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Mr Greg Smith
Chair
Commonwealth Grants Commission
First Floor, Phoenix House
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Dear Mr Smith 

Re: Northern Territory Second Submission to the 2020 Methodology Review

I am pleased to provide you with the Northern Territory's second submission to the Commission's 2020 Methodology Review. The submission addresses the Territory's priority assessment issues and specific assessment issues raised by Commission staff in the 2018 Staff Draft Assessment Papers, and builds on discussions held during the Commission's visit to Alice Springs in June 2018.

As you know, the Territory continues to strongly support a GST distribution system based on the principle of Horizontal Fiscal Equalisation, as currently defined. The 2020 Methodology Review affords an opportunity for the Commission and states to further refine the equalisation process, including ensuring the differences in the use and cost of delivering services to remote Territorians, including Aboriginal Territorians, and the additional costs associated with this highly disadvantaged population, are adequately captured.

I can advise that there is no confidential information in the Territory's submission.

I trust you will give due consideration to the Territory's submission and we look forward to the Commission's Draft Report, due to be released in the first half of 2019.

Yours sincerely



CRAIG GRAHAM
Under Treasurer

30 August 2018

**Northern Territory
Second Submission to the
Commonwealth Grants
Commission –
2020 Methodology Review
August 2018**

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1

Introduction

- 1.1 The Northern Territory welcomes the retention of the current interpretation of Horizontal Fiscal Equalisation (HFE), and its supporting principles. The Northern Territory is a strong supporter of HFE as the objective which guides the Commonwealth Grants Commission's (the Commission's) methods for the distribution of GST across the states and territories. HFE underpins the long standing tenet that all Australians, regardless of where they live, should have access to equivalent levels of government services. However, the Northern Territory notes the Productivity Commission and the Commonwealth have recommended changes to the current definition of HFE that, if agreed, will affect the determination of states GST revenue sharing relativities.
- 1.2 As noted in its first submission to the Commission's GST Revenue Sharing Relativities 2020 Methodology Review (2020 Review), the Northern Territory remains opposed in-principle to materiality thresholds and does not support the proposed increase of the threshold to \$35 per capita. Further, the Northern Territory believes that the application of discounting throughout the Commission's assessments represents a departure from full equalisation and should be avoided where data otherwise exists to support a differential assessment. The Northern Territory encourages the Commission staff to reconsider the use of discounting as assessments are developed through the review period, and instead work with states to identify deficiencies in data quality and availability.
- 1.3 The following submission details the Northern Territory's response to the 2018 staff draft assessment and discussion papers issued as part of the 2020 Review. The key priorities in this submission build on the presentations from the Commission's visit to the Northern Territory in June 2018 and focus on ensuring that the factors, which drive the Northern Territory's high expenditure need, including our unique geographic and socio-demographic features, are appropriately captured.
- 1.4 A summary of the Northern Territory's priorities and its positions on Commission staff's proposals for each assessment category are contained at the beginning of each chapter.

2

Payroll Tax

The Northern Territory:

- Supports retaining the approach to assessing states' capacities to raise payroll tax revenue.
- Notes the potential for the Business Longitudinal Analysis Data Environment (BLADE) data set to be used for assessing payroll taxes in future reviews.

2.1 *Staff Draft Assessment Paper CGC 2018-01/02-S – Payroll Tax* proposes to retain the 2015 Review Payroll Tax assessment and considers other issues, including:

- treatment of diminishing thresholds
- source of data for the revenue base
- an elasticity adjustment.

2.2 The 2015 assessment methodology identified a state's payroll tax capacity as the value of remuneration above a single weighted average tax-free threshold in the private and non-general government public sectors using the Australian Bureau of Statistics (ABS) Compensation of Employees (CoE) dataset and ABS data on wages and salaries.

Treatment of diminishing thresholds

2.3 Five states impose a single marginal rate of payroll tax above a threshold while the remaining three, including the Northern Territory, impose diminishing deduction thresholds, meaning the effective rate increases to a certain payroll size until it becomes flat. The current assessment measures states payroll tax capacities by estimating the proportion of remuneration above a single average threshold.

2.4 While some states have previously argued that the assessment should reflect the deduction system, Commission staff have identified that diminishing thresholds will only be taken into account, if it is material to do so and wages and salaries data can be further disaggregated to accommodate a differential assessment.

2.5 Based on 2016-17 data for the assessment of payroll tax capacity, the Northern Territory notes that the three states employing a diminishing threshold approach account for only 31.4 per cent of actual revenue. The Northern Territory supports retaining the current assessment method as it considers it to be a simple way of reflecting average state policy.

Source of data for the revenue base

- 2.6 While Commission staff consider the currently utilised CoE data to be reliable and fit for purpose, some states have raised concerns about the volatility of the data for the smaller states. Currently, Commission staff are unaware of an available and appropriate replacement for this data source. It is however noted that the ABS and Department of Industry, Innovation and Science are developing BLADE, which could provide a richer source of data and potentially allow for a diminishing threshold adjustment.
- 2.7 Given BLADE is unlikely to be available for consideration during the 2020 Review, the Northern Territory supports the continued use of ABS data on CoE and wages and salaries.

Elasticity adjustment

- 2.8 The Northern Territory notes an elasticity adjustment will be considered further pending outcomes of the consultant's report.

3

Land Revenue

The Northern Territory:

- Supports the continued use of adjusted land values as the capacity measure for the land tax component of the Land Revenue category.
- Notes that there are advantages and disadvantages to all considered data source options for the land tax component of the assessment, however, State Revenue Office (SRO) data appears to be the most suitable, assuming that adjustments will continue to be made for principal place of residence, progressive taxation rates and aggregation of land holdings.
- Notes the other land based taxes component of the category is proposed to be assessed using land values for residential, commercial and industrial properties.

3.1 *Staff Draft Assessment Paper CGC 2018-01/03-S – Land Revenue* raises four issues for consideration in the 2020 Review:

- revenues included in the category
- drivers of revenue capacity
- appropriate data source to assess revenue capacity
- other issues; an elasticity adjustment and discounting the assessment.

The Northern Territory notes all other proposals recommended by Commission staff.

Revenues included in the category

User charges

3.2 The Northern Territory accepts the Commission staff's proposal to continue to exclude revenue that is deemed to be a user charge. This will result in revenue associated with planning and development levies and Victoria's Growth areas infrastructure contribution¹ being excluded from the category and assessed on an equal per capita (EPC) basis in the Other Revenue category.

¹It should be noted that Victoria's Growth areas infrastructure contribution was previously assessed in the Land Revenue category.

Fire and Emergency Service Levies

- 3.3 Fire and Emergency Service Levies (FESLs) are not treated as user charges as there is no direct receipt of a service. There are three different types of FESLs, assessed in three different categories, to reflect similar raised taxes in accordance with average policy: property based FESLs in Land Revenue, insurance based FESLs in Insurance Tax and motor vehicle based FESLs in Motor Taxes. Property FESLs are included in the general property component of the Land Revenue category as the Commission considers they broadly target landowners, similar to all other taxes assessed in the Land Revenue category. The Northern Territory considers this approach appropriate, as it did in the 2015 Review.
- 3.4 This view was not held by all states, with one suggesting that all FESLs should be assessed together. The Northern Territory notes that a joint assessment may not satisfy simplicity and materiality concerns.

Drivers of revenue capacity

Adjusted land values

- 3.5 Commission staff are proposing to recommend the Commission continue to use adjusted land values, as it has done so for all methodology reviews, as the basis of the land tax revenue component capacity measure. The Northern Territory considers there to be no better policy-neutral measure.
- 3.6 For the income producing property component (land tax component) of the category, the Commission currently adjusts for:
- the progressivity of tax
 - aggregation of individual owners taxable land holdings
 - non-taxable land.

These adjustments reflect state average policy.

- 3.7 In the July 2018 telepresence, Commission staff sought states' views on the relative importance of adjusting for these three elements. The Northern Territory considers that adjustments should continue to be made if they reflect what, on average, states do and are material to the assessment.

Foreign owner surcharges

- 3.8 Currently, four states impose foreign owner surcharges on to land tax. The Northern Territory notes Commission staff are proposing to not undertake a separate capacity assessment for foreign ownership surcharges. Instead, capturing the surcharges in the land tax component through the impact on the effective rate of tax. In line with the Commission's definition of average policy, the Northern Territory

considers that the treatment of foreign owner surcharges should be revisited in future updates/reviews, if it becomes material.

Other land based taxes

3.9 The other land based taxes component of the category includes property FESLs, metropolitan levies and the Australian Capital Territory's replacement revenue which are generally imposed by states on a per property basis. These taxes were assessed EPC in the 2015 Review as they did not meet the materiality threshold. Commission staff are proposing a differential assessment, based on land values for residential, commercial and industrial properties. The Northern Territory does not levy any other land based taxes, however, considers this change appropriate, as it more closely reflects what states do. It is noted that the materiality of this proposed change will have to be considered.

Appropriate data source to assess revenue capacity

3.10 Prior to the 2010 Review, State Valuers-General (VG) land value data were adjusted and used to measure land tax revenue capacity. Since the 2010 Review, the Commission has used SRO data as it is considered preferable on conceptual grounds, noting some concerns about comparability. Particularly, that each states' SRO data is based on the way it levies land tax, resulting in data reflecting state policies, ultimately reducing comparability across states.

3.11 Commission staff are reviewing potential data sources and seek state views on three options: SRO, VG and the ABS National Accounts data. Commission staff note, as has been previously identified, that none of the sources are perfect and they all require adjustments.

3.12 The National Accounts data source appears to be the least preferred, compared to the other two options. It is based on market values rather than site values and the data cannot be aggregated by land holder or adjusted for the progressivity of tax, both key features in the current assessment to reflect how states levy land tax.

3.13 The Northern Territory is supportive of the assessment utilising a data source which reliably contains, or can be reliably adjusted, to accommodate average policy on:

- the progressivity of tax
- aggregation of individual owners taxable land holdings
- non-taxable land.

