⁷ Commonwealth Grants Commission, Report on State Revenue Sharing Relativities 2015 Review Draft Report, page 243

housing dwellings. The Territory's view is that this has contributed to the understatement of the Indigenous cost weight in the Housing category. As such, the Territory strongly proposes that the Commission use state data rather than Productivity Commission data to calculate the Indigenous cost weight.

14.13 The Territory also notes that the Commission has analysed state provided data since the release of the Draft Report, and has indicated its intent to update the Indigenous cost weight in the Final Report using state-provided data.

Remote Indigeneity

14.14 The Territory's view is that a further reason for the significant understatement of the Territory's social housing needs under the proposed assessment methodology is that there is no differentiation between the costs of a household with one Indigenous person living in a unit in a major metropolitan area, and a household of twelve Indigenous people living in a three bedroom house in a very remote Indigenous community.

14.15 The Territory contends that additional weightings should be applied to remote and very remote Indigenous households to capture the additional costs of providing property and tenancy management to remote and very remote Indigenous tenants.

14.16 In 2012-13, the Territory's per household tenancy management costs for remote dwellings (not Indigenous-exclusive) were 43 per cent higher than for outer regional dwellings, while per household costs for very remote dwellings were 151 per cent higher than for outer regional dwellings.⁸

14.17 Maintenance expenses are similarly impacted by remoteness in the Territory. In 2012-13, maintenance costs for remote dwellings (not Indigenous-exclusive) were 67 per cent higher than for outer regional dwellings, while maintenance costs of very remote dwellings was 95 per cent higher than for outer regional dwellings.⁹

14.18 Further to the additional costs of housing services associated with remoteness, there are specific characteristics of remote and very remote Indigenous social housing tenants that increase the costs associated with remote Indigeneity, including:

- higher rates of overcrowding in remote areas, significantly increasing wear and tear, requiring additional maintenance attendances;
- the increased costs of contracting tradespeople to conduct repairs and maintenance in remote areas;
- the increased size of dwellings in remote areas compared with non-remote areas;

⁸ Northern Territory Department of Housing.

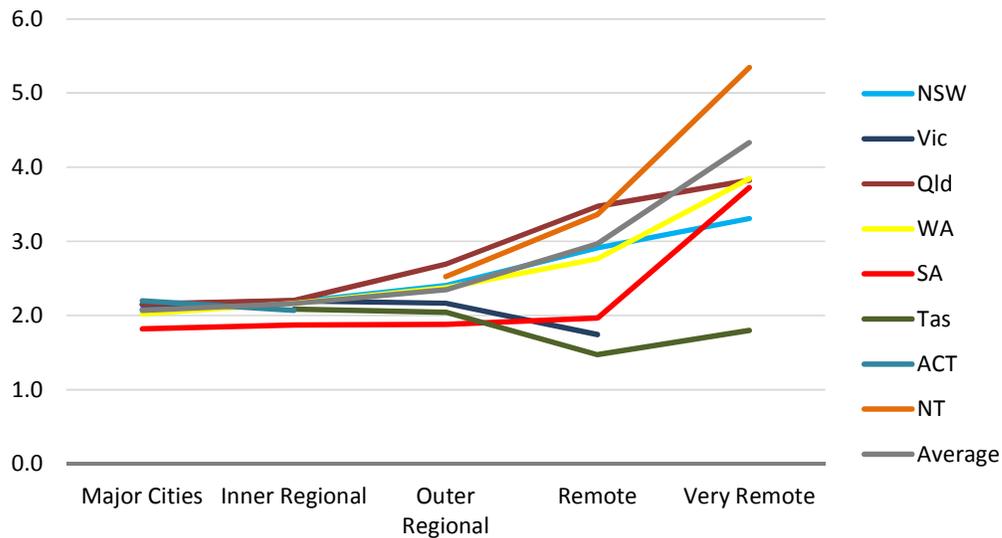
⁹ Ibid.

- the high mobility of the remote Indigenous population, necessitating additional tenancy management services to ensure that users of social housing are known, and are paying rents; and
- the significantly higher local council rates charged in remote Indigenous communities.

14.19 The Territory contends that these issues are most pronounced in remote Indigenous households, and as such, one Indigenous cost weight applied to all Indigenous households across Australia is not appropriate. The Territory proposes that either; remote and very remote cost weights be applied, or the Indigenous cost weight should increase with remoteness.

14.20 Figure 14.1 shows that the average size of social housing households in very remote areas is double that in major metropolitan areas.

Figure 14.1 – Average household size of households residing in social housing



Source: 2011 Census data extracted using Table Builder

14.21 Census data also shows that non-Indigenous households living in social housing are substantially more likely than Indigenous households to be small households: 76 per cent of other households living in social housing consist of 1 or 2 usual residents compared with 38 per cent of Indigenous households.¹⁰

Repairs and Maintenance

14.22 2011 Census data show that an Indigenous household is ten times more likely to be overcrowded than a non-Indigenous household, with the number of Indigenous households in Australia comprising eight or more people equating to 3 per cent of total Indigenous households, compared with just 0.3 per cent for non-Indigenous

¹⁰ AIHW – Housing circumstances of Indigenous Households page 14.

households. The rate of overcrowding is particularly pronounced in remote and very remote areas, with 93 per cent and 97 per cent of Indigenous households in remote or very remote areas respectively comprising eight or more people.¹¹

- 14.23 2011 Census data also shows that *“the majority of 'severely' crowded dwellings with one or more Aboriginal and Torres Strait Islander peoples were located in very remote Australia (71 per cent), based on the 2006 remoteness classification. Only 10 per cent of such dwellings were in major cities. Fifty-seven per cent were located in the Northern Territory, with large proportions also found in Queensland (18 per cent) and Western Australia (14 per cent)”*.¹²
- 14.24 Census data also indicates that *“compared with all households, Indigenous households living in public housing and mainstream community housing were significantly less likely to be living in dwellings of an acceptable standard (i.e. has 4 working facilities for washing people, washing clothes, storing and preparing food and sewerage).”*¹³
- 14.25 In its second submission to the 2015 Review, the Territory provided examples of the additional costs of providing repairs and maintenance services in remote and very remote areas compared with urban areas. When employing private contractors, such as electricians to conduct repairs and maintenance, the Territory faces significant loadings on top of the fee for service, including travel time loadings, accommodation and travel allowance, mobilisation fees and in some cases, a general remoteness premium.
- 14.26 In virtually all cases, contractors need to travel from the nearest major town, due to the lack of equipment, tools and skilled tradespeople in remote communities. While the Territory employs community-based maintenance officers to provide basic repairs and maintenance services in remote communities, for specialised maintenance tasks such as plumbing, electrical and structural maintenance, skilled tradespeople are required.
- 14.27 An example of the significantly higher repairs and maintenance costs associated with providing housing services to remote and very remote communities is the replacement of a toilet, service of a cistern and replacement of a pump of a second toilet at Docker River, located 670 kilometres southwest of Alice Springs, at a total cost of \$6 019.20. The materials for this maintenance task were quoted at \$287, and labour costs of \$1 700, however the majority of the maintenance costs related to remoteness, with travel time costs of \$3 365.

¹¹ 2011 Census data, extracted using Table Builder.

¹² ABS Census of Population and Housing: Estimating homelessness, 2011.

¹³ Source: AIHW Report on Housing assistance for Indigenous Australians.

Tenancy Management

- 14.28 Indigeneity and remoteness further exacerbate the increased costs associated with larger household size, as additional educational services are required per household, to ensure that each tenant is adequately aware of their tenancy responsibilities, and has the skills to uphold the terms of the lease.
- 14.29 In the Territory, this involves the provision of cooking and cleaning classes and necessitates additional housing services staff per tenant. Further, as individual rent payment arrangements are made for each person listed on a lease agreement, larger Indigenous households require intensive tenancy management services to ensure that the basic terms of lease agreements are fulfilled.
- 14.30 Indigenous tenants are more likely to suspend automatic rental payment arrangements than non-Indigenous tenants, requiring frequent attendances by property management staff to try to recover rents, and re-establish rental recovery arrangements.
- 14.31 The Territory notes that while social housing providers aim to ensure that rental recovery arrangements are in place, these are not compulsory. In the Territory, 92 per cent of social housing tenants receive the majority of their incomes from Centrelink benefits.¹⁴ In order to establish rental recovery arrangements, tenants are required to sign automatic deduction forms. In a remote setting, signing such an agreement necessitates a tenancy management officer attending the tenant's house, to ensure that paperwork is completed. In a remote area, this leads to significant costs, due to the need for departmental officers to travel to remote locations from major centres.
- 14.32 While the Territory engages community-based Community Housing Officers to monitor tenants and liaise with officers from the Department of Housing regarding tenancy issues, departmental staff are frequently required to visit remote communities to enforce punitive measures when tenancy agreements are not upheld, and rental payment arrangements are suspended.
- 14.33 Further, when intentional damage is done to remote Indigenous housing assets, departmental officers are required to travel to remote communities to ensure that repayment arrangements are in place to recover the costs of repairs. Northern Territory Department of Housing officials have indicated that in an urban setting, repayment usually occurs, as the costs of repairs are usually affordable for the tenant. However, in a remote setting, the costs of repairs can be significantly inflated, due to remoteness and the lack of tradespeople in most remote Indigenous communities. This means that long-term payment arrangements are required, in order to ensure that costs can be recovered. As state governments are required to

¹⁴ Northern Territory Department of Housing.

adjust the payment arrangements so as not to put social housing tenants into rental stress, the rate of repayment can be over a number of months or years.

- 14.34 In recent years local council rates charged by remote councils have increased significantly in the Territory, resulting in significantly higher tenancy management expenses in remote communities. The Northern Territory Department of Housing has indicated that annual rate charges for remote public housing have increased by 149 per cent from 2009-10 to 2013-14, with annual rates comparable with Darwin. This is predominantly due to the constrained fiscal position of Shire Councils and the need to increase revenue.
- 14.35 The Territory's view is that the additional costs associated with Indigenous tenants are significantly higher in remote areas than non-remote areas. As such, the Territory proposes that the Commission should use state-provided data on property and tenancy management expenses by remoteness to either; apply remote and very remote cost weights in addition to the Indigenous cost weight, or that the Indigenous cost weight should increase with remoteness, in recognition that the costs of providing tenancy management and maintenance to Indigenous social housing tenants increases with remoteness.

Adjustment for Household Size

- 14.36 The Territory proposes that the Commission should include an assessment of household size in the Housing category, which would better recognise differences in states' housing services expenses. In addition to the impact of overcrowding, which is only prevalent among remote Indigenous households, the Territory considers that household size has a significant impact on states' social housing expenses regardless of Indigeneity or remoteness, due to differences in the types of dwellings required, which impacts on states' repairs and maintenance expenses; and differences in the relative use of tenancy management services by households of different sizes and compositions.
- 14.37 The Territory's view is that the proposed Housing assessment is biased towards overestimating the costs to states with below average household size, whilst underestimating the costs associated with larger than average households. Under the assessment approach in the Draft Report, the underlying assumption is that household size has no impact on the use or cost of social housing services.
- 14.38 The Territory notes that because the proposed approach to calculating the SDC factor in the Housing category measures use by households rather than individuals, the increased average size of Territory households is not captured.

14.39 The Territory contends that the demand for housing services is directly influenced by household size in two main ways. Larger households:

- require larger houses, which are more expensive to maintain, increasing states' repairs and maintenance expenses; and
- increase the frequency of repairs and maintenance attendances, due to increased wear and tear on the dwelling.

14.40 Table 14.1 shows the average household size in each state according to 2011 Census data. It shows that the Territory has the largest average household size, followed by New South Wales, and that Tasmanian households are, on average, the smallest of all states.

Table 14.1 – Average household size

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Average
Average people per household	2.61	2.58	2.59	2.58	2.41	2.39	2.57	2.88	2.58
Household size factor	1.014	1.002	1.006	1.001	0.937	0.928	0.997	1.118	1.000

Source: 2011 Census data – extracted using Table Builder.

14.41 Census data shows that the most common living situation for an Australian household residing in a social housing dwelling is two people living in a house or semi-detached row or terrace house (16 per cent of total social housing households for which characteristics are stated).¹⁵ However, the most common housing situation for social housing residents in the Territory is a household of eight people or more residing in a house or semi-detached row or terrace house (37 per cent of total social housing households in the Territory for which characteristics are stated).¹⁶

14.42 The Territory contends that this is not due to lack of effort to provide sufficient numbers of social housing dwellings, as the Territory's share of national social housing dwellings is 5 per cent¹⁷, approximately five times the Territory's population share, but rather, is due to the significantly larger household size of social housing users in the Territory compared with other states.

14.43 The Territory contends that because Territory households are significantly larger than the national average, its social housing tenants use social housing services more intensively than in states with smaller average household size. Although the Territory does not have comprehensive data on the impact of household size on repairs and maintenance costs, the Territory contends that an obvious conceptual case exists, whereby as the number of people residing in a dwelling increases, so does the use of

¹⁵ 2011 Census data, extracted using Table Builder.

¹⁶ Ibid.

