

**NORTHERN TERRITORY VIEWS ON  
CGC STAFF DISCUSSION PAPER CGC 2013-01  
*REMOTENESS CLASSIFICATION*  
MAY 2013**

**COMMONWEALTH GRANTS COMMISSION  
GENERAL REVENUE GRANT RELATIVITIES  
2015 REVIEW**

## Key Points

- The location assessment should capture both differences in the costs of service delivery between states (interstate) and within a state (intrastate).
- For the purpose of calculating SARIA scores, the Territory believes that it is appropriate to classify Darwin as a capital city. However, the Territory contends that an adjustment should be made to recognise the higher costs of providing services in Darwin relative to other capital cities. The costs of providing government services in Darwin (including Palmerston) are comparable to those in regional areas across Australia.
- The Territory's preference is for the Commonwealth Grants Commission (the Commission) to use SARIA because it better measures the concept of remoteness. However, there are limitations to SARIA that need to be addressed including:
  - the inadequate distinction of degrees of remoteness; and
  - not capturing the impact of access constraints and climate on service delivery.
- Consideration should be given to disaggregating the remote classifications into three groups: remote, moderately remote and very remote. This would better recognise the gradient of cost disabilities experienced by remote communities.
- The Commission should base the SARIA classification on final 2011 Census estimated resident population (ERP) data. If final 2011 Census-based ERP data is not available, the Commission should continue to use 2006 Census data.
- The assumption of impermeable borders is a better reflection of what states do and representative of the costs of providing services in each state.
- The Commission should undertake a data request on the interstate freight assessment to improve the data quality underpinning this assessment and remove the need for the high discount that is currently being applied.

This submission provides the Northern Territory Department of Treasury and Finance's views on the issues raised in the Commission staff discussion paper *Remoteness classification* (CGC 2013-01), which seeks state comments on the suitability of ARIA or SARIA as a measure of remoteness that will underpin the Commission's assessment of location disabilities. This submission does not address the broader issue of the location assessment, as this is not the intent of the staff discussion paper.

The location assessment is critically important to the Territory due to the significant impact of location on the cost of delivering the full range of government services. Compared with other states, the Northern Territory is significantly more remote. Excluding the Greater Darwin area, the Territory's remaining landmass (over 90 per cent) is classified as remote, the majority of which is classified as very remote.

Location impacts on the costs of delivering services between Darwin and other capital cities (interstate) and within the Territory (intrastate). Darwin itself is considered isolated relative to other jurisdictions. Adelaide, the nearest capital city to Darwin, is approximately 2600 kilometres away (by air). Further, Darwin is over 3000 kilometres away (by air) from the

major supply centres/states on the eastern seaboard. As a result, Darwin faces significantly higher location effects relative to other capital cities reflecting:

- higher labour-related costs due to large volume of staff turnover, additional employment conditions (including higher wages and additional recreational leave entitlements) to attract and retain employees in Darwin; and
- non-labour related costs including the need to freight virtually all goods to Darwin from other capital cities and travel-related costs to attend national events and conferences and intergovernmental meetings most of which are held in the major cities.

There is distinction between interstate location and intrastate location costs, both of which have a material impact on the Territory. For this reason, the basis for the Commission's location assessment must adequately reflect interstate and intrastate location impacts.

The Territory's preference is for the Commission to continue to use SARIA in its assessment of GST revenue sharing relativities. SARIA is preferred over ARIA because measurement of the distance from a community to major centres in a state better reflects the structure of government service delivery, and SARIA does not truncate distances.

For purpose of calculating SARIA scores, it is appropriate to treat Darwin as a capital city in determining the distance between Territory communities and the capital city. However, for the purpose of assessing the impacts of location on the costs of providing services in Darwin, it is not appropriate to treat Darwin on the same basis as other capital cities.

Data provided in the Commission staff paper on Medicare bulk billing rates and proportion of 20-24 year olds that finished year 12 support the notion that Darwin has service characteristics comparable to regional cities in other states. Further, while Darwin has the same range of government services as provided in other capital cities, the costs of delivering these services are not comparable. Wage costs, incentives to attract people to work in Darwin and other related input costs in Darwin are significantly higher than in other capital cities. Therefore, the Territory argues that an adjustment should be made to the location assessment to recognise that the costs of service delivery in Darwin are higher than in other capital cities and are more akin to costs experienced in regional centres across Australia.

The limitations of SARIA are:

- the inadequate distinction of degrees of remoteness, which is highlighted in this submission; and
- it does not capture the impact of other influences, such as access constraints and the Territory's harsh climate, on service delivery.