Utilising the Commission's summary of data sources, it appears that SRO can satisfy these elements, with the least adjustments.

3.14 It should be noted that as the Northern Territory does not have a land tax, it cannot supply SRO data. This is currently acknowledged through the Commission estimating the Northern Territory's land value to 0.6 per cent of the total of other states. It is

expected that this pragmatic approach will continue if the use of SRO data is continued.

Other issues

Elasticity adjustment and discounting the assessment

- 3.15 The Northern Territory notes an elasticity adjustment will be further considered pending outcomes of the consultant's report.
- 3.16 While the Northern Territory acknowledges that the merit of the currently discounted assessment will be considered once the method has been determined, it questions the appropriateness of applying a mid-range discount should SRO data, which appears to be the most appropriate source, continue to be used. The Northern Territory believes there is no evidence to suggest that there are errors in SRO data. If errors are assumed, they are unlikely to have a material impact, which indicates, at a minimum, the discount rate should be reduced to low-range to reflect this.

4

Stamp Duty on Conveyances

The Northern Territory:

- Supports assessing duty on the transfer of vehicle ownership in the Motor Taxes category.
- Notes the treatment of foreign owner surcharges is reasonable based on the supporting principle of practicality.
- Supports the proposed adjustments to the value of property transferred.
- Supports differentially assessing land rich transactions by listed companies in the property component of the Stamp Duty on Conveyances category.

4.1 *Staff Draft Assessment Paper CGC 2018-01/04 – Stamp Duty on Conveyances* raises three areas for consideration in the 2020 Review:

- revenues included in the category
- drivers of revenue capacity
- an elasticity adjustment.

Revenues included in the category

Transfer of vehicle ownership

4.2 The Northern Territory notes that including the assessment of taxes on the transfer of vehicle ownership in the Motor Taxes category rather than in the Stamp Duty on Conveyances category would be simpler and that its effect is only a presentational change. Please refer to Chapter 6: Motor Taxes for further discussion on this issue.

Concessional duties

4.3 Currently, the Commission treats concessional duties provided to first home owners as an expense in the Housing category and makes an adjustment to add the related revenue back to the Stamp Duty on Conveyances category. The Northern Territory supports the Commission staff's proposal to continue this approach.

Foreign owner surcharges

4.4 Five states currently impose varying foreign purchaser surcharges on stamp duties. On practicality grounds, Commission staff propose that these surcharges be captured through their impact on the effective rate of tax, rather than through a separate

assessment. The Northern Territory notes this treatment ought to be revisited in the future, if it becomes more material.

Drivers of revenue capacity

- 4.5 Commission staff propose to continue to assess stamp duty on conveyances using the adjusted value of property transferred. Currently, the Commission makes adjustments to SRO data to ensure states revenue capacities are not under or over estimated. The adjustments are made for:
- the progressivity of states' rates of duty
 - variances in the range of property subject to duty.
- 4.6 The Northern Territory considers that an adjustment for the progressivity of stamp duty is appropriate, given states apply duty on conveyance progressively.
- 4.7 Additionally, as indicated in previous reviews, the Northern Territory considers it appropriate for the Commission to adjust for differences in the range of transactions subject to duty. Consequently, the Northern Territory notes the following proposed adjustments to the property component of the assessment:
- Removing non-real property transactions to the EPC component as duty on these transactions has been abolished in five states and therefore is no longer average state policy. This will result in the property component measure solely reflecting real property transferred.
 - Discontinuing the off-the-plan adjustment for Victoria as it will no longer be material.
 - Continuing the treatment of unit trust transactions. As three states tax a wider range of unit trusts, these transactions are removed from the states revenue bases, with the duty raised assessed in the property component.
 - Establishing an adjustment for commercial property transactions in South Australia to reflect that its commercial transfer duty has ceased.

Land rich transactions

- 4.8 In the 2015 Review, land rich transactions by listed companies were assessed EPC, as only one state applied duty to these transactions. Given that all states except Tasmania now apply duty to similar transactions, Commission staff are proposing to differentially assess these transactions in the property component. On the basis of average state policy, this appears reasonable.

EPC component

- 4.9 The Northern Territory supports the continued EPC assessment of corporate reconstructions and sale of major state assets as duty from these transactions are

typically volatile and ad hoc in nature and reflect variances in state policies, respectively.

- 4.10 As noted above, Commission staff also propose to remove non-real property transactions from the property component and assess these in the EPC component of the category.

Elasticity adjustment

- 4.11 The Northern Territory notes an elasticity adjustment for this category will be considered pending outcomes from the elasticity consultancy.

5

Insurance Tax

The Northern Territory supports the proposal to retain the current methodology and include workers compensation duty in the assessment.

- 5.1 *Staff Draft Assessment Paper CGC 2018-01/05-S – Insurance Tax* proposes to retain the 2015 assessment methodology, and incorporate revenue from workers' compensation duty which is currently assessed EPC in the Other Revenue category.
- 5.2 The Northern Territory is supportive of this proposed assessment structure. The inclusion of workers' compensation duties is consistent with the Commission's approach to average policy, combining revenues raised on the same basis in the same category. Further, Commission staff indicate this change will not result in a materially different assessment of revenue capacity, and is proposed on simplicity grounds.

Elasticity adjustment

- 5.3 The Northern Territory notes the merit of including an elasticity adjustment in revenue assessments, including for insurance tax revenue, will be considered pending outcomes of the elasticity consultancy and materiality considerations.

6

Motor Taxes

The Northern Territory:

- Considers the proposal to assess stamp duty on the transfer of motor vehicles in the Motor Taxes category rather than the Stamp Duty on Conveyances category is reasonable.
- Is able to provide updated splits of vehicle registration revenue between heavy and light vehicles.
- Does not have progressive tax rates for vehicle transfers.

6.1 In the 2015 Review, the Commission assessed stamp duty on motor vehicles in the Stamp Duty category. *Staff Draft Assessment Paper CGC 2018-01/06-S – Motor Taxes* proposes to retain the 2015 Review capacity measures, but move stamp duty on motor vehicles to the Motor Taxes category. The staff draft assessment paper advises this is presentational, will have no impact on GST distribution and will aid simplicity. The Northern Territory considers this change reasonable.

6.2 Commission staff are seeking advice from states on the availability of data to update the split of revenue between heavy and light vehicles and to estimate the impact of progressive rates of vehicle transfer duty. While the Northern Territory is able to provide data on the split of motor vehicle registration revenue by category of vehicle, it does not levy progressive rates of transfer duty and is therefore not in a position to provide data on the value distribution of vehicle sales.

Treatment of motor tax concessions

6.3 Commission staff indicate that in the 2015 Review, motor tax concessions provided by states were treated as foregone revenue as ABS and state provided data were net of concessions. The staff draft assessment paper notes a state has suggested this treatment should be reviewed and consideration given to whether the factors driving motor tax concessions are the same factors that drive revenue. While the Northern Territory considers that the drivers are likely to be different, and the GST distributional effect of including these concessions is likely to be immaterial, it notes that Commission staff will plan to investigate this issue further.

Elasticity adjustment

6.4 The Northern Territory notes an elasticity adjustment for this category will be considered pending outcomes from the elasticity consultancy.

7

Gambling Taxes

The Northern Territory:

- Supports the continued assessment of gambling revenue on an EPC basis in the Other Revenue category, given the continued lack of reliable data and method which would enable a differential assessment of gambling taxes.
- Does not consider the Study by Armstrong and Carroll and the Household Income and Labour Dynamics in Australia Survey (HILDA) to be an appropriate basis for developing a differential assessment of gambling taxes. The use of HILDA data would fail to recognise that a large proportion of the Northern Territory's population which live in remote locations have no access to gambling venues and any gambling which occurs is non-taxable activity.
- Is of the view that the potential broad capacity measures proposed by the Commission would not be a reliable or accurate measure of the Northern Territory's gambling revenue capacity.

7.1 *Staff Draft Assessment Paper CGC 2018-01/07-S – Gambling Taxes* proposes to investigate the development of a disaggregated gambling assessment based on HILDA data and the development of an aggregated assessment based on broad indicators. If neither of these approaches are appropriate, it is proposed to continue to assess gambling revenue on an EPC basis.

7.2 Notwithstanding a conceptual case for a differential assessment of gambling revenue capacity, the Northern Territory considers that a differential assessment remains inappropriate at this time given:

- variance in states' gambling policies which makes a level-of-activity approach difficult
- immateriality of broad indicator approaches
- a lack of reliable evidence, and accurate fit for purpose data, linking gambling expenditure to potential drivers of gambling activity
- the high levels of substitutability between different forms of gambling as identified by Commission staff.

- 7.3 In the absence of a reliable policy neutral measure of gambling activity, the Northern Territory supports the continued assessment of gambling revenue on an EPC basis in the Other Revenue category.

Capacity measure based on HILDA data

- 7.4 The staff draft assessment paper identifies the recently released study of gambling activity, *Gambling Activity in Australia* by Armstrong and Carrol² (Study), which utilises HILDA data and indicates this data could be a potential source to link sociodemographic characteristics to gambling activity and expenditure, enabling a differential assessment of gambling revenue.
- 7.5 The Study indicates that Indigenous people, people who live outside major cities, and people in the two lowest Socio-Economic Indexes for Areas (SEIFA) quartiles have a higher propensity to gamble. As the Northern Territory has higher than average shares of these populations, it would likely be assessed as having a higher than average ability to raise revenue from gambling.
- 7.6 This would, however, fail to recognise that a large proportion of the Northern Territory's population who live in remote locations have no access to gambling venues and any gambling that occurs is non-taxable activity (for example, card games).
- 7.7 Furthermore, although efforts were made to ensure that HILDA's survey sample is representative, it excludes people living in remote and sparsely populated areas, people living in public housing and has a relatively small Indigenous population sample size. This may mean that estimates of the propensity to gamble (and associated revenue raising capacity) are not representative of all Indigenous and remote populations and do not capture the lack of access to 'taxable gambling' in remote Indigenous communities.
- 7.8 For these reasons, it is the Northern Territory's view that a reliable disaggregated assessment of gambling revenue cannot be derived using HILDA data and the Study.