¹⁷ 2011 Census data, extracted using Table Builder.

the household facilities, and as such, wear and tear increases, resulting in a requirement for more frequent repairs and maintenance attendances.

14.44 The Territory contends that household size is an independent feature of a household, with state housing authorities required to adapt services to the user population. A per household assessment that does not take into account differences in states' household size does not capture these unavoidable influences on the use and subsequent costs of providing housing services in the Territory. As such, the Commission should make an adjustment to recognise that households of differing sizes use social housing services differently.

14.45 The Territory proposes that the Commission should include an adjustment for household size in its calculation of states' SDC factors for the Housing category, to ensure that the unavoidable differences in states' demographic characteristics do not lead to under or overestimation of social housing use.

Inclusion of expenses and revenue of PNFCs as well as general government expenses and revenues

14.46 The Territory supports the Commission's view that housing services provided through PNFCs are most appropriately assessed as general government functions, because the services provided align with states' social policy objectives, housing PNFCs have few commercial features and rely on government funding to meet operating deficits and pay for major investments.

Separate assessments of gross housing expenditure and revenue

14.47 While in principle the Territory supports the Commission's proposal to differentially assess states' capacities to raise rental revenue from social housing tenants, the Territory contends that the proposed assessment methodology is overly simplistic and overstates states' capacities to raise rental revenue from Indigenous social housing tenants, as it fails to take into account differences in rental recovery rates. The Territory does not accept that high use of social housing by certain population groups translates into high capacity or propensity to pay rent; however, this is the underlying assumption of the Commission's assessment approach.

14.48 The Territory notes that the Productivity Commission data used by the Commission to assess whether or not there are differences in rental collection rates among different population groups excludes data for all Northern Territory remote Indigenous social housing dwellings.

14.49 The Territory notes that the high proportion of social housing tenants receiving Commonwealth Rental Assistance in some states is likely to inflate the average household rent received by state housing authorities, due to these tenants' increased capacities to pay. Only 10.3 per cent of the Territory's Indigenous

households receive Commonwealth Rent Assistance, compared with a national average of 23.7 per cent.

Household size

14.50 While the Territory contends that household size has a significant impact on states' expenses, the Territory's view is that it should not impact states' assessed capacities to raise rental revenue, as social housing rents are based on market rates, and are levied on a per-household rather than per-tenant basis. As such, an adjustment for household size would not be appropriate in the Commission's assessment of states' capacities to raise rental revenue.

Service Delivery Scale

14.51 The Territory strongly rejects the Commission's proposal to no longer assess a SDS disability in the Housing category. The Territory's views on this issue are discussed in Chapter 24: Service Delivery Scale.

First Home Owners

14.52 The Territory does not support the Commission's proposal to assess states' first home owner grant expenses on an equal per capita basis. The Territory's view is that the Commission should undertake differential assessments where possible, and considers that the use of either ABS or state-provided data on numbers of first home buyers would be appropriate, given that they would provide a policy-neutral basis for assessment and are comparable across states.

14.53 The Territory notes that ABS data is on number of dwellings financed by first home buyers, not first home owner scheme recipients, and as such the two data sets are not comparable. The Territory does not accept the Commission's position that because the two data sets show different results, that neither is appropriate for use in a differential assessment.

NPARIH

14.54 The Territory strongly rejects the Commission's proposal to differentially assess Commonwealth funding provided under NPARIH, rather than continuing to assess this revenue on an actual per capita basis. The Territory notes that this would result in a redistribution of around \$70 million away from the Territory in 2013-14, around 80 per cent of the revenue received by the Territory under the agreement in that year.

14.55 While the Territory acknowledges that the Commission does take into account the financial impact of its proposed treatment of Commonwealth payments, the Territory's view is that consideration should be given to the importance of the payment to the Territory, which is an indication of the intent of the payment, as well

as the impact of previous Commonwealth policies and the series of agreements preceding NPARIH, which indicate that the Commonwealth's intention was that funding to the Territory under NPARIH should be treated by exclusion.

- 14.56 The Commission has often stated that the equalisation process does not provide states with the fiscal capacities to address unmet need. It follows that the Commission should not seek to equalise Commonwealth payments that seek to do so.
- 14.57 The Territory strongly urges the Commission to reconsider its reasoning that needs are assessed for the infrastructure component of NPARIH. Treatment by inclusion will serve to all but completely unwind the investment in remote Indigenous housing in the Territory.
- 14.58 The Territory proposes that the proposed treatment of NPARIH by inclusion is not appropriate for three reasons:
- the funding is provided to meet the acute shortage of remote Indigenous housing assets inherited by the Territory from the Commonwealth after the Northern Territory Emergency Response (NTER), and as such is the result of previous Commonwealth policy;
 - the Commonwealth has stated that the funding provided to the Territory under the previous MOU on Indigenous Housing, Accommodation and Related Services should be quarantined from the fiscal equalisation methodology; and
 - the funding provided is to address unmet need, and as such, needs are not assessed.

Transfer of responsibility from the Commonwealth to the Territory

- 14.59 The Territory contends that the reason for the Territory's significantly above-average share of NPARIH funding is due the Territory's inherited responsibility for providing and maintaining Indigenous community housing from the Commonwealth, following the NTER.
- 14.60 Prior to the Commonwealth's 2008 NTER policy, remote Indigenous housing services and the associated infrastructure were provided by the Commonwealth, but officially owned by Indigenous communities. Under the NTER the Commonwealth enforced five-year leases over the assets. After the expiry of the Commonwealth's five-year leases, it required the Northern Territory to enter into 40-year lease agreements over housing assets in Indigenous communities as a condition of the initial Remote Indigenous Housing Agreement.

- 14.61 The Territory has entered into lease agreements with most Indigenous community councils, however there are complex issues surrounding some of the lease agreements, which often differ between town camps and Indigenous communities.
- 14.62 As a result, the Territory has inherited a significant increase in social housing assets from the Commonwealth, as well as the associated substantially increasing costs of repairs and maintenance and tenancy management. Further, the Territory has also inherited the chronic shortage of housing assets in remote Indigenous communities, which is the reason for its significantly greater share of NPARIH funding compared with other states.
- 14.63 Funding to the Territory under NPARIH includes funding previously provided under the MOU on Indigenous Housing, Accommodation and Related Services and the Strategic Indigenous Housing and Infrastructure Program.

Quarantining of payments

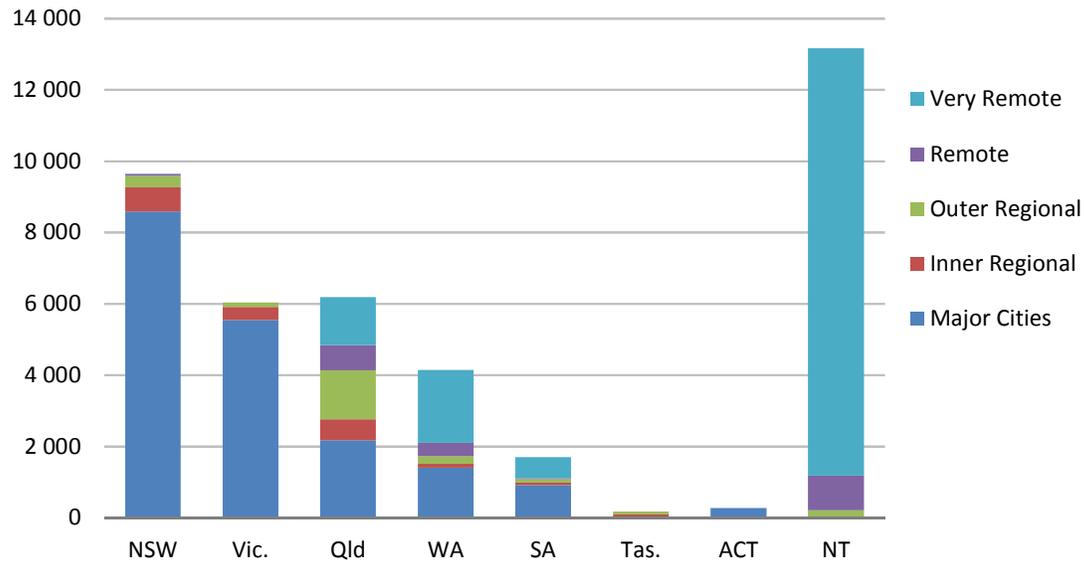
- 14.64 The Territory contends that the Commonwealth and Territory governments agreed that funding provided to the Territory following the transfer of responsibility for remote Indigenous housing in the Territory from the Commonwealth to the Territory, should be quarantined from the equalisation process.
- 14.65 The Commonwealth and Territory governments first entered into the MOU on Indigenous Housing, Accommodation and Related Services in September 2007, which included the Commonwealth's commitment to provide the Territory with \$793 million to build new, and upgrade existing housing infrastructure for Indigenous people in the Northern Territory. The MOU expressly stated that:
- “The Australian Government notes the Northern Territory Government's requirement, as outlined in the letter from the Chief Minister to the Prime Minister of 13 September, that the entire \$793 million commitment to addressing the backlog in Indigenous housing needs to be quarantined from the fiscal equalisation methodology of the Commonwealth Grants Commission...”*
- 14.66 Following this MOU, the Territory and Commonwealth governments entered into the initial Implementation Plan for NPARIH, which stated that:
- “The Parties acknowledge that the National Partnership Agreement subsumes previous Commonwealth and Northern Territory Government arrangements related to the delivery of Indigenous Housing and related infrastructure in remote areas and urban living areas. In the Northern Territory this includes but may not be limited to: The Memorandum of Understanding Between the Australian Government and the Northern Territory Government on Indigenous Housing, Accommodation and Related Services September 2007...”*
- 14.67 The Territory contends that the intended treatment, as outlined in relevant agreements with the Commonwealth, was for the Commission to exclude funding to

the Territory under NPARIH, and as such, it should be excluded from the Commission's assessment of states' fiscal capacities.

Needs are not assessed

- 14.68 The objectives of NPARIH are to provide a significant increase in remote housing infrastructure in Indigenous communities, to address long-standing, chronic shortages of remote social housing that have led to severe overcrowding. In the Territory, this need is especially pronounced. The level of funding to the Territory under NPARIH is representative of the extremely high need for additional infrastructure in the Territory, above and beyond the needs of other states.
- 14.69 As such, the Territory contends that the intent of NPARIH is to address unmet need, which is outside of the scope of equalisation, and as such, the Territory strongly urges the Commission to exclude NPARIH from the equalisation process, or continue the actual per capita assessment adopted in the 2010 Review.
- 14.70 The Commission's rationale for changing the treatment of NPARIH in the 2015 Review is that states have taken an increasing role in providing social housing, and that states' social housing infrastructure needs are assessed. However, the Territory does not accept that the Commission's assessment takes into account the need for states to build new infrastructure to address housing shortages. The housing infrastructure assessment merely assesses states' needs to invest in new infrastructure to meet increased demand due to population growth.
- 14.71 The Territory has the highest levels of overcrowding in Indigenous households of all states, as shown in Figure 14.2. The Territory's share of severely overcrowded Indigenous households is 57 per cent of the national total, 57 times its per capita share.

Figure 14.2 – Remoteness of ‘severely’ crowded dwellings, dwellings with one or more Indigenous person, 2011



Source: ABS Census of Population and Housing: Estimating homelessness, 2011 Feature Article: A spotlight on ‘severe’ overcrowding.

14.72 While NPARIH represents a significant investment in remote Indigenous housing, the level of funding provided will only go so far to address overcrowding in remote Indigenous communities in the Territory. The Northern Territory Department of Housing estimates that approximately 1070 additional bedrooms will be required to address overcrowding after the completion of the 1456 houses scheduled to be built in the Territory under NPARIH. These figures do not allow for population growth. The estimated additional 1070 additional bedrooms are based on the achievement of the Canadian National Occupancy Standard of two people per bedroom.

14.73 The Territory does not accept that the Commission assesses states’ needs for the infrastructure provided under NPARIH. This would require assessing average levels of overcrowding, to enable the Commission to assess how much additional infrastructure each state would need to build to achieve national average rates of overcrowding. The infrastructure assessment does not do this but it merely provides states with the fiscal capacity to build new infrastructure due to population growth.

15

Services to Communities

The Territory supports the Commission's proposals to:

- differentially assess utilities subsidies for uneconomic providers;
- change the definition of small communities to those with a population between 50 and 1000;
- cease the assessment of water availability and quality due to lack of data; and
- adopt a new definition of discrete Indigenous communities.

The Territory does not support the Commission's proposal to:

- assess uniform tariff subsidies on an equal per capita basis.

The Territory accepts the Commission's proposal to:

- assess environmental protection expenses on an equal per capita basis in the absence of new data and a method for differential assessment.

15.1 The Territory is satisfied that the proposed Services to Communities category captures the drivers of state need, except for the Commission's proposed equal per capita assessment of uniform tariff subsidies, and proposes that the Commission develop a means of differentially assessing environment protection expenses.

15.2 While the Territory strongly supports the Commission's proposed assessment of subsidies to uneconomic providers, the Territory considers that an equal per capita assessment of uniform tariff subsidies significantly understates costs to states with large remote and very remote populations residing in communities larger than 1000 people.