Factors including road quality, seasonal flooding and isolation compound the higher costs of delivering services in remote areas in the Territory. For example, due to monsoonal rainfall, many sealed and unsealed roads in the Territory become impassable for up to six months each year as a result of flooding, rendering many communities inaccessible by road. This necessitates the use of alternative, more costly transport methods such as by air, to ensure

that services can continue to be delivered in communities that are cut off for about half the year during the Territory's wet season.

SARIA currently does not adequately reflect the disproportionate and material impact of these factors on states with large very remote populations, such as the Territory and Western Australia. Should the National Centre for Social Applications of Geographical Information Systems (GISCA) be asked to rebase SARIA on the 2011 Census, consideration should be given to expanding this work to:

- classify Darwin and Hobart as 'moderately accessible';
- expand the number of remote classifications from two to three, the same number of classifications currently applied for 'accessible' locations; and
- develop a method to adjust SARIA scores to reflect the access constraints associated with climate and road quality.

### *Remoteness classifications*

The current two classification categories for remote areas (that is remote and very remote) in SARIA and ARIA do not adequately distinguish between levels of remoteness. While the current remoteness classifications in SARIA and ARIA may be considered appropriate in reporting service use patterns of residents, they are neither suitable nor sufficiently disaggregated for the Commission's intended purpose of determining the relationship between costs of service delivery and remoteness. This limitation has been acknowledged by the Australian Bureau of Statistics, which noted that, under the classifications in ARIA/SARIA, it "cannot be assumed that every location in a given Remoteness Area is equally remote."<sup>1</sup>

Under SARIA, communities with a score of 10.53 or higher are considered very remote. As a result, communities with scores just above the cut-off point and communities with scores well above the cut-off point are both classified as very remote. For example, the ratio of the aggregate distance from Yuendumu (NT) to major centres to the national average is twice that of Cobar (NSW). However, Yuendumu with a SARIA score of 22.91 is considered equally remote as Cobar with a score of 10.98. This is counterintuitive.

Cobar is located about 700 kilometres (by road) west northwest of Sydney on the Barrier Highway. Further, Cobar has good transport infrastructure (road, rail and air) that services the community. The nearest major community to Cobar is Dubbo, which has a population of over 30 000 and is approximately 270 kilometres from Cobar. On the other hand, Yuendumu is about 1800 kilometres (by road) from Darwin. It has limited transport infrastructure servicing the community. The nearest major centre is Alice Springs, which is located about 300 kilometres away. About half the road between Alice Springs and Yuendumu is sealed, with the remaining section formed and largely gravelled. In addition, access to Yuendumu by road may be cut off during the monsoonal season due to flooding.

Due to difference access constraints and distances to major centres/capital cities, the costs of delivering government services in Yuendumu are significantly higher than in Cobar. These

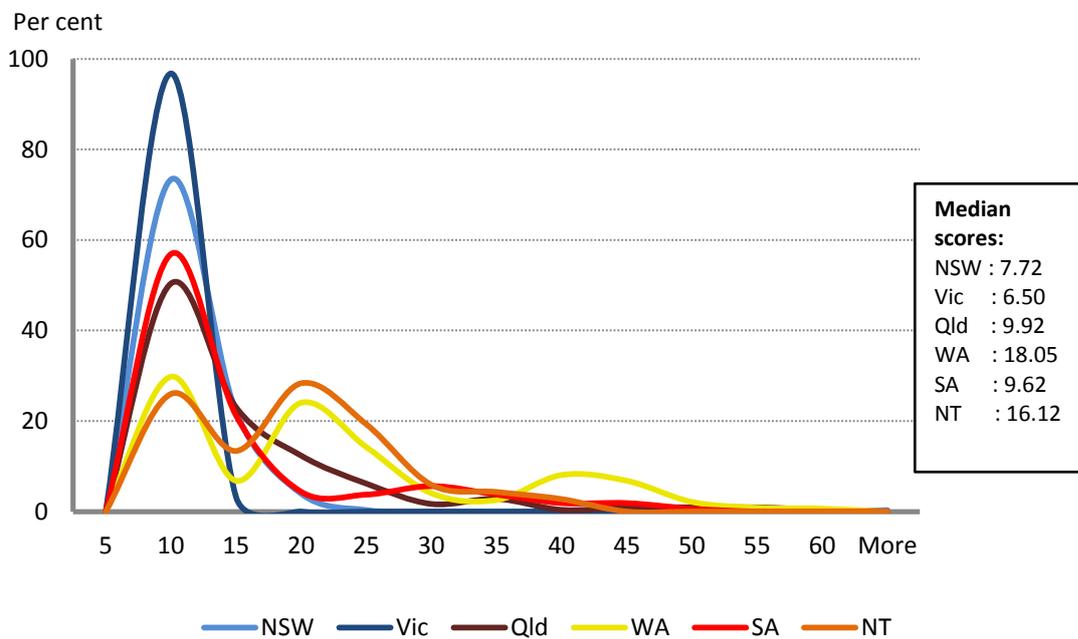
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<sup>1</sup> ABS 2001, *Outcomes of ABS views on remoteness consultation*, cat. No. 1244.0.00.001

communities are not equal as they exhibit dissimilar location cost differentials, which is not reflected by the current SARIA classification of very remote.