Broad capacity measures

- 7.9 The staff draft assessment paper also suggests that the development of a broad measure of gambling revenue capacity could be considered based on gambling expenditure or turnover, gross household disposable income (GHDl) or population. Notwithstanding this general proposal, Commission staff have indicated they do not consider there to be any clear evidence for such an approach.
- 7.10 The use of GHDl as the measure of gambling revenue capacity was abandoned in the 2010 Review. Concerns about the relationship between GHDl and gambling activity

² Armstrong A, Carroll M. *Gambling Activity in Australia*. Melbourne: Australian Institute of Family Studies, 2017. Accessed on 24 August 2018 at <https://aifs.gov.au/agrc/publications/gambling-activity-australia>.

meant that a discount of the assessment in excess of 50 per cent would have been warranted, making the assessment immaterial. There is nothing to suggest that GHDI could be re-introduced as the capacity measure without a similar or higher degree of discounting at this time and as such, the Northern Territory is not supportive of this approach.

- 7.11 Further, there would be severe limitations to utilising either gambling expenditure or turnover as the broad measure of revenue raising capacity. The Northern Territory's potentially high capacity under these measures is driven by a number of large national bookmakers being located in the Northern Territory which also derive their revenue based on wagers placed interstate. Accordingly, there is no strong link between the expenditure or turnover measures and the propensity of the Northern Territory's population toward gambling. On this basis, the adoption of either measure as a broad indicator of gambling revenue capacity is not supported.

8

Mining Revenue

The Northern Territory:

- Acknowledges that changes to the mining revenue assessment are needed to address the potential for states to be influenced in their decision making when setting royalty rates.
- Is of the view that the policy neutrality impacts in the assessment should be adequately mitigated by the Commission staff's proposal to assess a proportion of a discretionary royalty rate change by a dominant state, on an EPC basis. The Northern Territory does not consider a change to the current mineral by mineral approach to be necessary.
- Considers the Commission staff's proposal to assess revenue from banned minerals EPC, to be a sensible approach at this stage given the difficulties associated with accurately measuring the royalty base and that royalties from these minerals are not presently high enough to warrant a differential assessment.

- 8.1 Commission staff have outlined the proposed changes to the mining revenue assessment in the *Staff Draft Assessment Paper CGC 2018-01/08-S – Mining Revenue*. The Northern Territory supports the proposals for the Mining Revenue category to comprise state royalty revenue and grants in lieu of royalties, to use state value of production data as the measure of mining capacity and to continue to assess mining revenue capacity using a mineral by mineral approach.
- 8.2 The staff draft assessment paper also makes a number of proposals aimed at maintaining policy neutrality in the mining revenue assessment, including proposals to assess on an EPC basis a portion of any revenue increase received by a dominant state following a discretionary royalty rate change, and to assess revenue from the production of banned minerals EPC. The Northern Territory's position in relation to these proposals is discussed in detail below.

Policy neutrality

- 8.3 The Commission aims to balance policy neutrality with equalisation outcomes. However, this has been difficult to achieve in the mining revenue assessment in recent years given the uneven distribution of Australia's mining revenue base and Western Australia's exceptionally high level of mineral reserves. As a result, maintaining policy neutrality is the central theme of many of the changes proposed by Commission staff for the Mining Revenue category.

- 8.4 In the staff draft assessment paper, Commission staff express the view that the current mineral by mineral assessment structure continues to strike an appropriate balance between reflecting states mining revenue capacity and policy neutrality and should be maintained. The Northern Territory continues to support this view.

Discretionary changes to royalty rates

- 8.5 The mining revenue assessment makes seven separate assessments for the minerals that generate the most royalty revenue: iron ore, coal, gold, onshore oil and gas, copper, bauxite and nickel. The remaining minerals are assessed in a residual group.
- 8.6 A state's capacity to raise mineral royalty revenue is assessed by applying the national average royalty rate to each state's value of mining production for that mineral. Once the individual assessments are made, they are combined to determine each state's overall capacity to raise mineral royalty revenue.
- 8.7 Under the current mineral by mineral assessment structure, where one state has a dominant role in the production of a mineral (such as Western Australia's iron ore production), that state's royalty rate will largely determine the average royalty rate applied in all states' assessments of revenue capacity. Generally, the design of the revenue assessments will ensure that the GST consequences of any changes which a state makes to its tax rate is small in comparison to the benefit which it accrues through increased own-source revenue collections.
- 8.8 The mining revenue assessment is the exception to this general principle. Under the current assessment method, any royalty rate increase by a dominant state can result in that state only retaining their population share of the increase, with the remainder redistributed away through the GST. The Commission has expressed concern that, as a result, states may be influenced in their decision making around changes to their royalty rates under the expectation that any increase in revenue collections will be essentially offset by a resultant decrease in their GST share. The Northern Territory acknowledges this is an unintended consequence that only occurs in the mining revenue assessment due to the dominant state circumstance.
- 8.9 As a means of addressing these policy neutrality concerns, the staff draft assessment paper has proposed that in circumstances where a dominant state makes a discretionary change to its royalty rate, a proportion of the associated revenue increase is assessed EPC (using the formula contained in Attachment A to the staff draft assessment paper). The proposal will act as a direct adjustment to any discretionary royalty rate increase by a dominant state, allowing a dominant state to keep around half of the own-source revenue effects of any royalty rate change.
- 8.10 The Northern Territory considers this proposal is a reasonable approach that will have the effect of minimising the policy neutrality concerns in the mining revenue assessment by ensuring the GST redistributive effect of any royalty rate increase by a

dominant state is consistent with the effect of a tax rate increase experienced in any of the other revenue categories.

- 8.11 Importantly, under the proposal a dominant state's decision to reduce their royalty rate is treated in the same manner as any decision to increase that rate. That is, part of any reduction in royalty receipts following a discretionary royalty rate decrease will be treated EPC, ensuring a state will bear at least half of the own-source revenue effects of the reduction. In the Northern Territory's view, this effectively ensures the direct impact of any decision to lower a royalty rate is borne by the state, acting as a disincentive for states to reduce their royalty rates on the expectation that any reduction in own-source revenue will be offset by an increase in GST.
- 8.12 While the proposal comes at the expense of achieving full equalisation in the mining revenue assessment, the Northern Territory acknowledges the ongoing difficulties experienced in past reviews and the complexity involved in trying to develop a perfectly policy neutral assessment which still appropriately supports equalisation. In the Northern Territory's view, the Commission staff's proposal strikes an appropriate balance between policy neutrality and HFE while still ensuring a workable assessment. On this basis, the proposal is supported.

Banned minerals

- 8.13 Currently, states' capacity to raise revenue from coal seam gas (CSG) and uranium are assessed using value of mining production for both commodities. This means states that have banned the exploitation of these minerals are currently assessed as having zero capacity. Commission staff are reconsidering this approach on the basis that, as not all states have bans in place for these minerals the decision by some states not to exploit those resources reflects policy choice. This view is consistent with the principle of state average policy adopted in the 2015 Review.
- 8.14 The Northern Territory considers the Commission staff's proposal for banned minerals to be assessed EPC from the commencement of the 2020 Review, and for the assessment of these minerals to be contained in the mining revenue category, to be sensible. An EPC assessment avoids difficulties associated with alternative approaches to measuring the relevant revenue base, such as those associated with attempting to estimate states' economically viable mineral reserves, and can be justified as neither CSG or uranium royalties are presently sufficient to warrant a differential assessment.
- 8.15 The Northern Territory does not support imputing a tax base for banned minerals. Any estimation of mineral reserves for this purpose is likely to be very difficult to quantify with any certainty and would require consideration of the economic viability of mining the mineral reserves. It would also be inconsistent with using mining production values as the basis for assessing revenue capacity, as is the case for other minerals.

- 8.16 Notwithstanding the adoption of an EPC assessment, it is the Northern Territory's view that a watching brief on production levels for banned minerals should be maintained. Should the associated revenue raised by states become material enough to warrant a differential assessment, the Commission may need to revisit the EPC approach as part of this Review, or subsequent updates.

State development policies

- 8.17 The Northern Territory supports the Commission staff's proposal to not make an adjustment for differences in state development policies.
- 8.18 Any adjustment or discounting of the mining revenue assessment to account for state development policies would be complex to achieve and, as highlighted in the staff draft assessment paper, lead to the perverse outcome of implying that a state with a higher (or lower) than average revenue raising capacity are in that position because of more (or less) effective state development policies. Notwithstanding this view, any such adjustment is not feasible without an accurate measure of the investment which has directly, and solely, enhanced a state's revenue base. The Northern Territory notes the Commission staff's view that there is no evidence to support that such a measure exists.

Other issues

Elasticity adjustment

- 8.19 The Northern Territory notes that Commission staff will defer consideration of elasticity adjustments until it has considered outcomes from the consultancy commissioned in 2017. This work may, however, have limited relevance to the mining revenue assessment with the consultant expressing an initial view that it is not possible to accurately measure any elasticity effects in the context of mining royalties.

Discounting the assessment

- 8.20 The proposal to delay any consideration of a discount to the mining revenue assessment until after the assessment method is settled is reasonable. The Northern Territory is, however, unlikely to support any proposal which further decreases equalisation in the assessment given the Commission staff's intention to assess a proportion of any changes to royalty rates by a dominant state on an EPC basis as this is already shifting the assessment away from full equalisation.

9

Other Revenue

The Northern Territory:

- Is supportive of the current structure and assessment methodology of the Other Revenue category.
- Is of the view that in the absence of a reliable policy neutral measure of gambling activity, gambling revenue should continue to be assessed on an EPC basis in the Other Revenue category.