Assessment of Uniform Tariff Subsidies

15.3 As stated in its second submission to the 2015 Review, the Territory's view is that an equal per capita assessment of states' uniform tariff subsidies is not appropriate and as such, uniform tariffs should be differentially assessed in recognition of the impacts of location and diseconomies of small scale.

- 15.4 The uniform tariff subsidy provided by the Northern Territory Government is intended to ensure that people living outside of Darwin can access water and electricity services at the same cost as people living in Darwin. The Territory considers that a strong conceptual case exists for a differential assessment of the impact of remoteness on the level of subsidisation of utilities services across states, which is supported by Territory data.
- 15.5 The Territory contends that uniform tariff subsidies are higher in areas where the uniform tariff is set below cost recovery. As such, the Territory urges the Commission to consider a differential assessment of states' uniform tariff subsidies expenses.
- 15.6 Tables 15.1 and 15.2 show the electricity and water subsidies provided under the Territory's uniform tariff arrangements. The tables show that regional centres receive significantly higher subsidies in both absolute and per capita terms compared with Darwin, the Territory's only major metropolitan centre.

Table 15.1 – Uniform tariff allocations for electricity by location, 2013-14

	Darwin	Katherine	Tennant Creek	Alice Springs	Total
Uniform tariff	\$4 515 643	\$940 985	\$6 314 467	\$4 4652 970	\$56 424 065
Customer numbers	68 580	5 291	1 829	14 399	90 099
Cost per customer	\$66	\$178	\$3 452	\$3 101	\$626

Source: Power and Water Corporation

Table 15.2 – Uniform tariff allocations for water by location, 2013-14

	Darwin	Katherine	Tennant Creek	Alice Springs	Total
Uniform tariff	\$0	\$1 298 186	\$795 740	\$4 140 577	\$6 234 503
Customer numbers	68 580	5 291	1 829	14 399	90 099
Cost per customer	\$0	\$245	\$435	\$288	\$290

Source: Power and Water Corporation

- 15.7 The significantly higher uniform tariff subsidies provided in remote centres in the Territory are the result of remoteness and diseconomies of small scale, due to the need to establish independent power generation and water distribution networks, and the inability for power generation networks in these locations to connect to the National Energy Market, which allows significant scale efficiencies for the provision of electricity to around 90 per cent of Australia's population. Further, individual grids are required for Darwin/Katherine, Tennant Creek and Alice Springs, which are too small to realise scale efficiencies.
- 15.8 The Territory proposes that states' uniform tariff subsidies expenses should be differentially assessed focusing on the proportion of states' populations residing in remote locations, with a weighting applied based on state uniform tariff expenditure data, but excluding the population of small communities captured in the assessment of subsidies provided to uneconomic providers.

15.9 However, the Territory acknowledges that this would require the use of state data. Given the short time-frame for the 2015 Review, the Territory proposes that the Commission should use the Regional Costs factor as an interim measure to better capture the increased costs associated with location in the provision of services to communities, pending further investigation into state data in the future.

Subsidies to uneconomic providers

15.10 The Territory strongly supports the Commission's proposed assessment of subsidies to uneconomic providers based on states' shares of small communities with populations of between 50 and 1000 living in remote and very remote Australia. The Territory also supports the Commission's proposal to use state data provided for the 2015 Review to determine the share of total subsidies provided to uneconomic providers.

15.11 The Territory agrees that this approach corresponds well with the average state policy to provide larger subsidies to remote communities, because water and electricity services cannot be provided in an economically viable manner.

15.12 As stated in the Territory's second submission to the 2015 Review, in some cases it is not economically viable to connect small communities to larger electricity networks due to the significant associated infrastructure and maintenance costs, and factors such as remoteness and population size. Instead governments provide stand-alone generators to service community needs which increase the costs of provision of electricity for these communities.

15.13 Additional subsidies are provided by the Territory to Indigenous Essential Services Pty Ltd, a wholly owned not-for-profit subsidiary of Power and Water Corporation which is tasked with ensuring that small communities which are not adequately covered under the uniform tariff policy are still provided with affordable essential services.

15.14 The Territory's view is that the proposed population-based assessment methodology is policy neutral, reflects what states do, and captures differences in states' shares of the user population most affected by the increased costs of providing water and electricity to small remote communities.

Community development

15.15 The Territory strongly supports the Commission's continued assessment of the costs of providing community development services and the recognition that states spend more on providing community development services in Indigenous communities.

15.16 The Territory's view is that the proposed assessment, which differentially assesses states' community development expenses based on the ratio of per capita expenses in Indigenous communities to the per capita expenses in other communities,

captures the additional community development services provided to discrete Indigenous communities as a result of their relative disadvantage and historical under-provision of community amenities by governments.

Protection of the environment

15.17 The Territory accepts the Commission's proposal to assess Protection of the Environment expenses on an equal per capita basis in the absence of reliable data, but would support further work to develop a methodology that would capture differences in states' needs.

16

Justice

The Territory does not support the Commission's proposals to:

- retain a 50:50 split between community policing and specialised policing services;
- derive Indigenous use rates for offenders and courts based on state provided data, and proposes that the Commission continue to use 2007 data from the AIC;
- apply a 25 per cent discount to the specialised police SDC factor; and
- fix Indigenous use rates for the duration of the Review period.

- 16.1 The Territory is concerned that the Commission's proposed changes to the data used in the Justice category significantly undermine the credibility of the assessment and equalisation outcomes by relying on poor data sources.
- 16.2 The Territory proposes that the Commission should continue to derive Indigenous use rates for offenders and courts services from 2007 AIC data, until the AIC releases an updated dataset, to avoid the data quality issues and counter-intuitive outcomes produced by the change in the data source for the Justice category.

Specialised Policing - Offender Data

- 16.3 The Territory proposes that the Commission should continue to use AIC data in the Justice category, due to unacceptable levels of data quality concerns with state-provided data. The Territory notes that the Commission could update the Justice assessment during the course of the 2015 Review period, when the next AIC survey becomes available, which could be in the next 12 months.
- 16.4 The Commission has proposed to replace 2007 data from the AIC on offenders by Indigenous status with state-provided offender data for use in its calculation of the SDC component of the specialised policing services assessment.
- 16.5 As a general principle, the Territory strongly supports the Commission using the most up-to-date data available for its assessments, provided that the data is fit for

purpose. However, the Territory contends that the state data the Commission has proposed to use for the specialised policing assessment is not fit for purpose.

- 16.6 The proposed change from AIC to state-provided offender data results in a reduction in the number of Indigenous offenders nationally, from 33 per cent in the 2010 Review to 19 per cent in the 2015 Review. Further, it also results in a reduction in the Indigenous use weights applied, such that Indigenous people in the middle socio-economic quintile are now assessed as being as likely to commit crime as those in the lowest quintile.
- 16.7 The Territory contends that the reduction in the share of Indigenous offenders resulting from the switch from AIC data to state-provided data is the result of serious data quality issues in the state-provided data, rather than a reduction in the Indigenous offender rate since 2007. This is suggested by the following features of the state-provided data that the Commission proposes to use:
- considerable numbers of offenders did not state their Indigenous status;
 - it is inconsistent with a comparable ABS dataset at the state level;
 - it includes penalty notices/fines, which are not considered to be within the scope of specialised police services; and
 - it produces counterintuitive results.
- 16.8 Given the issues with the Commission's chosen data set and the limitations of the ABS' published data, the Territory would strongly support continued use of the 2010 Review approach to the treatment of Indigeneity in the specialised policing assessment. In the 2010 Review, the Commission calculated offender rates by SES for all offenders using AIC data and applied an Indigenous use weight to recognise that Indigenous people are more likely to enter the criminal justice system. The Territory believes that this approach is more appropriate because it produces intuitive results; is logically sound; avoids the data issues discussed above; and better captures how Indigenous interactions with the justice system work.
- 16.9 The Territory would not favour using the ABS publication *Recorded Crime – Offenders 2012-13* as an alternative to the Commission's proposed methodology because it also has significant limitations. While it is better than the Commission's proposed data set, it is still not fit for the Commission's purpose because it does not fix the underlying data quality issues that exist for some states. Likewise, applying the ABS's methodology to all states' data would not change the underlying data reliability issues.

Indigenous Status Not Stated

- 16.10 The Commission notes that there is a significant variation in the proportion of offenders whose Indigenous status is known between states, with up to 46 per cent

of offenders in one state not having their Indigenous status recorded (attribution error).

- 16.11 The differences in the size of the attribution error between states would not matter if the Indigenous population in each state was as likely as the non-Indigenous population to not report their Indigenous status. However, this is not the case. In practice, Indigenous people are less likely to have their Indigenous status recorded, leading to Indigeneity being significantly understated in datasets containing high levels of Indigenous unknowns.
- 16.12 The ABS notes that Indigenous people have a range of reasons for not identifying as Indigenous for the purposes of administrative data collections, including: risk of prejudicial treatment; negative past experiences; and discomfort with the way the question is asked.¹⁸ These factors have particular relevance with respect to Indigenous interactions and perceptions of the criminal justice system. Also, it is possible in states with low Indigenous populations that the question is simply not being asked.
- 16.13 The Territory also contends that the likelihood of a person not stating their Indigenous status is not equal across all jurisdictions. The ABS has identified the increased propensity to under-report Indigeneity in some states in its publication *Recorded Crime – Offenders 2012-13*, which reports on offenders by Indigenous status for New South Wales, Queensland, South Australia and the Northern Territory, stating:

“Based on ABS assessment, Aboriginal and Torres Strait Islander offender data for other jurisdictions are not of sufficient quality and/or do not meet ABS standards for self-identification for national reporting in 2012-13.”

- 16.14 The effect of having a large number of ‘Indigenous status not stated’ in a dataset can be distortionary not just in terms of the Indigenous share of users but also the use and cost profile attributed to different population subgroups accessing the services. The AIHW discusses how attribution error can impact on the profile of those Indigenous people using health services:

“...it is unknown whether Aboriginal and Torres Strait Islander clients presenting with certain conditions are more likely to have their Indigenous status correctly recorded than those presenting with other conditions, making the prevalence of specific health conditions and outcomes of interventions in the Indigenous population difficult to accurately monitor using administrative datasets. It is also difficult to determine whether sub-groups that appear more frequently as users of health services are those with the poorest health in the Indigenous population, or whether they are more likely than some other Aboriginal and Torres Strait Islander clients to

¹⁸ ABS information paper Perspectives on Aboriginal and Torres Strait Islander Identification in Selected Data Collection Contexts, 2012

have their Indigenous status recorded correctly when they present to a health service, or both.”¹⁹

16.15 In the Territory’s view, this strongly suggests that the Commission’s chosen approach to deriving offender rates by Indigenous status is flawed because it relies on data for states which the ABS has identified have a higher propensity to underreport Indigeneity, leading to distortions in the service profile of those Indigenous people who are captured in the data.

ABS Comparability

16.16 The Commission claims that the state-provided offender data produces outcomes comparable to the ABS’s *Recorded Crime – Offenders 2012-13* publication, and that this strengthens the Commission’s case that the reduction in the proportion of Indigenous offenders indicated by state-provided data is appropriate.

16.17 The ABS has identified significant data issues associated with state-based offender data by Indigenous status, and as a result, the ABS only publishes data for four states. To claim that the two datasets are consistent, the Commission assumed that the average of the four states in the ABS data is representative of all states.

16.18 Table 16.1 shows that the ABS and Commission data is not consistent at the state level for New South Wales and South Australia, which should be the level at which the data is most comparable given that both data sets are based on state-provided data. Further, these are the states whose data was considered to be the most robust by the ABS. It is therefore likely that the data for the remaining four states is of significantly poorer quality, and contains a significantly higher proportion of Indigenous unknowns than the data shown below. This makes the Commission’s claim regarding the comparability of state and ABS data difficult to sustain.

Table 16.1 – Comparison of ABS²⁰ and CGC²¹ methods - offender to population ratios

	NSW	Qld	SA	NT	Australia
State Indigenous population share (%)	3	4	2	30	3
ABS Indigenous offender share (%)	12	19	14	75	17
<i>Ratio</i>	4:1	5:1	6:1	3:1	6:1
CGC Indigenous offender share (%)	16	22	23	74	19 ²
<i>Ratio</i>	6:1	5:1	10:1	3:1	6:1

1. Average of the four states
2. Average of seven states, excluding Tasmania.

¹⁹ AIHW 2010. National best practice guidelines for collecting Indigenous state in health data sets. Cat. no. IHW 29, Appendix A.

²⁰ ABS 3101.0 and 4519.0

²¹ Commonwealth Grants Commission Staff Discussion paper CGC 2014-03-S

16.19 The Territory contends that there is no evidence to suggest that the data from four states is representative of patterns of Indigenous and non-Indigenous offending at the national level and that the Commission's claim is simply incorrect.

Impact of Traffic Data on Assessment Results

16.20 The Territory is also concerned about the level of traffic infringement data included in state-provided data on offenders by Indigeneity for two reasons. Firstly, traffic offences are not considered to be within the scope of specialised police services, and secondly, Indigenous under-reporting is significantly higher for traffic offences.