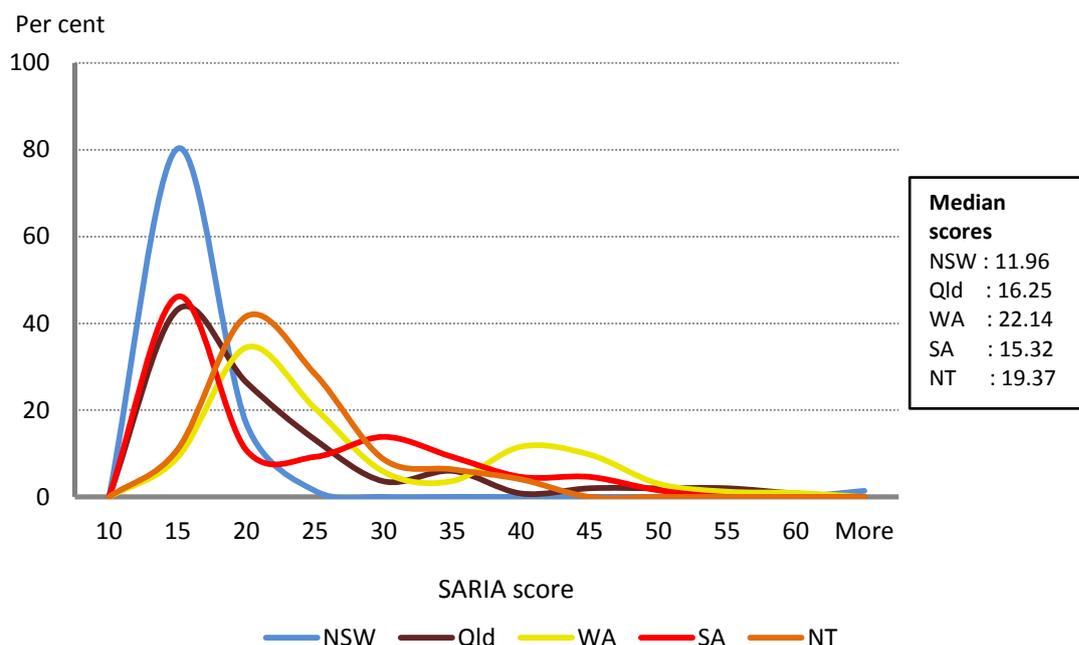
The grouping of all communities with SARIA scores of above 10.53 as very remote has a disproportionate and material impact on states that have a large number of communities with very high SARIA scores, such as the Territory and Western Australia. Figures 1 and 2 show the distribution of SARIA scores for communities in the remote and very remote classifications. The figures show that the distribution of SARIA scores in these classifications is very different in each state. The median SARIA score for remote (remote and very remote) communities in New South Wales is 7.72 and for very remote communities is 11.96. In comparison, the median SARIA score for remote communities in the Northern Territory is 16.12 and for Western Australia 18.05. For very remote communities, the median SARIA score in the Northern Territory is 19.37 and for Western Australia 22.14.

**Figure 1: Distribution of remote and very remote communities by state and SARIA score**



Source: Commonwealth Grants Commission; Department of Treasury and Finance

**Figure 2: Distribution of very remote communities by state and SARIA score**



Source: Commonwealth Grants Commission; Department of Treasury and Finance

The Territory proposes that the current remote classifications be split into ‘remote’ (with SARIA score band of 5.93 to 9.00), ‘moderately remote’ (with a SARIA score band of 9.01 to 18.00) and ‘very remote’ (with a score band of 18.01 and above). The number of remote classifications would be the same as the number of accessible classifications. Further, it should be noted that the band ranges for the remote classifications will continue to be larger than those currently applied to the accessible classifications. This proposed classification would allow for a more accurate reflection of cost differentials in remote communities across Australia.

Table 1 shows the population distribution under the Territory’s proposal to split the current remote classifications into three categories. Adopting three remote classifications would have a material impact on the Commission’s assessment as this would result in very different population distributions compared to the current two classification approach. The Territory strongly believes that this proposal warrants further consideration given that the current two structure approach results in counterintuitive outcomes through the grouping of communities that are very different in terms of location disabilities.