- 9.1 The Other Revenue category is a residual category which contains state revenues remaining after those which can be differentially assessed have been identified and classified to specific revenue categories. All revenue streams in the category are assessed on an EPC basis.
- 9.2 *Staff Draft Assessment Paper CGC 2018-01/09-S – Other Revenue* largely proposes to retain an EPC assessment of the revenues currently contained in the Other Revenue category. The Northern Territory is supportive of this approach.
- 9.3 The only potential substantive change proposed in the staff draft assessment paper is for Commission staff to consider the development of a differential assessment for gambling revenue. However, given the absence of a reliable policy neutral measure of gambling activity, it is the Northern Territory's view that gambling revenue should continue to be assessed on an EPC basis in the Other Revenue category. Further discussion of the Northern Territory's position on this issue can be found in Chapter 7: Gambling Taxes.
- 9.4 The Northern Territory also notes the proposal in the staff draft assessment paper to continue the user charge treatments used in the 2015 Review. While the Northern Territory is generally supportive of this proposal, further discussion of the appropriate treatment of user charges can be found in the relevant chapters of this Submission where warranted.

The Northern Territory:

- Agrees with the Commission that the initial result from the preliminary regression model of a negative gradient for Indigenous disadvantage is counter-intuitive given it is inconsistent with the Schooling Resource Standard (SRS) and state funding models.
- Supports the conceptual case for replacing the Indigenous relative socio-economic outcomes (IRSEO) and the non-Indigenous socio-economic indexes for areas (NISEIFA) with the index of community socio-educational advantage (ICSEA) in the schools preliminary regression model.
- Understands that the Commission staff will test the variable of concentration of Indigenous students in their preliminary regression model.
- Provides in-principle support for netting user charges off the state funded government schools component.
- Supports assessing Commonwealth funded non-government schools expenses in the same way as other Commonwealth payments that do not affect GST distribution.
- Supports retaining the current assessment approach for Commonwealth funded government schools.
- Supports the inclusion of the Nationally Consistent Collection of Data on school students with disability (NCCD) in the Commission's assessment.
- Does not support removing the current student transport assessment.

10.1 The *Staff Draft Assessment Paper CGC 2018-01/10-S – School Education* proposes some changes to the assessment of school education. The current assessment is based on four components: state funded school education, Commonwealth funded government school education, Commonwealth funded non-government school education and student transport. The Northern Territory anticipates substantial changes in the state funded schools education component of the assessment.

Specification of the regression model for state funded schools

Preliminary regression model

- 10.2 The assessment for state funded school education is currently based on actual student enrolment numbers adjusted for additional cost as the result of the proportion of government school students, Indigenous students, location, socio-economic status (SES) and small schools. The weightings of these additional costs are determined through regressions of Australian Curriculum, Assessment and Reporting Authority (ACARA) data that estimates costs weights for different groups of students.
- 10.3 The current model separates schools into two groups based on Indigenous and non-Indigenous enrolments and assumes equal per student base funding for both groups of students within the school. The regressions of ACARA data are run individually for these two student groups. This method does not acknowledge the difference in resources allocated to Indigenous and non-Indigenous students in the same school and potentially under-estimates the funding allocated to Indigenous students.
- 10.4 In contrast to the current model, the staff draft assessment paper proposes to adjust the regression model to obtain a more reliable estimate of cost weights by allowing different students in the same school to be allocated different levels of resourcing (preliminary regression model). The resulting preliminary regression model produces a negative gradient for Indigenous disadvantage based on the current variables in the model of IRESO and NISEIFA. Specifically, the model indicates that states fund the most disadvantage Indigenous students at a significantly lower rate compared to the least disadvantaged Indigenous students.
- 10.5 The Northern Territory agrees with Commission staff that this result is counter-intuitive given it is inconsistent with the SRS and state funding models.
- 10.6 In order to develop a regression model that produces intuitive results, the Commission are seeking an understanding of states funding models to determine if there is an explanation as to why their preliminary model is producing counter-intuitive results, and to ensure all relevant variables are included in the model. During the Commission's visit to the Northern Territory, the Department of Education (DoE) explained the Northern Territory's student needs-based funding model for government schools. Subsequently a funding fact sheet explaining information on the nine student loadings applied in the model was provided to the Commission.
- 10.7 The Northern Territory's needs-based funding model is similar to the SRS, however it only comprises one part of the government schools resourcing model, not the entirety. About 57 per cent of the total government school education funding within the Northern Territory is managed centrally, enabling it to better direct resources to

its remote and disadvantaged population. These centrally managed resources relate to the Northern Territory Indigenous Education Strategy, specialist teachers and support, teacher housing, special education support programs, Indigenous specific curriculum, engagement programs and staff relocation costs. Due to the centrally managed approach, the loadings in the Northern Territory's student needs-based funding model do not accurately reflect the total funding associated with specific groups of students. These centrally managed resources, as a default, are generally distributed across students on a total enrolment basis. As a result, ACARA reported expenditure would likely significantly understate expenditure on Indigenous, remote and/or disadvantaged students within the Northern Territory.

- 10.8 Further, the Northern Territory acknowledges that the negative gradient produced for Indigenous disadvantage in the preliminary regression model is likely influenced by the use of IRSEO data for the Indigenous socio-economic variable. The regression model is designed to explain the funding per student, however, IRSEO is not a student based variable. IRSEO is an area based measure of disadvantage and states funding models do not incorporate this variable.
- 10.9 States' funding models measure students' socio-economic disadvantage based on parental education and occupation levels. The ACARA developed ICSEA, which also measures students socio-economic backgrounds based on parents occupation and education, appears to better reflect what states do. As such, the Northern Territory supports the conceptual case of replacing IRSEO and NISEIFA with ICSEA in the schools regression model, given the variables used in the regression model should reflect states funding models where possible. The Schools Regression paper, released by Commission staff to the Officer Working Party in July 2018, indicates the regression incorporating ICSEA statistically captures greater variance in the schools funding model and does not produce counter-intuitive results.

Changing characteristics of the Indigenous population

- 10.10 The Northern Territory has concerns that the proposed preliminary regression model does not appropriately capture the changing characteristics of the Indigenous population as directed in the 2015 Review Terms of Reference (ToR). The Schools Regression paper states that funding models do not have a separate funding classification by relative Indigenous disadvantage and non-Indigenous disadvantage. This is correct. However, there is a funding classification in the Northern Territory and about half of the other states' funding models for the concentration of Indigenous students. The Commonwealth's SRS model also contains this variable.
- 10.11 The Northern Territory raised this issue at the Officer Working Party meeting and are of the understanding that Commission staff will test the variable of concentration of Indigenous students in their model. The variable needs to be tested to determine if it is significant and explains the variance in the model to a greater extent. This variable

may appropriately account for the differences in Indigenous populations across Australia. If this variable is considered not appropriate, the Northern Territory expects that Commission staff will further examine ways to account for the differences in Indigenous populations across Australia.

User charges

- 10.12 User chargers for school education are currently not incorporated in the school education assessment. They are assessed EPC in the other revenue assessment. In the 2015 Review the Commission believed that the drivers of revenue and expenditure were not the same, therefore based on the guidelines in regards to netting off user charges, the user charges remained in the other revenue category. The staff draft assessment paper now proposes to net user charges off the state funded government school assessment for the 2020 Review.
- 10.13 Given the arguments in the 2015 Review, the guidelines for netting off user charges in expenditure categories and the arguments for excluding user charges from the assessment in the *Staff Draft Assessment Paper CGC 2018-01/11-S – Post-Secondary Education*, the reasoning for this most current proposal, is difficult to follow.
- 10.14 Commission staff have indicated in officer level discussions that netting user charges off state funded government school expenditure before regressing the data leads to better results. It is unclear what these results are but preliminary analysis indicates that this may occur because user charges have an inverse relationship to SES while expenditure need has a linear relationship to SES. These statistical relationships result in an improvement in the overall assessment for relative need. The staff draft assessment paper indicates that schools with the most disadvantaged students raise \$333 per student from fees, charges and parental contributions while schools with the most advantaged students raise \$801 per student. In the Northern Territory the comparable figures are substantially lower and a number of its most disadvantaged schools do not raise any fees, charges or parental contributions.
- 10.15 If the Commission can show that the proposed change to net off user charges is intuitive, sound and robust and improves equalisation then the Northern Territory provides in-principle support for this change. However, the Northern Territory would be concerned if incorporating the user charges influence on expenditure is merely masking underlying issues with the preliminary regression model that Commission staff should investigate.

Commonwealth funded non-government schools

- 10.16 Commonwealth payments for non-government schools currently have no net impact on the GST distribution as they are assessed actual per capita (APC) in the school education assessment and are offset by an equivalent assessment of revenue in the Commonwealth payments. The staff draft assessment paper considers that there is no analytical benefit to the current treatment of Commonwealth funded

non-government school expenses and the Northern Territory agrees with this analysis. The current assessment merely adds complexity to the calculation of the schools assessment. The Northern Territory agrees that the Commonwealth funded non-government schools expenses should be assessed in the same way as other Commonwealth payments that do not affect GST distribution, and treated by exclusion.

Commonwealth funded government schools

- 10.17 The current schools assessment uses the Commonwealth's SRS to assess the need for Commonwealth funded government schools. The Northern Territory supports the proposal in the staff draft assessment paper to retain this approach.
- 10.18 The Northern Territory agrees with the Commission staff's views, that the 2015 Review ToR requirement, not to unwind the recognition of education disadvantage embedded in the National Education Reform Agreement (NERA) funding arrangements, still stands given Quality Schools is sufficiently NERA-like.

Students with disabilities

- 10.19 The current assessment for schools education does not recognise the additional costs associated with students with disabilities. The staff draft assessment paper proposes not to incorporate students with disability into the schools education assessment unless it is clear that data available for the 2020 Review is comparable across states. The Northern Territory is of the view that the NCCD should be incorporated in the Commission's assessment given it was incorporated in the SRS assessment for 2018.
- 10.20 The SRS applies a loading to students who are counted in the top three levels of the NCCD (extensive, substantial and supplementary). The Northern Territory will incorporate a loading for students with a disability into its state funding model, based on outputs from the current consultant's review of its practices and policies for students with additional needs in mainstream schooling. Extra support to students with a disability will likely be funded centrally in 2019, with the change to the Northern Territory's funding model to incorporate a student disability loading likely to occur in 2020. If the majority of states are incorporating the additional cost associated with students with disabilities into their funding models the assessment is likely to be material.