16.21 In addition to its concerns regarding Indigenous under-reporting in state-provided offender data, the ABS has reservations about the data quality due to the inclusion of traffic offences, and makes a number of adjustments before using it in its *Recorded Crime – Offenders 2012-13* publication. The Territory contends that this raw data is likely to exhibit the same data quality issues as that provided to the Commission by states, and is therefore not considered suitable for the Commission's purposes.

16.22 The most significant adjustment the ABS makes is to remove penalty notices/fines offences because these are far more likely to have Indigenous status listed as 'not stated'. The ABS finds that if the proportion of offenders who were proceeded against with a penalty notice/fine offence is removed, the incidence of 'not stated' Indigenous status declines significantly. For example, in South Australia it declines from 51 per cent to 14 per cent. This has obvious implications for data quality.

16.23 However, removing penalty notices/fines offences from all states' data does not address the underlying data issues regarding underreporting of Indigenous offenders.

Producing Counterintuitive Results

16.24 The Territory contends that the Commission's proposed Indigenous use weights do not make intuitive sense. According to the Commission, Indigenous people in the three lowest IRSEO categories are as likely as each other to commit criminal offences.

16.25 Table 16.2 shows the results of New South Wales Bureau of Crime Statistics and Research (BOCSAR) analysis of the characteristics of Indigenous people who reported being charged in the 2002 National Aboriginal and Torres Strait Islander Survey.

16.26 BOCSAR's analysis shows that characteristics associated with low socioeconomic status, such as failure to complete year 12, unemployment, financial stress and living in overcrowded housing are significant indicators of the likelihood of interactions with the justice system by Indigenous people.

Table 16.2 – Results from the logistic regression model for the charged variable

	Odds ratio
Under 25 vs 25 years and over	0.82
Male vs female	4.69
Unemployment vs Employed or Not in Labour Force	1.64
CDEP vs Employed or Not in Labour Force	1.23
Welfare vs Other income source	1.55
Financial stress vs No financial stress	1.62
Completed Year 12 vs Did not complete Year 12	0.52
Person or family member of 'Stolen Generation' vs Person or family not a member of the 'Stolen Generation'	1.45
Solo-parent family vs Other family type	1.22
No social involvement vs Social involvement	1.35
Major city vs remote	0.77
Regional vs remote	0.63
Lives in a crime prone area vs Does not live in a crime prone area	1.31
High-risk alcohol use vs Not high-risk alcohol use	2.60
Substance use vs No substance use	2.87
Substance use missing vs no substance use	1.55

Source: BOCSAR 2006

Criminal Courts – Defendant Data

- 16.27 The Territory strongly supports the Commission’s decision to assess defendant use rates for criminal courts by Indigenous status. However, the Territory is concerned that the Commission’s proposed approach for deriving defendant use rates for criminal courts has many of the same issues as the Commission’s approach to deriving Indigenous offender rates, including: being derived from a limited sample of state data; including traffic offences; and producing counterintuitive outcomes.
- 16.28 The Commission’s proposed approach to deriving defendant use rates for criminal courts relies on the assumption that the data for four states (New South Wales, Queensland, South Australia and the Northern Territory) are representative of Indigenous and non-Indigenous defendants nationally. The Territory’s view is that this is not the case.
- 16.29 The data provided to the Commission likely includes traffic offences as the Commission’s data request did not ask for these to be removed. The ABS notes in *Criminal Courts, Australia, 2012-13*, which uses the same state derived data that the Commission has requested, that it removes traffic offences because:

“The majority of defendants with a traffic offence as their principal offence have an unknown Aboriginal and Torres Strait Islander status recorded. This is because most traffic offences are related to fines issued by road traffic authorities where it is usually not possible to ask an individual their Indigenous status. These defendants

have a large impact on the proportion of unknowns in the data, therefore they have been removed from Criminal Courts statistics relating to Indigenous status.”

- 16.30 The Commission’s proposed approach is also counter-intuitive because it shows that Indigenous people in the lowest IRSEO quintile have the same criminal court use rates as those in the middle IRSEO quintile.
- 16.31 Table 16.3 shows the results of BOCSAR analysis of the characteristics of those Indigenous people who reported being imprisoned and shows that there is a clear link between low socioeconomic characteristics and the likelihood of an Indigenous person being imprisoned.

Table 16.3 – Results from the Logistic Regression Model for the Imprisoned Variable

	Odds ratio
Male vs female	4.45
Under 25 vs 25 years and over	1.19
Unemployment vs Employed or Not in Labour Force	1.88
CDEP vs Employed or Not in Labour Force	1.16
Welfare vs Other income source	2.92
Financial stress vs No financial stress	1.45
Completed Year 12 vs Did not complete Year 12	0.56
Crowded household vs Non-crowded households	1.34
Person or family member of ‘Stolen Generation’ vs Person or family not a member of the ‘Stolen Generation’	1.61
Major city vs remote	0.39
Regional vs remote	0.39
High-risk alcohol use vs Not high-risk alcohol use	2.71
Substance use vs No substance use	3.36
Substance use missing vs no substance use	1.77

Source: BOCSAR 2006

Application of a 25 per cent discount to specialised policing

- 16.32 As stated previously, the Territory is strongly opposed to the use of discounting, due to the one-directional bias assumed when applying a discount. Further, the Territory’s view is that the application of a 25 per cent discount to specialised policing is not justified because there is little evidence that different population groups are in prison for less serious crimes.

Fixing Indigenous Use Rates for 2015 Review

- 16.33 The Territory opposes the Commission’s proposal to fix Indigenous use rates for the duration of the 2015 Review because it does not have confidence in the data the Commission has proposed to use. The Territory proposes that the Commission delay updating the Justice category until the release of the pending AIC survey data.

17

Roads

The Territory supports the Commission's proposals to:

- adopt ABS Urban Centres and Localities (UCLs) instead of Significant Urban Areas (SUAs) in the Roads category; and
- maintain the 2010 Review approach to the assessments within the Roads category.

17.1 The Territory supports the Commission's proposed approach to assessing states' expenditure needs for rural and urban roads, local roads, bridges, and other related services in the Roads category, which is consistent with the 2010 Review methodology, but uses updated geographical data to classify urban and rural roads.

Updating geographical data

17.2 The Territory supports the Commission's proposal to adopt UCLs instead of SUAs in the Roads category, as UCLs provide a more appropriate basis for determining urban and rural boundaries for classifying roads. UCLs are created from aggregates of Statistical Areas Level 1 (SA1s), while SUAs are created from an aggregation of SA2s, and can represent a cluster of related urban centres. On this basis, the Territory considers that UCLs provide a more focused and intuitive basis for defining urban and rural roads compared to SUAs.

Maintaining the 2010 Review assessment methodology

17.3 The Territory supports the Commission's proposal to maintain the 2010 Review approach to the assessments in the Roads category, with the only change being the adoption of UCLs as the geographical basis for the assessments. However, the Territory notes that the Commission may make further changes to the Roads category prior to the Final Report if it finds that an adjustment to the rural roads factor is warranted to capture previously unrecognised mining-related costs. As it is not clear at this stage how an adjustment would be determined or applied in the

assessments, the Territory looks forward to an opportunity to provide input on this issue during the Commission's consultations with the states prior to the Final Report.

18

Transport

The Territory supports the Commission's proposals to:

- include a regional cost weight in the assessment of states' non-urban transport subsidies;
- include expenses incurred by urban transport PNFCs in the Transport category, in addition to general government expenses;
- use a refined version of the 2010 Review regression model to assess the impact of city size on states' urban transport expenses;
- use urban centre population as the basis for assessing differences in states' urban transport operating expenses; and
- include all urban centres with more than 20 000 population in the assessment of states' urban transport expenses.

18.1 The Territory supports the Commission's proposed assessment of states' urban and non-urban transport services expenses, using urban centre size to measure the impact of city size on states' urban transport expenses, and states' populations living outside of capital cities to measure states' non-urban transport subsidy expenses.

The Inclusion of Urban Transport PNFCs

- 18.2 As a general principle, the Territory supports the Commission's proposal to include expenses of PNFCs that do not have any commercial features, including housing PNFCs.
- 18.3 The Commission's reasoning for inclusion of urban transport PNFCs is that these have fewer commercial features than other PNFCs such as ports, are more dependent on government funding and serve social policy objectives. The Commission considers that these features are an appropriate test to distinguish between PNFCs which are of the general government type from those which are not.

18.4 The Territory notes that the features identified by the Commission are not unique to transport PNFCs, and that some urban transport PNFCs operate at close to cost-recovery and as such, the Commission's use of judgement may be required in the future to determine which PNFCs operate on a commercial basis, and should therefore not be included in the equalisation process.

Location

18.5 The Territory strongly supports the Commission's proposal to assess the impact of interstate wages on states' transport expenses, and to apply a regional cost disability to recognise that the distance between population centres increases states' non-urban transport costs. The Territory strongly agrees that providing transport services in regional areas is impacted by the higher cost of labour and service inputs.

19

Services to Industry

The Territory supports the Commission's proposals to:

- include an assessment of regulatory expenses for the mining industry (net of user charges);
- source the number of operating mines in each state from the Australian Mines Atlas;
- move the assessment of VET expenses to the Post-secondary Education category;
- apply a regional cost factor to the Services to Industry category, however the Territory considers that only applying the regional cost factor to 20 per cent of total expenses understates the impact of regional costs in the Territory; and
- remove the discount on the expense weights applied to the category.

19.1 In general, the Territory supports the proposed assessment methodology for the Services to Industry category, and considers that apart from the assessment of business development expenses, the remainder of the assessment appropriately captures the drivers of states' expenditure on services to industry.

Mining industry regulation assessment

19.2 The Territory strongly supports an assessment of mining industry regulation. While the data used to assess the number of mines for the economic environment factor only includes large mines, the Territory considers that the data set is the best available option that is policy neutral and practical.

19.3 The Commission has proposed to make a separate assessment of net mining industry regulation, despite it being immaterial in 2012-13 under the proposed Draft Report methodology (moving \$20 per capita to Western Australia), under the assumption that an assessment of mining-related expenditure across a number of categories will be material. The Territory agrees there is a conceptual case for including a mining regulation assessment and considers the Commission's proposed methodology of

using value of mining production and the number of operating mines as an appropriate basis for assessment.

Regional cost factor on service expenses

- 19.4 The Territory supports the Commission's proposal to apply a regional cost factor to service expenses in the Services to Industry category to recognise additional costs in the provision of services in regional areas. In providing regulatory and business development services to regional areas, state officials are required to travel intrastate or establish regional offices where there is high demand. Recognising this disability is consistent with 'what states do'.
- 19.5 The Commission is proposing to apply the regional cost factor to 20 per cent of category expenses which reflects the results of a 2010 Review survey which found that on average 20 per cent of total services to industry were delivered in regional areas. The Territory's view is that the application of the regional costs factor to 20 per cent of total expenses understates the regional costs-affected share of expenses in the Territory, due to the dominance of regionally-located industries in the Territory compared with other states, which increases the share of regional-cost affected services in the Territory. However, as noted by the Commission in the Draft Report, there is limited data on the geographic location of businesses across states and insufficient time to update the survey for the 2015 Review, and as such the Territory accepts the Commission's proposed approach.

Removing the discount on expense weights

- 19.6 The Territory strongly supports the Commission's proposal to avoid discounting the best available estimates of national expenditure, and as such, strongly supports the removal of the discount previously applied to expense weights in the Services to Industry category.

Assessing business development expenses

- 19.7 The Territory is concerned that approximately 60 per cent of total Services to Industry category expenses are assessed on an equal per capita basis. This approach fails to take into account differences between states in the need for business development. The Territory considers that business development expenses are greater in emerging economies, such as the Territory, with smaller developed industrial bases and a relatively small population. The Territory strongly suggests that the Commission investigates methods and approaches to differentially assess business development expenses in the future.

20

Other Expenses

The Territory supports the Commission's proposals to:

- assess service expenses on an equal per capita basis, but apply interstate wages and regional cost factors;
- differentially assess Administrative Scale and move it to the Other Expenses category;
- assess Native Title and Land Rights expenses on an actual per capita basis; and
- assess natural disaster relief-related expenses on an actual per capita basis.

The Territory does not support the Commission's proposals:

- not to differentially assess states' cost of borrowing; and
- not to differentially assess national parks and wildlife related expenses.

Service Expenses

- 20.1 The Commission's view is that general public services and some administrative services are provided to the population as a whole rather than to specific population groups, and that the most appropriate treatment of these is an equal per capita assessment.
- 20.2 In principle, the Territory's preference is for differential assessment of states' expenses; however the Territory accepts the proposed equal per capita assessment of service expenses in the Other Expenses category, due to the lack of available data or conceptual case for a differential assessment. The Territory also supports the proposed application of the wages and regional costs factors in this category, to recognise unavoidable differences in the costs faced by states in providing general government services.