**Table 1: Proposed disaggregation of the ‘remote’ SARIA classifications**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
Remote	57 354	4 304	77 075	34 829	23 482	131	0	9 111
Moderately remote	20 195	992	44 216	36 256	12 184	257	0	48 714
Very remote	543	0	23 356	85 241	4 229	2 193	0	29 573

Source: Commonwealth Grants Commission; Department of Treasury and Finance

### *Truncation of distances*

The Territory does not support the truncation of distances in determining remoteness, as this option appears to be without merit. No justification has been given for truncating to a factor of 3, other than following the practice of ARIA. In its discussion paper, the Commission demonstrated the impact of truncation on Broome, which, with truncation, would move from being classified as very remote to remote. The option of truncation should only be considered when its full impacts have been established. In this regard, it may be informative to compare Broome's service characteristics with similarly-sized communities in other classifications to best understand the impact of truncation.

### *2006 or 2011 based SARIA*

The decision to adopt 2006 or 2011 Census population data for the SARIA classifications is dependent on the timing of the release of final 2011 Census population estimates at the Statistical Area 1 or 2 level. If these population figures are available, then the Commission should recalculate SARIA based on 2011 Census population data. The Territory does not support the Commission using preliminary data from the 2011 Census.

Subject to the availability of final 2011 Census population data at the community level, the Territory supports the Commission engaging GISCA to produce a SARIA based on the 2011 Census population. The consultation with GISCA should also include consideration of further disaggregation of remoteness classifications as well as determining the impact of factors such as road quality, seasonal flooding and isolation on location costs and, if found to be material, how SARIA could be adjusted to reflect these factors.

### *Permeable borders*

The Territory considers that the assumption in SARIA of impermeable state borders is critical for the Commission's purposes as it reflects 'what states do'. While residents may cross state borders for commercial purposes, the delivery of government services for that resident remains the responsibility of the state in which they live. States are responsible for providing all state government services to residents within their borders including the provision of courts, schools, community health clinics, policing and roads.

In instances where people cross borders to access government services in another state, there are arrangements in place for the reimbursement of the associated costs, such as cross border arrangements with hospitals and schemes under the *Closing the Gap* initiative. Where there is likely to be significant cross border issues in relation to government services (between New South Wales and the Australian Capital Territory), this is currently addressed through the cross border assessment.

### *Interstate freight assessment*

Under the current methodology, the Commission applies an interstate freight assessment. The assessment receives a high discount of 50 per cent because of Commission concerns around the quality of data. The Territory contends that the 50 per cent discount is too high and not justified. There is strong conceptual evidence that there are material differences in the volume and, in particular, the cost of interstate freight in each state. For example,

differences between states in the cost of fuel, which is a key input for interstate freight, are a major driver of state differences in freight costs.

Table 2 shows that fuel costs in the Territory are significantly higher than in other jurisdictions, with the average retail price of petrol 17 cents per litre above the national average and that of diesel 16 cents per litre above the national average (as at the week ended 26 May 2013). It is estimated that the difference in fuel costs between the Territory and the national average alone adds about \$1.5 million in the costs of delivering services in the Territory.

**Table 2: Average retail petrol and diesel price, capital cities, cents per litre (cpl), week ended 26 May 2013**

	Petrol cpl	Diesel cpl
<b>National average</b>	<b>141.6</b>	<b>143.9</b>
Sydney	140.0	142.1
Melbourne	142.5	140.4
Brisbane	142.7	145.2
Perth	139.6	145.5
Adelaide	139.1	142.3
Hobart	150.6	151.7
Canberra	147.9	146.0
Darwin	158.7	160.0

Source: Australian Institute of Petroleum

The Territory strongly argues for the Commission to undertake a data request with states and third parties (if necessary) on interstate freight transport as part of the 2015 Review, to improve the data that underpins the interstate freight assessment. This would remove the need to apply the high discount.

The Commission staff discussion paper notes that if the Commission adopted ARIA instead of SARIA consideration would be given to whether the interstate freight assessment would continue. While ARIA allows for proximity to a centre in another state in calculating remoteness scores, it is unclear how this approach negates an interstate freight assessment. Most interstate freight originates from a major urban centre (city of over 48 000 people) or capital city. ARIA may cross borders to measure the distance from a community to the nearest town of 1000; however, in most instances it would not cross borders to measure the distance between a community and a major urban centre (population of over 48 000) or capital city.

#### *Population estimates*

For consistency, the Territory believes the Commission should use usual place of residence as the basis for the location assessment.