Student transport

- 10.21 The assessment of student transport currently recognises the difference between states in the cost of providing transport services to urban and rural students. The staff assessment paper indicates that the current assessment is immaterial and proposes to aggregate the expenditure with transport expenditure and assess using the same disabilities as those for urban transport.

- 10.22 The Northern Territory encourages the Commission to test the materiality of this assessment once the 2016 Census data has been incorporated before finalising its approach.
- 10.23 The Northern Territory is concerned that aggregating the expenditure into the transport category will not recognise that about 20 per cent of students Australia wide require rural transport. Average state policy in the 2015 Review was to provide free bus transport to rural students and subsidised transport to urban students. Aggregating the expenditure into the transport assessment with the urban transport disabilities applied will not represent the cost states face in providing transport to rural students. The Northern Territory encourages the Commission to maintain the current student transport assessment unless an assessment can be developed that greater captures the drivers of cost for student transport services.



Post-Secondary Education

The Northern Territory:

- Supports use of the new category specific regional cost gradient for post-secondary education.
- Supports removal of the 25 per cent discount currently applied to the regional cost gradient.
- Supports the Commission staff's proposal to adjust the assessment to ensure only fee-for-service revenue is netted off expenses.

11.1 The Northern Territory is supportive of the proposals in the *Staff Draft Assessment Paper CGC 2018-01/11-S – Post-Secondary Education* to update the Indigenous and remoteness cost loadings and adjust the assessment to only net off fee-for-service revenue.

Regional cost gradient

11.2 The assessment of remote costs is currently based on the general regional cost gradient and is discounted by 25 per cent due to the Commission's uncertainty about how well the loading reflects post-secondary education costs. The assessment only applies a remoteness loading to remote and very remote areas on an aggregated basis, with a remoteness loading of 38 per cent applied to both remote and very remote contact hours.

11.3 The staff draft assessment paper proposes to introduce a regional cost gradient specific to post-secondary education based on states' remoteness loading in their funding models. The category specific regional gradient has been calculated by averaging states' post-secondary education remoteness loadings.

11.4 The category specific regional cost gradient results in remoteness loadings of 62 per cent for remote training hours and 87 per cent for very remote training hours. This recognises that costs across remote and very remote areas are not homogenous and disaggregation of remoteness needs to occur at a lower level than is recognised in the current assessment.

11.5 The Northern Territory strongly supports the Commission staff's proposal to introduce a category specific regional cost gradient. The specific gradient better recognises the additional costs of remoteness for post-secondary education.

Furthermore, given the measure is category specific and considered reliable, no discounting of the gradient is necessary.

User charges

- 11.6 The Post-Secondary Education assessment currently nets off all user charges prior to making an assessment of states expenditure needs. The Northern Territory supports the proposal to only net off fee-for-service revenue as this revenue covers states spending on non-subsidised training and conceptually has no effect on state fiscal capacities.
- 11.7 Fees from students participating in government subsidised vocational education and training (VET) services should not be netted off the assessment given the drivers of fee collection are not the same drivers as the cost of VET services. The staff draft assessment paper indicates that states with an above average need for spending on subsidised VET services are not necessarily those with the greatest capacity to cost recover because many of the high cost population groups are eligible for fee concessions or exemptions. The Northern Territory agrees with this analysis.
- 11.8 The Northern Territory notes the discussion around incorporating qualification level loadings and state course mix disabilities. The Northern Territory does not support further investigation of these proposals given states are unlikely to be able to provide the necessary cost data to establish these loadings and it appears the impact would not be material.

The Northern Territory:

- Considers the Independent Hospital Pricing Authority (IHPA) remains the best available source of data for the hospitals assessment.
- However, the Commission cannot assume that IHPA is capable of capturing all legitimate and unavoidable costs with gaps remaining in the pricing framework, particularly in relation to non-admitted patient (NAP) services.
- Considers the Commission’s current hospitals assessment has inadequately captured the additional costs of remoteness (regional costs) and service delivery scale (SDS).
 - This will be partially rectified by inclusion of the new patient treatment remoteness area adjustment for admitted services introduced in IHPA’s 2018-19 Determination and work by Commission staff to capture regional and SDS costs for small block hospitals.
 - IHPA’s patient residence remoteness area adjustments reflect sociodemographic composition (SDC) disabilities. They do not adequately address disabilities relating to regional costs and SDS.
- The Commission’s community health assessment, which uses IHPA’s emergency department (ED) triage 4 and 5 data, is not recognising the additional costs of remoteness and SDS, and presently understates SDC related needs.
 - IHPA’s patient residence remoteness area adjustment for ED services (2018-19 Determination) will improve deficiencies in the SDC assessment by better capturing the additional costs of care for remote patients who typically have more complex care needs.
 - Regional cost and SDS disabilities require explicit recognition, however, hospital based measures will understate the extent of these disabilities, particularly in the very remote category, with community health services provided in smaller, more isolated and dispersed communities.
 - SDC, regional cost and SDS disabilities must be fully captured in the Indigenous Australian’s Health Program (IAHP) adjustment.
- Measures for the Commission’s non-state sector adjustments require review to ensure that they are not subject to bias and double counting and are policy neutral.

- 12.1 The Northern Territory expects there to be substantial changes in the Health assessment in the 2020 Review.
- 12.2 In the 2015 Review, the Commission assumed that the National Weighted Activity Unit (NWAU) data from IHPA captured all cost and usage impacts associated with different population groups (SDC), geographic areas (regional costs) and scale (SDS). It is now apparent that this is incorrect and the Commission has also recognised that the cost of block funded hospitals was not fully captured in its methods.
- 12.3 The NWAU data currently includes adjustments for the additional cost of treating Indigenous patients (applied to all hospital services) and patients who reside in remote areas (the patient residence remoteness area (PRRA) adjustment for admitted services). There are also block funding arrangements for specific hospitals in recognition of their low throughput and high costs (regional costs and SDS issues) and for certain services that do not meet Activity Based Funding (ABF) technical requirements.
- 12.4 Despite these adjustments, IHPA's methods have not adequately accounted for additional unavoidable costs of service provision for ED and NAP services and for ABF hospitals operating in regional and remote areas.
- 12.5 These limitations have been partially rectified in IHPA's 2018-19 Determination by extension of the PRRA adjustment to ED services and the introduction of a new patient treatment remoteness area (PTRA) adjustment. The PTRA adjustment recognises diseconomies of scale and scope and regional costs for ABF hospitals. Block funding arrangements remain for specified hospitals.
- 12.6 It is expected that these adjustments will be incorporated in the Commission's methods and applied to all three assessment years. Notwithstanding this, there remains several shortfalls in the Health assessment, which are discussed in the following sections. The chapter also responds to other matters raised in *Staff Draft Assessment Paper CGC 2018-01/12-S – Health*, as relevant.

Hospitals assessment

Block and other standalone hospitals

- 12.7 Although block funding arrangements were in place at the time of the 2015 Review, the Commission's methods did not capture these additional costs. The Northern Territory notes that this omission has been recognised and that Commission staff are undertaking work to ensure that the additional costs for block funded hospitals will be recognised in the SDC matrices for admitted, ED and NAP services.
- 12.8 The staff draft assessment paper estimates a remoteness loading for very remote block funded hospitals based on a weighted average approach. This approach does not, however, recognise that there are insufficient costs in all regional components

of the SDC matrix except the major cities component. That is, to ensure all additional costs for block funded hospitals are appropriately captured there should be more NWAUs (the metric used in the matrix) in each of the inner, outer, remote and very remote components, not just the very remote category. It is possible, however, that the omitted costs are not material for non-remote areas.

- 12.9 The analysis also excludes costs for the Northern Territory’s only non-ABF hospital – Gove District Hospital (GDH). GDH is classified as an Other Standalone Hospital, the only hospital of this type nationally (refer Appendix D of IHPA’s National Efficient Cost Determination 2018-19). The block funded matrix cannot accommodate GDH’s combination of low throughput and very high costs due to remoteness and isolation, however, its costs should be included in the calculation of omitted costs.

Block funded services

- 12.10 In addition to the omission of additional costs for block funded hospitals, the Northern Territory notes that no allowance is made in the current assessment for block funded services. These services include teaching, training and research; non-admitted mental health; non-admitted home ventilation and A17 list services. The per capita costs of block funded services are not equal across jurisdictions with the Northern Territory having the second highest costs behind Western Australia (Table 12.1). These additional costs should be captured in the Health assessment.

Table 12.1 – Per capita funding (\$), block funded services

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Average
Block Funded Services	155	172	159	207	131	169	177	187	165

Source: IHPA, National Efficient Cost Determination 2018-19.

Lack of disaggregation – remote/very remote

- 12.11 The SDC matrices used in the hospital assessments are disaggregated by Indigeneity, remoteness, SES and age. However, remote and very remote areas are combined, and there is no disaggregation by SES (only by age).
- 12.12 The omission of SES means there is no differentiation within the remote Indigenous and non-Indigenous populations in terms of cost or service utilisation between low and high SES groups. This is of particular concern in relation to the Indigenous population where health needs may be markedly different to those of the non-Indigenous population. In areas where a high proportion of the population is Indigenous (as a proxy for low SES), as is the case in most of the Northern Territory’s remote townships and communities, health status is poor, comorbidities common, access to services within communities limited and service delivery needs to be tailored to accommodate strong connections to culture and language. Accordingly,

these populations have a markedly different burden of disease and impact on service provision.