Other Expenses

Administrative scale

- 20.3 The Territory strongly supports the Commission's decision to differentially assess administrative scale expenses and to move it to the Other Expenses category. The Territory's full response to this issue is detailed in Chapter 25: Administrative Scale.

Native Title and Land Rights

- 20.4 The Territory strongly supports the Commission's decision to assess Native Title and Land Rights expenses on an actual per capita basis. The Territory's full response to this issue is detailed in Chapter 28: Other Disabilities.

Natural disaster relief

- 20.5 The Territory strongly supports the Commission's decision to continue to assess natural disaster relief-related expenses on an actual per capita basis as there is sufficiently comparable data available, and there is a common framework under the National Disaster Relief and Recovery Arrangements, such that differences in states' natural disaster expenses are not policy influenced.

Cost of Borrowing

- 20.6 In the 2015 Draft Report, the Commission recognised that there are differences in states' borrowing costs but stated that these differences are attributable to a range of factors including credit ratings, which are influenced by states' fiscal policies. The Commission's approach to testing the materiality of differences in states' borrowing costs used differences in the interest rate provided on states' debt instruments. The Commission found that an assessment would not be material with the current borrowing level and debt burdens and therefore proposed not to differentially assess state borrowing costs.
- 20.7 While the Territory accepts the Commission's contention that credit ratings are to some extent influenced by policy, the Territory contends that states' credit ratings do not just reflect state fiscal or policy choices but rather reflect all factors that ratings agencies Standard and Poor's and Moody's Investor Services (Moody's) consider material to a state's ability and willingness to service financial obligations to creditors. These include a state's underlying economic structure and the national and external economic environments.
- 20.8 For example, Western Australia's AAA credit rating was downgraded by Moody's in August 2014 because of a deteriorating budget position driven by a reduction in the price of iron ore. While Moody's took into account the state of the budget, the driver of this fiscal change was the result of Western Australia's underlying economic structure, which is dominated by mining, particularly of iron ore, and a weakening international

market for iron ore as Chinese economic growth slows. The downgrade was not due to Western Australia's fiscal stance in isolation.

- 20.9 Further, the Territory notes that the states with the lowest credit ratings; the Northern Territory and Tasmania, have the highest and lowest debt to GSP ratios of all states at 11 per cent and one per cent respectively, indicating that government debt levels are not the main determinant of a state's credit rating. While state policy is a consideration, it is one of a range of factors considered in the determination of a states' credit rating.
- 20.10 The Territory would support an assessment approach consistent with that outlined in the 2015 Review Draft Report, which uses the spread of each state's borrowing costs to determine a state's assessed costs of borrowing. While the Territory acknowledges that the assessment may not be material in 2012-13, it may be in future years, and could still be included for the sake of completeness in much the same way as the New Borrowing category.

National Parks and Wildlife Services

- 20.11 The Territory would strongly support a differential assessment of national parks and wildlife services, however, given the constrained timeframe for the 2015 Review, the Commission has not had the time to investigate how this expenditure might be differentially assessed. The Territory would support further investigation into this issue in the future.

21

Infrastructure

The Territory supports the Commission's proposals to:

- retain the existing presentation of the Infrastructure assessment as opposed to the alternative gross capital assessment;
- retain the existing method for recognising the impact of population growth on states' infrastructure needs;
- include infrastructure owned by PNFCs for urban transport and housing services in the Infrastructure category;
- include all Commonwealth payments for transport infrastructure in the equalisation process and use the 2010 Review approach to determine whether needs are assessed;
- use the proportion of infrastructure utilised for each service as the share of states' infrastructure to which disability factors are applied for the investment assessment;
- use the proportion of depreciation expenses related to relevant assessment categories as the base to which disability factors are applied for the depreciation assessment;
- apply an Indigenous cost weight to Housing-related infrastructure, however the Territory proposes that this should be applied on a state by state basis, to each state's share of Indigenous housing infrastructure assets; and
- adopt the Rawlinson's capital cost indices to measure capital cost disabilities.

The Territory does not support the Commission's proposals to:

- remove the assessment of the impact of socio-demographic composition on states' needs for Schools Education-related infrastructure;
- apply discounts to the capital cost disabilities; and
- not incorporate a physical environment factor.

- 21.1 In general, the Territory supports the Commission’s approach to assessing states’ infrastructure needs. The following provides the Territory’s views on a number of the issues in relation to the Commission’s proposals for the assessment methodology and issues related to the assessment of transport infrastructure.

Transport Infrastructure

- 21.2 The Territory supports the Commission’s proposed assessment of urban transport infrastructure needs as a separate component of the investment assessment, based on differences in city size and population growth, and the relative cost of infrastructure in each state. The assessment of population growth and cost disabilities is consistent with the assessment of investment in infrastructure for other services.

Treatment of Commonwealth payments

- 21.3 The Territory supports the Commission’s decision to continue to include Commonwealth payments for transport infrastructure in its calculation of states’ GST needs. The Territory considers that needs are assessed for the infrastructure provided through such payments, which materially impact states’ fiscal capacities.
- 21.4 The Territory also supports the Commission’s proposal to use the 2010 Review approach to determine the appropriate treatment of Commonwealth payments, consistent with payments for other infrastructure and services.
- 21.5 The Territory supports the Commission’s decision to include 50 per cent of Commonwealth payments for National Network Roads (NNR) and all Commonwealth payments for rail projects in the equalisation process.

Quantity of Stock Disabilities

- 21.6 The Territory does not support the Commission’s proposal not to assess the impact of Indigeneity on states’ Schools Education infrastructure needs, or the way in which the Commission proposes to apply the Indigenous cost weight to housing infrastructure.
- 21.7 The Territory accepts the Commission’s rationale for not assessing the impact of recurrent disability factors where these factors have little or no bearing on states’ infrastructure needs. As such, the Territory supports the Commission’s decision not to assess states’ infrastructure needs using recurrent disability factors for: non-government schools; school transport; post-secondary; welfare (SDS for child services); first home owners; police (national capital allowance); other expenses (national capital allowance); natural disaster factors; native title and land rights factors; and wages and regional costs.
- 21.8 The Territory strongly supports the assessment of recurrent disability factors for all remaining expenditure categories.

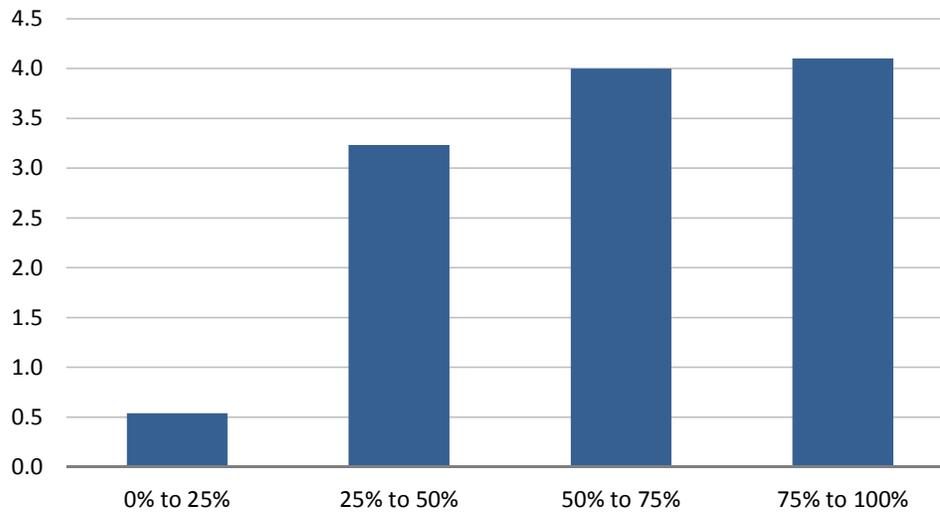
Schools Education – Socio Demographic Composition Factor

- 21.9 The Territory does not support the Commission’s proposition that sizeable Indigenous student populations have no influence on school infrastructure requirements. The Northern Territory Department of Treasury and Finance, in collaboration with the Northern Territory Department of Education, has gathered data on differences in school facilities across Australia, and has found that schools with sizeable Indigenous populations consistently require a higher level of infrastructure than predominantly non-Indigenous schools in similarly remote locations.
- 21.10 In the Territory’s second submission to the 2015 Review, the Territory provided examples of the additional infrastructure needs for Indigenous students. These included:
- centres or rooms dedicated to supplementary education programs;
 - centres or rooms dedicated to cultural or wellbeing programs;
 - kitchens dedicated to running nutritional programs;
 - rooms with technology to assist students with hearing difficulties;
 - rooms to provide crèches for students with children;
 - accommodation for teachers and students; and
 - trade training centres for VET.
- 21.11 In its Draft Report, the Commission considered that the need for these facilities is a product of remoteness, rather than Indigeneity. It was on this basis that the Commission decided to not include a cost factor for Indigenous students in its assessment of states’ Schools Education infrastructure needs.
- 21.12 The Territory has compiled data that contains a sample of schools in remote and very remote areas of Australia, which reports on the number of Indigenous students and the number of facilities listed above that are at each school. The student population characteristics were derived from ACARA data, the remoteness level was derived from the ABS’ Australian Standard Geographical Classification and information on facilities was derived from contacting the schools and using annual reports. The data is provided in Appendix 1 to this submission.
- 21.13 The data shows that, in general, schools in remote and very remote areas with small Indigenous student populations do not have the facilities listed above, with the exception of VET centres and accommodation which are provided more generally; while schools with sizeable Indigenous populations (more than 25 per cent of the total student population) do. This indicates that a school’s requirement for these additional facilities is not driven by remoteness but rather by the size of the school’s

Indigenous student population. Schools with larger Indigenous populations provide Indigenous-specific programs that address issues more prevalent in Indigenous students, such as learning difficulties and health issues. The Territory's data also shows that such facilities exist independent of remoteness.

21.14 Figure 21.1 shows that schools with Indigenous student populations of less than 25 per cent of total students have on average 0.5 additional buildings, schools with Indigenous student populations of between 25 and 50 per cent of the total students have on average over 3 additional buildings, and schools with Indigenous student populations of more than 50 per cent of total students have on average 4 or more additional buildings. It is worth noting that around 15 schools have more than one room dedicated to either learning support or cultural programs, and have on average an Indigenous student population of over 70 per cent of total students. The analysis below does not include facilities for VET or accommodation as the Territory did not observe a relationship with Indigeneity.

Figure 21.1 – Average additional buildings per school, by proportion of student population that is Indigenous²².



Source: Northern Territory Department of Treasury and Finance

21.15 Table 21.1 shows that schools that required facilities to prepare breakfast and lunch for nutritional programs and assets in classrooms to assist students with hearing difficulties had on average a higher proportion of Indigenous students.

²² The sample size is 62 schools. The data includes schools from every state except Tasmania and the Australian Capital Territory. Approximately 30 per cent of the schools sampled were in the Territory. Approximately half of the schools sampled were located in remote areas and half in very remote areas. Schools that did not report any of the facilities listed above made up close to 30 per cent of the data set and had an average Indigenous student population of 6 per cent.

Table 21.1 – Additional school facilities in government schools

	None	Learning support	Crèche	Cultural	Kitchen	Hearing
Average Indigenous population share (%)	6	58	65	65	72	74

Source: Northern Territory Department of Treasury and Finance

21.16 The data show that schools with Indigenous student population shares of over 40 per cent of total students are more likely to have three or more of the additional facilities listed above, which indicates a critical mass effect.

21.17 The Territory also found that school size impacts the need for additional facilities. For example, smaller schools are less likely to have a room for cultural programs, while larger schools may have up to three rooms dedicated to cultural programs, such as separate rooms for boys and girls. Conversely, the size of the school did not influence the need for kitchens to provide breakfast and lunch for students or the requirement for hearing facilities. Additionally, the Territory’s preliminary analysis indicates that the relationship between Indigenous student populations and additional school infrastructure requirements holds true in urban localities too.

21.18 In addition to the extra facilities required, the Northern Territory Department of Education has advised that schools with large Indigenous student populations require larger, purpose-built rooms. The Territory notes that in its 2015 Review Draft Report, the Commission has recognised that states’ Indigenous-specific housing stock is larger, purpose-built to cater to Indigenous tenants, and is more expensive to construct, but has not accepted the same argument for Schools Education.

21.19 The Territory contends that its research confirms the conceptual case that the Indigenous population share of a school influences its infrastructure requirements. The research also confirms that the impact of Indigeneity on a school’s infrastructure needs is independent of remoteness. The Territory therefore strongly recommends that the Commission includes the Indigenous cost factor from the Schools Education category in its calculation of states’ schools education-related infrastructure needs, to recognise the additional infrastructure required to provide schools education services to Indigenous students.

Indigenous housing cost weight – state by state assessment

21.20 The Territory strongly supports the Commission’s proposal to apply an Indigenous cost weight in its assessment of states’ Indigenous housing infrastructure needs, however the Territory contends that the cost weight should be applied on a state-by-state basis, based on the proportion of Indigenous-specific housing assets in each state, rather than the national average proportion of Indigenous-specific housing assets.