- 12.13 In the hospital setting, these differences are reflected in higher levels of utilisation and the type and complexity of care, as captured and priced through the Australian Refined Diagnosis Related Group classification system. High activity and patient complexity (and associated IHPA adjustments) result in Tennant Creek Hospital (TCH) being classified by IHPA as an ABF hospital (it is the smallest ABF hospital in Australia) while hospitals servicing similar sized populations in other remote areas are block funded.
- 12.14 ABF accounts for TCH's actual circumstances, but the Commission's methods do not. Instead, the Commission's average cost approach and the lack of disaggregation in the SDC matrix will partially redistribute TCH's activity (and the activity of other hospitals which service areas where a large proportion of the population is Indigenous) to areas where the Indigenous population has relatively less impact on the hospital system.
- 12.15 The Northern Territory notes that the Commission proposes to re-test the materiality of splitting remote and very remote areas in the SDC matrix. It would be expected that differences will be more evident following the inclusion of IHPA's new adjustments and missing costs associated with block funded hospitals including GDH.
- 12.16 The re-testing also needs to consider the materiality of a SES assessment for remote and very remote areas, particularly for the Indigenous population.

NAP assessment

- 12.17 The additional adjustments in IHPA's 2018-19 Determination have better aligned the Northern Territory's in-scope costs with IHPA's modelled costs for admitted patient and ED services. There are, however, major deficiencies in the pricing framework for NAP services where the Northern Territory's cost ratio is 60 per cent higher than IHPA's modelled cost.
- 12.18 The difference reflects the greater resource utilisation (more complex care needs) of remote patients due to the severity of illness or injury, the impact of comorbidities and other clinical and non-clinical factors. For admitted and ED, these additional costs are captured by the treatment classification system and the PRRA adjustment.
- 12.19 The current classification system for NAP services (Tier 2) categorises occasions of service based on clinic type (e.g., chemotherapy, physiotherapy and neurology clinics). It does not account for differing patient complexity within each clinic type. This is a significant limitation in terms of its suitability for use in the Commission's SDC assessment.
- 12.20 A new Australian non-admitted care classification system (ANACC) is being developed, which will classify non-admitted activity according to patient

characteristics and the complexity of care. NAP data based on ANACC would be suitable for the Commission's purposes, however, this will not be available for the 2020 Review with the technical development of the ANACC and its subsequent implementation and impact assessments expected to take more than five years.

- 12.21 Until a NAP pricing approach using ANACC has been successfully imbedded in the ABF system, the Commission will need to continue to use a proxy SDC measure for NAP services. Currently, the Commission uses admitted patient separations, but no adjustments are made for cost differences between patients (e.g., PRRA adjustments) or SDS. A regional cost factor with a medium discount is applied.
- 12.22 The Commission cannot interpret the absence of IHPA adjustments for NAP services as the absence of legitimate and unavoidable costs, particularly those relating to regional cost and SDS disabilities. These disabilities for NAP services will differ from those for admitted and ED services due to the provision of outpatient services in communities (with no hospital facility), delivered via specialist outreach programs.
- 12.23 The issues above mean that the Commission's method for assessing fiscal needs for NAP services will differ from the approach taken for admitted patient and ED services. The Northern Territory considers the current proxy of admitted patient separations will better reflect SDC needs than the Tier 2 data and should be retained. The assessment cannot, however, rely on IHPA NWAU data alone (regardless of the choice of SDC measure). It will also be necessary to apply adjustments for regional cost and SDS to adequately recognise states' relative fiscal needs.

Community health assessment

- 12.24 IHPA's ED triage 4 and 5 data is used as the proxy measure for the assessment of the community and other health component (community health) within the Health category. The Commission is investigating whether data are available from states to build a national SDC profile, but the Northern Territory expects there will be considerable variation in data quality and scope between states and the data is unlikely to be able to be used for this purpose. It should, however, inform on whether ED triage 4 and 5 data is the best measure to use or whether another data set (such as admitted patient data) would be a better proxy for the community health SDC disability.
- 12.25 At present, the community health assessment is not fully capturing SDC needs or regional cost and SDS disabilities. ED triage 4 and 5 data will be improved as a proxy for the SDC disability by IHPA's recent application of PRRA adjustments to ED services. The PRRA adjustment will not, however, capture regional cost or SDS disabilities.
- 12.26 The PRRA adjustment applies regardless of the location of treatment, for example, an adjustment is applied to a service provided to a patient whose normal residence is in a very remote location regardless of whether the service is delivered in a

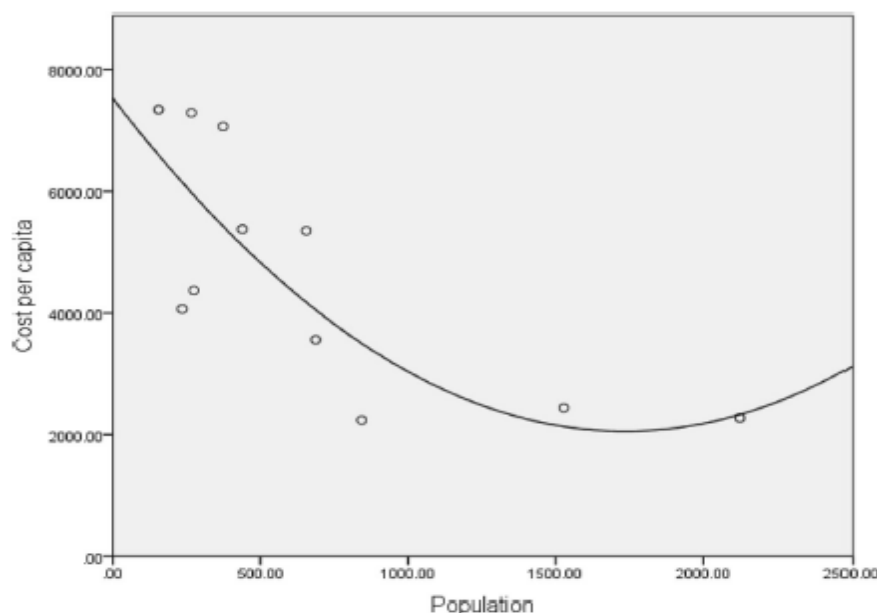
hospital located in a major city, outer regional or remote area. The price of the service will be the national efficient price of the relevant Urgency Related Group (URG), which is also the same regardless of treatment location.

- 12.27 The PRRA adjustment reflects differences in the determinants and distribution of illness and injury and other factors that give rise to patients' need for more protracted and intensive care regardless of the URG classification. It means that legitimate and unavoidable differences in resource utilisation are captured, but it does not adequately reflect differences related to regional costs and SDS.
- 12.28 For the community health assessment, application of PTRAs and block funding adjustments for hospitals will not adequately capture regional cost and SDS disabilities. This reflects differences in where community health services are located compared to hospital services. Hospital services are provided in major remote townships (in the Northern Territory these are Alice Springs, Katherine, Nhulunbuy and Tennant Creek). Community health services are provided in these locations, but also in many smaller and more isolated communities. Those locations have smaller service populations and substantially higher wage and non-wage costs. The only hospital that has locational (but not service population) characteristics akin to these communities is GDH and as discussed earlier, its costs are so high that it cannot be accommodated within the national block funding matrix.
- 12.29 Figure 12.1, drawn from a study of remote primary care clinics in the Northern Territory³, shows that clinics servicing smaller communities have higher per capita costs. The relationship is not, however, linear with clinics servicing larger communities (populations greater than 800) starting to achieve efficiency gains and the costs per capita levelling off.
- 12.30 The higher costs of small clinics will reflect scale issues associated with minimum staffing requirements; a cost that has increased recently due to safety issues with single nurse postings being discontinued following the murder of an on-call remote area nurse in South Australia in 2016. There are also productivity losses associated with a reliance on visiting services and the provision of services to outstations (e.g., the Northern Territory primary health clinic in Ramingining will also service the 11 outstations belonging to that community).
- 12.31 There will also be costs that vary by locality (regional costs). These include additional staffing related costs such as remote locality allowances, relocation costs, air travel and housing and other wage and non-wage operational costs including overtime associated with a 24 hour service (call outs outside of clinic opening hours), satellite internet connection to support telehealth and patient information systems and

³ Wakermann J, Sparrow L, Thomas SL, Humphreys JS, Jones M. *Equitable resourcing of primary health care in remote communities in Australia's Northern Territory: a pilot study*. *BMC Family Practice* 2017; 18:75. DOI 10.1186/s12875-017-0646-9.

freight costs.⁴ For community health services, regional gradients would be more akin to those for education and policing services, which are delivered in similar locations, than hospital-based regional cost gradients.

Figure 12.1 – Per capita cost of resident primary care services in 11 remote Northern Territory communities



Source: Wakermann et al.⁵

IAHP adjustment

12.32 Fully capturing the impact of SDC, regional cost and SDS disabilities for community health is also important in relation to the IAHP adjustment, which uses the community health SDC matrix for the assessed needs element of the adjustment.

12.33 Tables 12.2a to 12.2d show characteristics of organisations receiving funding from the Commonwealth Department of Health to provide primary health care (PHC) to Indigenous Australians. While not a comprehensive picture of all Aboriginal Community Controlled Health Organisations (ACCHOs), the tables show that ACCHOs differ between jurisdictions in where they are delivering services and the size of their service populations. The government’s role in Indigenous PHC also varies between jurisdictions.

12.34 Compared with the Northern Territory, there is less of a government presence and a greater presence of ACCHOs in other jurisdictions. ACCHOs in other jurisdictions are also typically providing services in less remote locations and to larger service populations. This means that an identical amount of IAHP funding would purchase more services in other jurisdictions than the Northern Territory due to differences in remoteness and scale disabilities.

⁴ Ibid.

⁵ Ibid.

Table 12.2a – Number of services providing primary health care to Indigenous Australians (Indigenous PHC services)^a by size and jurisdiction, 2015-16

Type of organisation	NSW/ACT	Vic	Qld	WA	SA	Tas	NT	Total
ACCHO	36	22	26	17	10	6	19	136
Other non-government	6	—	3	4	—	1	1	15
Government	2	2	3	6	3	1	36	53
Total	44	24	32	27	13	8	56	204

^a Services receiving Australian Government funding and reporting to the Commonwealth Department of Health's Online Community Health Reporting Environment.

Source: AIHW⁶.

Table 12.2b – Number of Indigenous PHC services by jurisdiction and remoteness, 2015-16

State/territory	Major cities	Inner regional	Outer regional	Remote	Very remote	Total
NSW/ACT	9	19	11	4	1	44
Vic	4	10	10	—	—	24
Qld	5	8	11	3	5	32
WA	2	2	4	7	12	27
SA	1	1	5	1	5	13
Tas	—	3	3	—	2	8
NT	—	—	2	11	43	56
Total	21	43	46	26	68	204

Source: AIHW⁷.

Table 12.2c – Number of Indigenous PHC by service population size and jurisdiction, 2015-16

Service size	NSW/ACT	Vic	Qld	WA	SA	Tas	NT	Total
<501 clients	4	6	1	5	3	4	13	36
501–1,500 clients	9	12	4	4	5	3	29	66
1,501–3,000 clients	18	4	8	7	3	—	5	45
>3,000 clients	13	2	19	11	2	1	9	57
Total	44	24	32	27	13	8	56	204

Source: AIHW⁸.

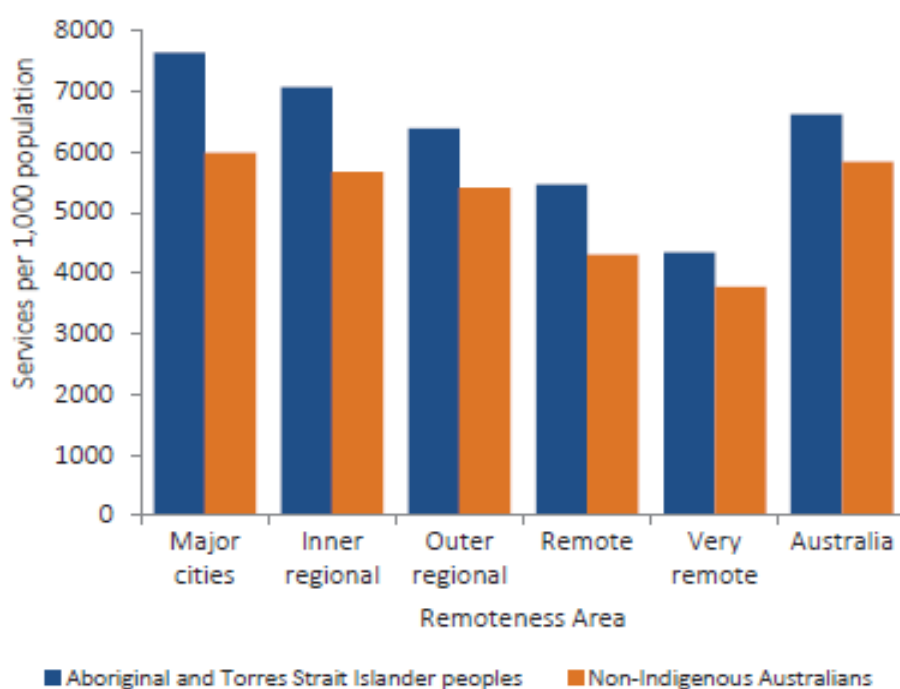
Table 12.2d – Number of Indigenous PHC by service population size and provider type, 2015-16

Service size	ACCHO		Other		Total	
	Number	%	Number	%	Number	%
<501 clients	14	10.3	22	32.4	36	17.6
501–1,500 clients	38	27.9	28	41.2	66	32.4
1,501–3,000 clients	36	26.5	9	13.2	45	22.1
>3,000 clients	48	35.3	9	13.2	57	27.9
Total	136	100.0	68	100.0	204	100.0

Source: AIHW⁹.

- 12.35 The omission of remoteness and scale disabilities from the method for calculating the IAHP adjustment means the Northern Territory’s assessed IAHP needs are understated, resulting in an unduly large reduction in fiscal needs (\$41 million in the 2018 Update).
- 12.36 The IAHP adjustment is based on the assumption that ACCHOs are substitutes for government service provision. Their presence (and other non-government providers) will mean that there is less need for government services, however, interpreting an increase in IAHP funding as a reduction in state fiscal needs is unduly simplistic given differing levels of unmet need in the Indigenous population.
- 12.37 Figure 12.2 shows the different utilisation of General Practitioner (GP) Medicare Benefits Schedule (MBS) services by remoteness area. If health needs and access to GPs were the same then Indigenous people in regional and remote areas would be expected to use GP services at the same rate as Indigenous people in major cities (not the downward gradient shown, which is due to access issues).

Figure 12.2 – Age-standardised rate of GP MBS services, by Indigenous status and remoteness area, 2015-16



Source: AHMAC 2017¹⁰.

⁶ Australian Institute of Health and Welfare. *Aboriginal and Torres Strait Islander health organisations: Online Services Report — key results 2015–16*. Canberra: Aboriginal and Torres Strait Islander health services report no. 8 2017. Cat. no. IHW 180: Canberra. Supplementary tables – Primary health care, Table S3.3.

⁷ Ibid, Table S3.1.

⁸ Ibid, Table S3.10.

⁹ Ibid, Table S3.12.

¹⁰ Australian Health Ministers’ Advisory Council (AHMAC). *Aboriginal and Torres Strait Islander Health Performance Framework 2017 Report*. Canberra: AHMAC, 2017. Accessed on 27 august 2018 at

- 12.38 Health needs are not, however, equal with death rates being higher and health outcomes being poorer outside major cities, especially in remote areas. The burden of disease and injury is highest in remote areas¹¹ with conditions such as renal disease and diabetes having a significant impact on service provision. This means the rate of GP MBS services should be highest in remote and very remote areas and lowest in major cities, that is, the opposite to what is shown in Figure 12.2.
- 12.39 This issue is further enhanced by the absence of allowances in the MBS framework for regional cost differences and SDS disabilities. These impose a cost overlay on the difference in service utilisation between major cities and very remote areas meaning the regional gradient should be even steeper (i.e., the age standardised rate of MBS services should be highest in very remote areas and the cost per service should be greatest in very remote areas too).
- 12.40 State governments and ACCHOs step into the gap when GP services are not sufficiently available to meet Indigenous PHC needs, but deficits (unmet need) remain as shown by the persistent gap in health outcomes. Furthermore, as shown by the Primary Health Care Access Program (PHCAP) in the early 2000s, increased Commonwealth investment in Indigenous and rural health does not replace state government funding. Rather, it supplements state government spending with the aim of increasing service provision¹².
- 12.41 The Northern Territory Government has a commitment to transition its Indigenous primary health care services to community controlled structures. This localises decision making, enabling care to be targeted and delivered in culturally appropriate ways to suit local health needs. In recent years, two services have been transitioned to Miwatj Health. Transition of services to Miwatj Health (or other entities) does not reduce the Northern Territory Government's financial obligations – existing funding is maintained under grant arrangements. If those organisations also receive Commonwealth funding, it will be for the purpose of expanding service provision, not replacement of Northern Territory Government funding.
- 12.42 Similarly, growth in Commonwealth IAHP funding, which may occur at a rate greater than growth in state spending, is not replacing state government funding. Rather, it is keeping abreast of growth in costs and service populations, changing health needs and as much as possible expanding services to address unmet need and close the gap in health outcomes.

<https://www.pmc.gov.au/resource-centre/indigenous-affairs/health-performance-framework-2017-report>, Figure 28.

¹¹ Ibid, Figure 17.

¹² The Northern Territory Government was required to continue its funding for service provision when the Katherine West and Sunrise health services were established under PHCAP and still provides at least a quarter of funding for these services.

12.43 Consequently, even if deficiencies in the IAHP adjustment around remoteness and scale are rectified, the Northern Territory remains concerned by the adjustment. This is because the method of assessment effectively redistributes any increase in funding aimed at reducing unmet need, thus eroding any progress toward closing the gap in Indigenous health outcomes.

Non-state sector adjustments

12.44 Commission staff are reviewing levels of substitutability in the various components of the health assessment. The Northern Territory notes that levels of substitutability were a major focus of the 2015 Review and it is unclear what has changed substantially since that time to warrant revision of the levels.

12.45 Instead, the Northern Territory's concerns lie with the measures of availability of non-state sector services. In particular, the Northern Territory is concerned by the use of bulk billed services, particularly in the community health assessment. It is not clear why services where there is no co-payment are the only services to be considered relevant to the assessment.

12.46 Medicare is intended to make health care more affordable, not to ensure that everyone has access to free GP services.¹³ It is structured in a manner that gives health professionals choice on whether to bulk bill or charge a co-payment. The Commonwealth has arrangements to encourage bulk billing of certain groups – concession card holders, pensioners and children under age 16 – and there are safety net provisions to limit the impact of out of pocket costs for other groups. When bulk billing rates are considered too low or safety net provisions inadequate, it is the Commonwealth not states and territories that is expected to address this situation. States and territory governments have fall back responsibility when there is an absence of GPs and they may step in where there are major deficits in supply relative to demand (i.e., excessive levels of unmet need).

12.47 The Northern Territory is concerned that the Commission's use of bulk billed rather than total MBS may be distorting the assessment and creating perverse incentives for states to crowd out bulk billing services. Rather than fully assessing differences in access within the remoteness areas, the current method only assesses part of the services available to people in each area (that is, only part of the activity represented in the orange and blue bars in Figure 12.2). It means that if a GP charges so much as a dollar co-payment, the service would be excluded from the assessment.

12.48 It is not clear why this should be the case and there are substantial differences between states in the amount of MBS benefits that are omitted from the assessment (refer Table 12.3). The amount of omitted benefits is least in the Northern Territory

¹³ Biggs A. *Medicare: a quick guide*. Canberra: Parliament of Australia, 2016. Accessed on 24 August 2018 at https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/rp/rp1617/Quick_Guides/Medicare.

(\$20 per person) and greatest in the Australian Capital Territory (\$76 per person). The services associated with these omitted benefits are substitutable. Had they not been provided by the private sector, there would be increased demand for government funded services.