- 21.21 The Territory notes that since the release of the Commission’s Draft Report, Commission staff have acknowledged that a state by state approach, whereby the Indigenous cost weight is applied to the proportion of Indigenous-specific housing in each state is a more appropriate measure of states’ Indigenous-specific housing infrastructure needs than the method proposed in the Draft Report. This is consistent with the Territory’s position and as such, is strongly supported.
- 21.22 The Territory contends that not all states provide Indigenous-specific social housing, and that the likelihood of a state to provide Indigenous-specific housing is determined by the needs of its Indigenous population. Applying the national average share of Indigenous housing assumes that states’ Indigenous population profiles are the same, and as such, is not an appropriate basis for an assessment.
- 21.23 The Territory’s view is that a state-by-state approach would more accurately reflect states’ Indigenous housing-related infrastructure costs, as the method proposed in the Draft Report would significantly overstate the Indigenous-related housing infrastructure costs of the states with the lowest shares of Indigenous-specific housing assets, and the lowest Indigenous housing infrastructure needs.

Capital cost index

- 21.24 The Territory strongly supports the Commission’s proposal to differentially assess states’ infrastructure needs using a capital cost index, but does not support the Commission’s proposal to apply a discount to the resulting disabilities.
- 21.25 The Territory strongly supports the Commission’s view that differences in the cost of capital should be reflected in the equalisation process, and that the two Rawlinsons construction cost indices are fit for this purpose. The indices appropriately reflect the impact of differences in city size and market factors on states’ infrastructure costs, and are policy neutral.
- 21.26 The Territory also supports the Commission’s proposed approach to assessing infrastructure costs for population centres not covered by the Rawlinsons indices, by using the indexed value of the closest centre with the same degree of remoteness and a similar population.

Discounting of Capital Cost Disabilities

- 21.27 The Territory does not support the Commission’s proposal to apply a 50 per cent discount to the cost disability for roads infrastructure and a 25 per cent discount to all other infrastructure cost disabilities. The Territory’s view is that the Rawlinsons indices adequately reflect changes in input prices, and are a suitable basis for assessing interstate differences in construction costs of both buildings and roads, and as such, discounting is not appropriate.
- 21.28 The Commission considers that building construction requires a broad range of materials, while road construction requires a more limited range of materials. The

Commission is concerned that the indices may be less suitable in assessing variations in the price of road construction materials, especially if variations in the price of building construction materials are markedly different. The Territory argues that the level of discounting proposed by the Commission is not commensurate with these concerns.

- 21.29 The Territory's view is that the inputs for both road construction and building construction are dominated by a few key materials. For road construction these are concrete, bitumen and quarry products; for building construction these are concrete, cement and steel.²³ The Territory notes that while the Rawlinsons indices do not capture bituminous materials and quarry products, the majority of the inputs that are used for road construction are included, and evidence from The Bureau of Infrastructure, Transport and Regional Economics shows that in 2013, bituminous materials and quarry products on average make up just 26 per cent of total road construction costs.²⁴ Therefore the underlying cost variations for over 70 per cent of the other inputs to road construction, such as labour (34 per cent), concrete and other materials (10 per cent), and equipment (30 per cent) are reflected in the Rawlinsons indices.
- 21.30 Further, research by Infrastructure Australia²⁵ found that there is a positive correlation between changes in the cost of concrete, cement and steel and changes in the cost of infrastructure construction, and as such, the Rawlinsons index is an appropriate means of assessing differences in states' infrastructure costs.
- 21.31 The Commission has stated that while the Rawlinsons capital cost indices do not specifically cover every type of building that a state would construct, the breadth of the coverage means that the indices are a reliable guide to the underlying differences in construction costs. The Territory agrees with this position and considers that overall the indices are a reasonable reflection of the underlying cost differentials of both building and road construction.
- 21.32 Therefore, given that the road construction material not covered by the indices represents a small proportion of total construction materials, and considering that in general the indices are an accurate measure of the underlying differences in the cost of construction between states, the Territory strongly argues that a 50 per cent discount on road construction cost disabilities is excessive.
- 21.33 Similarly, the Territory considers that the same argument applies to the Commission's concerns with plant and equipment. The Territory has found no

²³ The Rawlinsons Australian Construction Handbook shows that approximately 30 per cent of the total cost of building an office block arises from constructing walls, floors and columns, which comprise mostly concrete, cement and steel.

²⁴ Bureau of Infrastructure, Transport and Regional Economics Road Construction and Maintenance Price Index and Sub-Indexes – 2013 Update

²⁵ Evidence Based Comparative Analysis of Major Infrastructure Construction Costs in Australia and Internationally, Infrastructure Australia & GHD Meyrick, 2011

evidence to indicate that state differences in the cost of plant and equipment are impacted by 'unique' factors that are not reflected in the underlying cost differentials in the indices. Again the Territory strongly argues that the 25 per cent discount on all other infrastructure cost disabilities is excessive.

Physical Environment Factor

21.34 The Territory does not support the Commission's proposal not to include a physical environment factor in the Infrastructure category.

21.35 The consultants engaged by the Commission to examine the impact of the physical environment on infrastructure costs found that there are major differences in the cost of constructing and maintaining infrastructure between states due to environmental factors. This was particularly the case for the Territory where the relative construction costs were substantially above average for rural roads (1.38 times), urban roads (4.42 times), public schools (1.46 times) and public housing (1.74 times). Both the Commission and the consultants are satisfied that the data and methods used in the consultant's report are reliable and provide a sound basis for assessing a physical environment factor. Further, the Commission's analysis indicates that a physical environment factor would meet materiality thresholds.

21.36 Despite the strong case for a physical environment factor, the Commission has proposed not to assess the impact of physical environment on states' infrastructure needs because:

- not all physical environment factors are included in the consultant's report; and
- there is a potential risk of double counting the impacts on states' Infrastructure costs measured by the physical environment disabilities and the capital cost indices that have been adopted.

21.37 In relation to the first issue, the Territory contends that 'completeness' should not be an obstacle to recognising unavoidable factors that impact states' fiscal capacities. The Territory considers that all category assessments are simplifications of reality and that data used to assess disabilities do not capture all influences on states' expenditure needs.

21.38 The Commission has always been conscious of striking an appropriate balance between simplification and equalisation. The consultant's report successfully identifies, measures, and assesses the material impact of six different environmental factors on the cost of infrastructure. The Territory's strong view is that the absence of two environmental factors from the report does not warrant the dismissal of the impact of the six others. Further, the consultant indicated that the data required to assess the omitted factors can be developed in the future.

- 21.39 In terms of double counting, the Territory does not consider that the Rawlinsons capital cost indices are markedly influenced by environmental factors such that they would present a material double-counting problem, and the Territory does not accept that the capital cost index is an alternative to a physical environment factor.
- 21.40 The Rawlinsons capital cost indices are most heavily influenced by interstate cost differentials arising from market factors and city size, not the impacts of differences in states' physical environments. The consultant's report exclusively assesses cost differentials arising from environmental factors and adjusts for market and non-market factors. Further, if the Commission discounts the capital cost indices, any disabilities arising from differences in the physical environment would be effectively negated given that they only make a negligible impact on the indices.
- 21.41 The Territory's view is that the concerns raised by the Commission regarding the application of a physical environment factor are not sufficient justification to dismiss a material disability, based on the independent advice of an external consultant. The Territory's strong view is that including an assessment of the impact of physical environment on states' infrastructure costs would result in better equalisation outcomes than ignoring a material, measurable, policy-neutral disability.

22

Wages Costs

The Territory supports the Commission's proposals to:

- differentially assess wage costs using Survey of Education and Training (SET) data until data from the Characteristics of Employees (COE) survey becomes available; and
- continue the Commonwealth Superannuation Scheme (CSS) adjustment, but proposes that it should be based on the number pension recipients rather than current employees.

The Territory accepts the Commission's proposal to:

- retain the discount applied to the assessment; however the Territory is opposed to the use of discounting in general.

22.1 The Territory supports the Commission's decision to consider the Wages Costs assessment once data from the COE survey becomes available. The following are the Territory's views on the Wages Costs assessment in this Review and the key issues that should be considered when COE data becomes available.

Continuing the assessment

22.2 The first data release of COE is expected in 2015, allowing the Commission to use this data in the 2016 Update. In the interim, the Commission has proposed to continue the current Wages Costs assessment, which is based on a regression of private sector wages data from the 2009 SET, indexed by the Labour Price Index.

22.3 The Territory considers that, as employee costs form the bulk of all states' expenditure, a differential assessment of the factors influencing interstate differences in wages is a necessary aspect of HFE.

22.4 In the Territory, wages are influenced by non-policy factors such as the high cost of living and transience of the labour force. The Territory faces additional wage costs in the form of pension payments under the CSS, which is generally more generous than

comparable state schemes. Assessing these and other influences on state wage differentials is vital for the achievement of equalisation.

- 22.5 In the Wages Costs assessment, the Commission uses private sector wage differentials as a proxy for public sector wage differentials, to overcome policy neutrality concerns. The Territory's view is that this approach is appropriate, as private sector wages are largely determined by market factors rather than state policy. Further, private sector employers face the same pressures as state governments in recruiting and retaining employees. As such, interstate wage differences in the private sector are an appropriate proxy for public sector wage differentials.
- 22.6 While there are issues with the SET data, particularly its age, the Territory supports the Commission's view that retaining the current assessment is the most appropriate approach, pending the release of COE data.

CSS adjustment

- 22.7 As stated above, public sector wages in the Territory are influenced by payments to former Territory Government employees who are members of the CSS, a legacy of the Commonwealth's employment conditions inherited by the Territory at self-government. The Australian Capital Territory faces a similar situation. Given that this is a significant factor, over which the two state governments have no policy control, the Territory supports the Commission's proposal to continue the CSS adjustment.
- 22.8 However, the Territory contends that the current CSS adjustment, which is based on the number of CSS contributing members, understates the cost of the CSS to the Territory. Under the CSS, the Territory is required to fund benefits for former Territory Government employees who are CSS members through lump sum payments and/or ongoing CPI-indexed pensions. The cost of these payments has increased over time, while the number of CSS contributing members has declined. Between 2008-09 and 2013-14, the number of CSS contributing members in the Territory decreased at an average annual rate of about 13 per cent, while the Territory's CSS liability increased at an average annual rate of about 5 per cent over the same period. Further, given the on-going nature of the CSS pensions, the Territory will continue to have CSS liabilities even when all remaining contributing members cease employment.
- 22.9 On this basis, the Territory considers that the CSS adjustment should be based on the number of CSS members for whom a CSS pension is paid, rather than the number of contributing members.

Discounting

- 22.10 In principle, the Territory is opposed to discounting due to the significant level of judgement required in determining the size of the discount as well as the inherent and unwarranted assumption that the data being discounted overestimates the impact of the disability being assessed.
- 22.11 The Commission has proposed to retain the 12.5 per cent discount applied to this assessment in the 2010 Review. As stated in the Territory's second submission to the 2015 Review, the Territory's firm preference is for the discount to be removed; however, at the very least, there should be no adjustment to the discount in the 2015 Review.

23

Regional Costs

The Territory supports the Commission's proposals to:

- use ABS remoteness areas based on ARIA as the remoteness classification, but would not support any alterations to ARIA, which would involve the use of judgement; and
- use an ACARA-based gradient to assess regional costs in the Schools Education category and a police gradient to assess regional costs in the Justice category.

The Territory accepts the Commission's proposal to:

- assess regional costs for all categories (other than police and schools education) based on ACARA data.

The Territory does not support the Commission's proposals to:

- discontinue the non-wage costs assessment; or
- discount the police and general regional cost factors.

23.1 The Territory supports the Commission's proposals regarding the adoption of ARIA as the remoteness classification in the Regional Costs assessment and the use of ACARA data to develop a regional cost gradient for schools. However, the Territory has significant concerns about the Commission's proposals regarding the appropriate regional costs gradients for other categories and the discontinuation of the Interstate Non-wage Costs assessment.

Using ABS remoteness areas based on ARIA

23.2 The Territory supports the Commission's proposal to use ABS remoteness classifications based on ARIA scores rather than the State-based ARIA (SARIA) adopted in the 2010 Review. ARIA is a readily available data source and the Territory considers that it should be adopted in its entirety, with no alterations. The Territory firmly believes that any modifications to ARIA (effectively creating another SARIA)

would need to be based on compelling evidence that the changes are necessary to enhance equalisation outcomes.

- 23.3 A key difference between ARIA and SARIA is that the former classifies capital cities based on distance from other population centres, while the latter classifies all capital cities as highly accessible. Consequently, Darwin is classified as more remote than Sydney under ARIA but is classified as having the same level of accessibility as Sydney under SARIA. The classification of Darwin under ARIA is more intuitive.
- 23.4 Other differences between the two remoteness classification systems relate to the way in which remoteness scores are calculated. In ARIA, remoteness scores are truncated to a maximum of three, while there is no truncation in SARIA. Further, in measuring distances between locations, ARIA disregards state borders, while SARIA confines its measurements to locations within the same state. Consequently, some locations fall into different remoteness categories under the two systems. For example, Pine Creek in the Northern Territory is classified as 'remote' under ARIA and 'moderately accessible' under SARIA (the equivalent to ARIA's 'outer regional' classification).
- 23.5 As indicated in its responses to Staff Discussion Paper 2013-01: Remoteness classification, the Territory's principal concern in considering the appropriate remoteness classification for the Commission's assessments is the treatment of Darwin as a regional city rather than a capital city. This is critical to fully recognise the influence on service delivery costs of Darwin's location relative to the major centres of production. As Commission staff analysis in Discussion Paper 2013-01 revealed, service use rates in Darwin are more akin to those of other similar-sized cities than to those of other capital cities. On this basis, the Territory considers ARIA to be a more appropriate remoteness classification than SARIA.
- 23.6 The differences in the parameters of ARIA and SARIA (truncation, permeability of state borders, average distances and treatment of capital cities) are such that a shift from one to the other would inevitably result in a shift in the classification of some locations in every state. The Territory does not consider that a shift in the classification of one state's population from one 'remote' classification to another warrants the reworking of ARIA. Attempting to adjust ARIA to reduce this effect would require judgement as to which aspects should be changed and the extent to which these changes should apply, with potential implications for equalisation.

Discontinuation of the non-wage costs assessment

- 23.7 The Commission proposes to cease the interstate non-wage costs assessment on the basis that the move from SARIA to ARIA will capture the GST requirements of the states with the largest non-wage costs.

- 23.8 The interstate non-wage costs assessment is critical to the Territory, which faces additional non-wage costs due to the lack of major manufacturing industries locally, increased freight distances and costs, and the need to travel interstate for intergovernmental meetings. While the Territory accepts that the move from SARIA to ARIA will capture some interstate non-wage costs, this approach will not fully reflect the needs of isolated states such as the Territory.
- 23.9 As stated in the Territory's second submission to the 2015 Review, ARIA and the interstate non-wage costs assessment capture different disabilities. For example, ARIA measures a location's distance from the nearest city of 250 000 or more people, which in Darwin's case is Adelaide. This approach would understate the Territory's interstate travel disabilities, as most intergovernmental meetings are held in the eastern capital cities rather than Adelaide. Similarly, this approach would understate the Territory's interstate freight disabilities, given that the main centres of production and importation are in the eastern states. On this basis, the Territory considers that the quantum of costs included in the regional costs assessment should be increased to reflect the fact that the move from SARIA to ARIA only partially captures interstate non-wage costs.

Using ACARA data in developing a regional cost gradient

- 23.10 In the Draft Report, the Commission proposed to use ACARA student characteristics data to develop a regional costs gradient to be applied to Schools Education and other categories to which the general regional costs gradient applied in the 2010 Review. For police costs, the Commission proposed to apply the police gradient developed in the 2010 Review.
- 23.11 In Staff Discussion Paper 2014-03-S, Commission staff advised of changes to the schools regression model. The changes incorporate new ACARA data and address the concerns of a consultant engaged by the Commission to review the model. The Territory's positions on the proposals in the Draft Report take into account the updates in the Staff Discussion Paper.

Schools gradient

- 23.12 The Territory supports the use of ACARA data to develop a regional costs gradient for schools education expenses. As indicated in the Territory's second submission to the 2015 Review, the Territory considers ACARA data represents the most comprehensive data available to allow an assessment of interstate cost differentials in schools education expenses.
- 23.13 The Territory accepts the Commission's proposal to apply the schools gradient to other categories for which regional costs are assessed, with the exception of police. The Territory acknowledges the data limitations in this regard and considers that in the absence of more comprehensive data across a range of government services, the

schools gradient provides an appropriate, up-to-date data source on which to base an assessment of regional costs.

Police gradient

- 23.14 The Commission proposes to assess regional costs for police services using the gradient developed from state-provided data in the 2010 Review, as there has been no significant improvement or standardisation of state police staffing data since the 2010 Review.
- 23.15 In principle, the Territory supports the use of the most recent data in the Commission's assessments, provided it is fit-for-purpose. The Territory is also cognisant of the limited time available in the 2015 Review to conduct the comprehensive data collection task required to develop a new police gradient. On this basis, the Territory supports the use of the 2010 Review police gradient to assess police regional costs. However, the Territory urges the Commission to seek new police data from states as part of the next methodology review to enhance the contemporaneity of the Regional Costs assessment.

Discounting

- 23.16 The Territory does not support the Commission's proposal to apply a 12.5 per cent discount to the police factor to reflect the Commission's concerns about the reliability of the data underpinning it. The Territory also opposes the Commission's further proposal to apply a 12.5 per cent discount to the regional cost factors of all categories to which the ACARA gradient is extrapolated, due to its concerns about the extent to which extrapolation accurately represents regional cost influences in these categories.
- 23.17 As the Territory has stated in previously, the Territory is fundamentally opposed to discounting, as it inherently assumes that the disability being discounted is overstated in the assessment, which is not always the case. In addition, discounting requires the Commission to apply significant judgement on the appropriate level of the discount. The Territory's concerns about discounting are detailed in the Territory's second submission to the 2015 Review.

24

Service Delivery Scale

The Territory supports the Commission's proposals to:

- assess SDS disabilities in the Schools Education category, the police and magistrates courts components of Justice Services category, and the family and child component of Welfare category;
- apply the police factor to the family and child component of the Welfare category; and
- update the assessment as new data becomes available.

The Territory does not support the Commission's proposals to:

- no longer assess SDS disabilities for community health and housing services; and
- apply a discount to the police factor.

24.1 The Territory supports the Commission's general proposed approach to assessing SDS but has significant concerns about the proposals not to assess SDS disabilities in the community health component of the Health category or the Housing category, and the proposal to discount the police SDS factor.

Scope of the SDS assessment

24.2 The Territory supports the Commission's proposal to assess SDS disabilities in Schools Education, the police and magistrates components of the Justice category, and the family and child component of the Welfare category. The conceptual case for assessing SDS disabilities in these categories has long been established.

24.3 However, the Territory is concerned that the Commission proposes not to assess SDS disabilities in the community health component of the proposed Health category or the Housing category.

Community Health

24.4 The Commission's view is that SDS disabilities in community health would be captured through the use of NWAUs in the Health category. The Territory strongly

disagrees with this view. The use of NWAUs in the community health assessment does not capture SDS disabilities. Unlike large hospitals which do not face the same scale disabilities, small hospitals in regional and remote areas are not funded on an NWAU basis but are block funded under the NHRA. The Territory therefore firmly considers that a separate SDS assessment is necessary for community health. The Territory's position on this issue is detailed in Chapter 12: Health.

Housing

- 24.5 The Territory strongly rejects the Commission's assertion that housing services are not affected by SDS. The Commission stated that "*while services can be provided in SDS affected areas, it is generally undertaken by local groups so that no additional travel is involved.*" The Territory contends that this does not align with the Commission's assertions in the housing category that state-owned Indigenous community housing is increasingly being transferred to the general government sector, with housing services provided through state housing departments.
- 24.6 65 per cent of the Territory's housing stock is located in remote and very remote areas. As stated in Chapter 14: Housing, the Territory's social housing in remote, SDS-affected areas, requires significantly more property and tenancy management services than non-remote social housing. While the Territory employs community-based housing and maintenance officers, the scope of housing services provided are limited to departmental liaison and general upkeep such as painting and changing washers on taps.
- 24.7 The Territory implements a centralised model to service its large remote and very remote housing stock in order to maximise economies of scale, whereby only a very limited proportion of housing-related services are delivered by community-based officers.
- 24.8 The Territory contends that the housing services provided in these areas are SDS affected, due to the need for tenancy management officers to travel from major centres to remote communities to provide education services, lease management services and to ensure that appropriate rental recovery arrangements are in place. Further, there is an extreme lack of skilled tradespeople in remote communities in the Territory, requiring significant travel and input costs to perform general repairs on plumbing, electric and structural damage.
- 24.9 The Territory does not accept that the means for providing housing services has changed since the 2010 Review, and as such, the Commission's rationale that housing services are no longer SDS-affected is not valid.

Cost weights

24.10 The Commission proposes the following approach to determining SDS cost weights:

- Schools Education – use cost weights derived from a regression of ACARA data;
- police and magistrates courts – client to staff ratios based on data provided by states for the 2010 Review; and
- family and child welfare – use police factors.

24.11 The Territory supports the use of ACARA-based cost weights, rather than using state-provided staffing numbers, to assess SDS disabilities in Schools Education. As stated previously in this submission, the Territory considers that ACARA data represents the most reliable and comparable school characteristics data available for the Commission's purposes.

24.12 The Territory supports the Commission's proposal to derive SDS factors for police and magistrates courts based on police staffing data provided by states in the 2010 Review, as there have been no significant changes in the way in which police services are provided. Further, the Territory notes that there is no more recent data available to the Commission than that provided by states in the 2010 Review.

24.13 The Territory supports the Commission's proposal to apply the police SDS factor to the family and child component of the Welfare category due to the lack of comprehensive, comparable data on the impact of SDS on family and child welfare costs. The Territory agrees with the Commission's view that the police factor is more appropriate for this purpose than the schools factor, given the similarities in the provision of police and family or child welfare services compared with schools education.

Discounting

24.14 The Territory is strongly opposed to the Commission's proposal to apply a discount to the police factor due to concerns about the comparability of the police data and the appropriateness of extrapolating the police factor to family and child welfare. The extrapolation of the police factor to family and child welfare is appropriate and a discount is not warranted, particularly due to the similarities in the way in which these services are provided. For example, the delivery of both services entails the service provider travelling to the service user to provide the service.

24.15 As stated in this, and previous submissions to the 2015 Review, the Territory opposes discounting in general, as the determination of the level of the discount requires the application of significant judgement. Further, the application of a discount is biased towards an assumption that the disability being discounted is overstated, which is not always the case.

Updating the assessment

24.16 The Territory supports the Commission's proposal to update the SDS assessment with new estimated resident population (ERP) and ACARA data as it becomes available. This will ensure the assessment remains reflective of state circumstances over time.

25

Administrative Scale

The Territory supports the Commission's proposals to:

- assess all administrative scale expenses in the Other expenses category; and
- update the quantum of expenses for the administrative scale assessment in the next methodology review.

The Territory accepts the Commission's proposal to:

- use the ABS State and Local Government Final Consumption Expenditure (SLGFCE) deflator to index the quantum of administrative scale expenses.

25.1 The Territory supports the Commission's proposed assessment of administrative scale, including its decisions:

- to move all administrative scale expenses to the Other Expenses category;
- to retain the current assessment quantum due to lack of time and data available to update the quantum for the 2015 Review;
- to not to apply a discount to assessed administrative scale expenses; and
- to index the quantum by the SLGFCE deflator.

Moving all administrative scale expenses to the Other Expenses category

25.2 The Commission proposes to include all administrative scale expenses in the Other Expenses category, rather than including these expenses separately in each category. The quantum of administrative scale expenses and their impact on the GST distribution will continue to be identified by expense category.

25.3 The Territory supports the Commission's proposal, which will not have an impact on the GST distribution, and agrees that this change will simplify the expenditure assessments.

Updating the Quantum and Discounting

- 25.4 The Territory supports the Commission's position that the development of an updated administrative scale quantum should be a priority in the next methodology review, and that the current assessment should not be discounted.
- 25.5 As the Territory and other states have noted, there is insufficient time to develop a new quantum in the 2015 Review. The current quantum of expenses was developed through a comprehensive analysis of states' expenses, and the Territory considers that in the absence of updated data provided through a similar process, the Commission should continue to use the current quantum. The Territory notes that the Commission has examined alternate data sources but has not been able to source data for services other than out-of-school staffing costs, and as such, retaining the current assessment is the most appropriate course of action.
- 25.6 Consistent with the Territory's views on discounting in general, there is no evidence to suggest that a discount to the current administrative scale assessment would result in improved equalisation outcomes.

Indexing the quantum using the SLGFCE Deflator

- 25.7 The Commission proposes to continue to use the SLGFCE deflator to index the quantum of administrative scale expenses. The Territory recognises that the SLGFCE deflator is a readily available indexation option that does not require the level of judgement inherent in a composite index. Consequently, the Territory accepts the Commission's proposal to use the SLGFCE deflator to index the quantum of administrative scale expenses.

26

Indigeneity

The Territory supports the Commission's proposals to use:

- separate Indigenous and non-Indigenous measures of SES; and
- IRSEO and NISEIFA as measures of Indigenous and non-Indigenous SES.

The Territory does not support the Commission's proposal to:

- exclude remote/very remote SES for some assessments, and proposes that the Commission group these remoteness classifications instead.

IRSEO and NISEIFA

- 26.1 The Territory strongly supports the Commission's proposed new treatment of Indigeneity, which uses separate Indigenous and non-Indigenous indexes of SES to measure the relative disadvantage within each population. This addresses known issues with the appropriateness of SEIFA as a measure of Indigenous disadvantage and the large non-demographic increase in the Indigenous population due to changes in self-identification between Censuses.
- 26.2 In major cities, SEIFA is more reflective of the non-Indigenous population because the Indigenous population is relatively small. This tends to mean that Indigenous disadvantage in urban areas is concealed behind the large, less disadvantaged urban non-Indigenous population. In effect, this means that when using SEIFA, the Indigenous population in urban areas tends to be treated as though it is non-Indigenous which understates Indigenous disadvantage.
- 26.3 Between the 2006 and 2011 Censuses, there was a large non-demographic increase in the Indigenous population due to changes in self-identification in south-eastern states, which served to dilute the Territory's share of the Indigenous population. The Territory further found that these newly identifying Indigenous people had socio-economic characteristics more akin to the non-Indigenous population. This resulted in a significant reduction in the Territory's share of the national Indigenous population and a weakening of the statistical link between Indigeneity and disadvantage.

26.4 By separating the Indigenous and non-Indigenous populations, the Commission's new approach to capturing Indigeneity provides a more accurate assessment of relative Indigenous disadvantage in major urban and metropolitan areas. In the Territory's view, this approach is a significant step forward.

Remote/Very Remote

26.5 The Commission has proposed not to assess Indigeneity and SES in remote and very remote areas for some assessments. For example, in its assessment of hospitals expenses, the Commission notes that *"in remote areas, these measures of socio-economic status add little"* while for the Post-secondary Education category the Commission notes that *"the relationship breaks down in remote areas"*.

26.6 The Commission notes that this is probably driven by the low numbers in the least disadvantaged socio-economic quintiles, particularly for Indigenous people. However, in the Territory's view this does not mean that there is no relationship but only that there are too few well-off remote and very remote Indigenous and non-Indigenous people. Failing to assess the costs associated with providing services to remote populations has the effect of diluting equalisation outcomes, as relative needs are not assessed.

26.7 To avoid this issue, the Commission could combine the remote and very remote SES categories as a means of increasing the number of less disadvantaged Indigenous and non-Indigenous people. This would allow the Commission to derive Indigenous and non-Indigenous cost weights, cross-classified by SES and remoteness, across all remoteness categories, which would improve equalisation outcomes.

26.8 An alternative would be to group SES categories within remoteness areas to produce aggregated cost gradients like the Commission has done in its treatment of child protection expenses. For example, the Commission could group the bottom three quintiles of very remote hospital expenditure data to produce a 'low SES' grouping. The Commission could then either group the other categories into 'high SES', or keep them separate to provide a more variegated cost curve.

26.9 The Territory's view is that these minor adjustments will result in better equalisation outcomes than ignoring the impact of Indigeneity and SES for remote and very remote populations.

27

Population

The Territory supports the Commission's proposal to:

- continue using its existing methods to recognise the impact of population growth on states' GST requirements; and
- adjust the 30 June ERPs to match the 31 December ERPs.

27.1 The Commission has collated states' views on the impact of population growth on states' expenditure needs for infrastructure and net borrowing. The Territory supports continued recognition that population growth is a major driver of state infrastructure spending.

27.2 Population growth increases demand for state services and subsequently the infrastructure that supports these services. For example, higher population growth requires that states have to build more classrooms, public housing and hospital beds to provide the same level of services.

27.3 The Territory's view is that the proposed approaches to measuring the impact of population growth on states' infrastructure and net borrowing needs are appropriate. The Territory's views on this and other issues related to these assessments are provided in Chapter 21: Infrastructure and Chapter 29: Net Borrowing.

Adjustment to June Disaggregated ERP data

27.4 The Commission proposes to adjust the disaggregated 30 June ERPs to match the 31 December ERP totals because the 30 June ERPs are split based on age and other demographic factors while the 31 December figures are not. This inconsistency can cause problems because there can be differences between the 31 December totals and the 30 June splits. This proposal will enhance equalisation by minimising this effect and is therefore reasonable in the Territory's view.

28

Other Disabilities

The Territory supports the Commission's proposal to continue to assess:

- national capital allowances and cross border effects on the ACT;
- differences in states' expenses relating to native title and land rights; and
- cease the assessment of cultural and linguistic diversity (CALD).

National Capital and Cross Border Effects

28.1 The Territory supports the Commission's proposals to continue to assess national capital allowances and cross border effects in recognition of the Australian Capital Territory's role as the national capital and its geographic position within New South Wales, which leads to increased use of services provided in the Australian Capital Territory by residents of New South Wales.

Native Title and Land Rights

28.2 The Territory strongly supports the Commission's proposal to continue to assess the additional costs incurred by states due to the existence of the Commonwealth's *Native Title Act 1993* and the *Aboriginal Land Rights (Northern Territory) Act 1976*, in the Other Expenses category on an actual per capita basis.

28.3 The Territory's view is that this is the most appropriate treatment of native title and land rights expenses, as states have adopted uniform policies, and differences in states' expenses are driven by state circumstances, and are the result of Commonwealth legislation.

29

Net Borrowing

The Territory supports the Commission's proposals to:

- cease the assessment of housing and urban transport PNFCs in the net borrowing assessment;
- remove the 25 per cent discount applied to the assessment for uncertainty; and
- retain the assessment even though it is not material, in order to maintain the same overall approach to equalisation, through equalising states' net financial worth.

29.1 The Territory supports the continuation of the Commission's approach to assessing states' net borrowing, in order to achieve the overall goal of equalising states' net financial worth, through assessing differences in states' population growth rates.

Housing and transport-related PNFCs

29.2 The Territory accepts that the inclusion of PNFCs in the Commission's expenditure assessments has necessitated excluding infrastructure assets of urban transport and housing PNFCs from state net financial asset bases used in the Net Borrowing assessment, due to the Commission's intended treatment of expenditure relating to housing and transport related PNFCs as general government-type expenses.

Removing the 25 per cent discount

29.3 The Territory strongly supports the Commission's proposal to remove the 25 per cent discount from the Net Borrowing assessment, consistent with the Territory's in-principle opposition to discounting in general.

29.4 In the 2010 Review the Commission applied a 25 per cent discount to the Net Borrowing category because it was unsure if it had captured all the disabilities influencing net financial worth and was concerned about the quality of the data being used.

29.5 The Commission is now confident that these issues have been addressed due to the removal of housing and transport related PNFCs and has decided to cease the discount whilst also noting that the effect of the cessation of the discount is small, given that the overall assessment is immaterial.

Materiality

29.6 While the net borrowing assessment is not material in 2012-13, the Commission intends to retain the assessment in order to maintain consistency with its overall conceptual approach to equalising states' fiscal capacities; equalising states' net financial worth.

29.7 The Territory strongly supports the Commission's overall approach to achieving equalisation, and as such, accepts that the continued assessment of states' net borrowing expenses is crucial to the overall assessment approach, despite the assessment presently being immaterial.

Appendix 1 – Additional school facilities data set

School name	State	Population centre	Remoteness	Total enrolments	Indigenous students	Learning support	Cultural program	Kitchen for nutrition program	Room for creche'	Hearing facilities	Total facilities
Kimba Area School	SA	Kimba	Remote	173	1%	0	0	0	0	0	0
Lock Area School	SA	Lock	Remote	68	1%	0	0	0	0	0	0
Hopetoun P-12 College	Vic	Hopetoun	Remote	132	2%	0	0	0	0	0	0
Clermont State High School	Qld	Clermont	Remote	157	2%	0	0	0	0	0	0
Wandoan State School	Qld	Wandoan	Remote	93	3%	0	0	0	0	0	0
Southern Cross District High School	WA	Southern Cross	Remote	113	3%	0	0	0	0	0	0
Morawa District High School	WA	Morawa	Remote	237	3%	1	0	1	0	0	2
Narembeen Senior High School	WA	Narembeen	Remote	113	4%	0	0	0	0	0	0
Springsure State School	Qld	Springsure	Remote	117	6%	0	0	0	0	0	0
Middlemount Community School	Qld	Middlemount	Remote	411	6%	0	0	0	0	0	0
Taroom State School	Qld	Taroom	Remote	145	7%	1	0	0	0	0	1
Bruce Rock District High School	WA	Bruce Rock	Remote	145	7%	0	0	0	0	0	0
Carnarvon Christian School	WA	Carnarvon	Remote	112	7%	0	0	0	0	0	0
Rainbow Secondary College	Vic	Rainbow	Remote	66	8%	1	0	0	0	0	1
Elliston Area School	SA	Elliston	Very remote	65	8%	1	0	0	0	0	1
Collinsville State High School	Qld	Collinsville	Remote	106	8%	0	0	0	0	0	0
Esperance Senior High School	WA	Esperance	Remote	834	9%	0	0	0	0	0	0
Lameroo Regional Community School	SA	Lameroo	Remote	183	9%	0	0	0	0	0	0
Corrigin Senior High School	WA	Corrigin	Remote	146	10%	0	0	0	0	0	0
Woomera Area School	SA	Woomera	Very remote	21	10%	0	0	0	1	0	1
Kalbarri District High School	WA	Kalbarri	Remote	268	12%	0	0	0	0	0	0
Nhulunbuy High School	NT	Nhulunbuy	Very remote	227	14%	1	1	0	0	0	2
Longreach State High School	Qld	Longreach	Very remote	214	15%	0	0	0	0	0	0
Hillston Central School	NSW	Hillston	Remote	175	17%	1	0	0	0	1	2
Alyangula Area School	NT	Alyangula	Very remote	173	22%	1	0	0	0	1	2
Cobar Senior High School	NSW	Cobar	Remote	265	23%	1	0	0	0	1	2
Newman Senior High School	WA	Newman	Very remote	232	25%	2	0	1	0	0	3
Tom Price Senior High School	WA	Tom Price	Very remote	218	25%	1	1	0	0	0	2
Gnowangerup District High School	WA	Gnowangerup	Remote	150	25%	1	1	1	0	1	4
Karratha Senior High School	WA	Karratha	Remote	606	25%	1	0	0	0	0	1
Hughenden State School	Qld	Hughenden	Very remote	162	27%	1	0	1	0	0	2
Nyngan High School	NSW	Nyngan	Remote	186	31%	2	0	1	0	0	3
St George State High school	Qld	St George	Remote	206	33%	1	2	0	0	0	3

School name	State	Population centre	Remoteness	Total enrolments	Indigenous students	Learning support	Cultural program	Kitchen for nutrition program	Room for creche'	Hearing facilities	Total facilities
Lake Cargelligo Central School	NSW	Lake Cargelligo	Remote	241	38%	1	0	1	0	1	3
Coober Pedy Area School	SA	Coober Pedy	Very remote	299	43%	1	2	1	1	1	6
Norseman Senior High School	WA	Norseman	Very remote	137	45%	1	1	1	0	1	4
Winton State School	Qld	Winton	Very remote	85	45%	0	0	1	0	1	2
Centralian Senior College	NT	Alice Springs	Remote	462	47%	2	0	1	1	0	4
Kununurra District High School	WA	Kununurra	Remote	852	48%	2	1	1	0	1	5
Jabiru Area School	NT	Jabiru	Remote	252	56%	1	1	1	0	0	3
Coonamble High School	NSW	Coonamble	Remote	199	61%	1	2	1	0	1	5
Carnarvon Community College	WA	Carnarvon	Remote	669	64%	2	1	1	0	0	4
Derby District High school	WA	Derby	Very remote	592	79%	1	3	1	0	1	6
Tennant Creek High School	NT	Tennant Creek	Very remote	173	82%	2	2	1	0	1	6
Cunnamulla State School	Qld	Cunnamulla	Very remote	136	86%	3	1	1	0	2	7
Normanton State School	Qld	Normanton	Very remote	186	88%	1	1	0	0	1	3
Meekatharra District High School	WA	Meekatharra	Very remote	161	88%	0	0	1	0	1	2
Borrooloola School	NT	Borrooloola	Very remote	227	92%	1	0	1	0	1	3
Walgett Community College High School	NSW	Walgett	Remote	108	95%	1	0	1	1	0	3
Maningrida Community Education	NT	Maningrida	Very remote	554	98%	2	1	1	1	1	6
Shepherdson College	NT	Galwinku	Very remote	514	98%	2	0	1	0	1	4
Gapuwiyak School	NT	Gapuwiyak	Very remote	251	98%	3	0	1	0	1	5
Wilcannia Central School	NSW	Wilcannia	Very remote	85	98%	0	1	1	0	0	2
Lockhart State School	Qld	Lockhart	Very remote	117	98%	2	0	1	0	1	4
Lajamanu School	NT	Lajamanu	Very remote	205	99%	0	1	1	0	1	3
Milingimbi Community Education	NT	Milingimbi	Very remote	261	99%	2	1	1	0	1	5
Gunbalunya School	NT	Gunbalunya	Very remote	263	99%	1	0	1	1	1	4
Yirrkala Community Education	NT	Yirrkala	Very remote	164	100%	3	1	1	0	1	6
Angurugu Community Education	NT	Angurugu	Very remote	237	100%	1	0	1	0	1	3
Ngukurr School (Roper River)	NT	Ngukurr	Very remote	278	100%	1	0	1	0	1	3
Ramingining School	NT	Ramingining	Very remote	228	100%	2	0	1	0	1	4
Warruwi School	NT	Warruwi	Very remote	130	100%	1	0	1	0	1	3
Total		62	Average	235	44%						2

Source: Northern Territory Department of Treasury and Finance