Table 12.3 – Example of MBS benefits omitted from non-state sector assessments: non-referred attendances – GP/vocationally registered GP

2016-17	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
MBS benefits (\$m)	1 973	1 509	1 223	554	439	117	79	46	5 930
Bulk billed benefits (\$m)	1 732	1 267	1 036	445	369	88	47	41	5 024
Omitted benefits (\$m)	241	242	187	100	69	29	32	5	906
Per capita omitted benefits (\$)	31	39	37	35	40	55	76	20	37

Source: Medicare Group Reports at http://medicarestatistics.humanservices.gov.au/statistics/mbs_group.jsp.

- 12.49 The omission of these benefits creates an imbalance in the assessment in terms of the average level of service available to people in each jurisdiction. It could also lead to a perverse situation where jurisdictions are incentivised to encourage entry/expansion by low charging fee-for-service providers rather than bulk billing providers as these services will not detract from the assessment of fiscal needs.
- 12.50 The Northern Territory is also concerned that there is double counting occurring with claiming by ACCHOs incorporated in the MBS bulk billing data used in the community health assessment meaning their presence is captured both in the non-state sector and IAHP adjustments. Claiming by ACCHOs is rising with the 2016-17 annual report for Central Australian Aboriginal Congress, the Northern Territory’s largest ACCHO, reporting growth in MBS revenue of 19.4 per cent (MBS revenue accounted for a tenth of total revenue).¹⁴
- 12.51 Similarly, there is double counting occurring with MBS claims by state governments (as allowed under exemptions to Section 19(2) of the *Private Health Insurance Act 2007* (Cwth)¹⁵) being captured in the MBS bulk billing data as well as being netted off state expenditure.
- 12.52 Furthermore, there are policy neutrality issues associated with state government access to MBS because not all states with hospitals and health services located with categories 5 to 7 of the Modified Monash Model classification system are accessing

¹⁴ Central Australian Aboriginal Congress (CAAS). *Central Australian Aboriginal Congress 2016-2017 Annual Report*. Alice Springs: CAAS, 2017. Accessed on 24 August 2018 at <https://www.caac.org.au/who-we-are/corporate-publications>.

¹⁵ Department of Health (DoH). *Council of Australian Governments Improving Access to Primary Care in Rural and Remote Areas – COAG s19(2) Exemptions Initiative*. Canberra: DoH, 2018. Accessed on 24 August 2018 at <http://www.health.gov.au/internet/main/publishing.nsf/Content/COAG+s19%282%29+Exemptions+Initiative>.

the Section 19(2) initiative. This effectively represents lower than average revenue raising effort and means they benefit from the current assessment method.

- 12.53 The Commission needs to investigate these issues and reassess the suitability of bulk billed MBS data as the measure for the non-state sector adjustments.

Patient transport

- 12.54 The Northern Territory incurs large unavoidable expenditure due to inter-hospital transfers and non-hospital transport. At present, these are captured in different areas within the Health category.
- 12.55 The current approach of assessing non-hospital patient transport expenses in a separate component within the Health category is supported and the Northern Territory notes that data will be collected from states to benchmark non-hospital patient transport expenses to Government Finance Statistics (GFS) patient transport expenses and to enable recalculation of the remote patient cost loading.
- 12.56 At present, expenses associated with inter-hospital patient transfers are captured in IHPA's pricing model, however, it cannot be determined how much of these expenses being funded (through the efficient price and adjustments). IHPA included high cost inter-hospital outliers in its calculation of PRRA adjustments for the 2018-19 Determination, but these had a negligible impact demonstrating that other factors, not inter-hospital transfer costs, are driving these adjustments. Further, analysis by the Northern Territory Department of Health of episodes of care involving interstate hospital transfers in the Top End Health Service in 2016-17 estimated a shortfall between ABF pricing and actual costs of over \$10 million.
- 12.57 The Northern Territory is seeking to have inter-hospital patient transport costs block funded on the basis that they do not satisfy the technical requirements for ABF and they are an access cost not an input cost. Should these costs be shifted to a block funded basis, the Commission will need to revise the scope of the patient transport component or ensure that block funded services are adequately captured in the hospitals component of the health assessment.

Other issues from the staff draft assessment paper

Assessment approach – direct or subtraction

- 12.58 In the 2015 Review, the Commission adopted a direct assessment approach for all components of the Health category, considering it to be an improvement over the previous subtraction approach. Western Australia has argued for a return to the subtraction approach, but it is not clear to the Northern Territory that it can provide a superior outcome relative to the direct approach particularly for the hospitals assessment. There may be merit in considering the subtraction approach for the community health assessment given the significant role of the private sector, high

levels of substitutability and issues with the direct assessment in particular non-state sector adjustments.

Scope of community and other health (community health) component

- 12.59 The community health component comprises of expenses on community health, community mental health, public health, health research, pharmaceuticals, medical aids and appliances and health administration not elsewhere classified (n.e.c.). Commission staff are investigating whether expenses for pharmaceuticals, medical aids and appliances and health administration n.e.c. should be included in the community health component or moved to the admitted patient component. The staff draft assessment paper advises that preliminary analysis of GFS unit record data suggests that most expenses relate to the delivery of hospital services.
- 12.60 Commission staff need to engage with IHPA to understand whether these costs are in the ABF framework or are considered out of scope (e.g., they relate to primary care activities undertaken by hospitals). Any out of scope expenses as well as pharmaceuticals supplied by remote primary health clinics (due to the absence of pharmacies) should remain in the community health component.

Culturally and linguistically diverse (CALD) patients

- 12.61 In the 2015 Review the Commission considered the case for including a cost adjustment for CALD patients, but did not do so because while costs might be higher, use rates were generally lower. Commission staff have revisited this issue, but no adjustment is proposed as cost differences between CALD and non-CALD patients appear to be small.
- 12.62 The Northern Territory notes that CALD issues have implications for the assessment of needs in the Indigenous population. Indigenous people in remote communities have poorer health outcomes and a different burden of disease, which impacts on the nature and cost of service delivery combined with complexity of providing services in a culturally and linguistically appropriate manner. IHPA's additive application of adjustments for Indigenous status and remoteness may not be sufficient to reflect the specific health needs of these patients.
- 12.63 The Northern Territory has recommended that IHPA investigates the appropriateness of its adjustments for patients living in remote Indigenous communities. Should this result in changes to IHPA's adjustments, the Northern Territory expects that these will flow through to the Commission's assessments.

Other

12.64 The Northern Territory notes the following proposals from the staff draft assessment paper, but will await the outcomes of further work (where applicable) before comment may be made:

- Re-testing of the materiality of splitting the older age group (75+ years) into two groups (75-84 and 85+ groups).
- Commission staff will consider assessing all hospital services in a single component but if the current disaggregation (admitted patient, NAP and ED services) is retained, options will be considered for estimating the split of non-admitted patient expenses between ED and NAP services (currently split 50:50).
- User charges will continue to be off-set against expenses.

13

Welfare

The Northern Territory:

- Notes the proposal to continue the current assessment methodology for family and child services, which recognises the impact of differences in age, Indigenous status, SES and remoteness.
- Contends that the assessment should also recognise the additional costs of providing child protection services to remote Indigenous children.
- Notes that:
 - Commission staff will consider incorporating a CALD disability subject to availability of data.
 - Assessment of National Disability Insurance Scheme (NDIS) expenses will be considered as part of the 2019 Update new issues process.
 - Residual aged care and disability expenses will be incorporated into the other welfare services component.
- Considers that if an updated individual-based index (Socio-Economic Index for Individuals (SEIFI)) is not available for use as the measure for the other welfare services component, area-based measures should be used and adjustments made for higher usage of services by the Indigenous population.

- 13.1 Following implementation of the NDIS combined with the Commonwealth takeover of the Home and Community Care program and specialist disability services for older people, family and child services and concessions will become the largest components of the Welfare category. *Staff Draft Assessment Paper CGC 2018-01/13-S – Welfare* advises that residual aged care and disability expenses will be included in the other welfare services component of the category. Little change is proposed for assessment methods in the Welfare category, although a new measure of low SES may be required for the other welfare services component.
- 13.2 The Northern Territory notes these proposals. Its main concern is that once the form of the category is finalised, the Commission adequately captures the impact of the Indigenous population, location (regional and wages costs) and SDS in its assessments.

Family and child services

Indigenous cost weight

- 13.3 The proportion of Indigenous children subject to child protection notifications, substantiations and placement in out-of-home care (OOHC) is disproportionately high. Their higher representation is captured in the Commission's methods through the application of usage rates in the child protection and OOHC assessments. Although higher usage is recognised, there is no adjustment to recognise the higher cost of providing services to Indigenous children beyond those relating to remoteness, which applies equally to Indigenous and non-Indigenous children.
- 13.4 In the Northern Territory, by 10 years of age, one in two Indigenous children have been the subject of a child protection notification; one in four have had a substantiation that they have been subject to abuse or neglect; and one in 12 have had at least one night in OOHC.¹⁶ Children subject to abuse and neglect are more susceptible to physical health issues, psychological impacts including cognitive and social difficulties and behavioural issues. Additional support and services are required to address legacies of children's trauma.
- 13.5 There are also additional costs to assist in maintaining cultural identity and family and social networks.¹⁷ For children in OOHC outside of their community, this means there are travel and related expenses to ensure children stay connected to their community and culture. Maintaining cultural and linguistic ties are particularly important for remote Indigenous children with 54 per cent of youth in remote areas speaking an Australian Indigenous language compared with only 5 per cent of Indigenous youth in non-remote areas.¹⁸ Similarly, remote Indigenous youth are more likely to identify with a clan, tribal or language group than youth in non-remote areas.¹⁹ In the Northern Territory, cultural profiles (kinship and skin names²⁰) are diverse, requiring individualised, place-based support plans.
- 13.6 In the 2015 Review, the Commission reviewed Productivity Commission data on OOHC, but concluded that a cost weight was not justified as there was no difference in the average time spent in OOHC by Indigenous and non-Indigenous children. Length of time in OOHC will not well proxy the additional costs noted above.

¹⁶ Data provided by Territory Families.

¹⁷ Parliament of Australia. *The Senate Community Affairs References Committee Out of Home Care*. Canberra: Commonwealth of Australia, 2015. Accessed on 30 July 2018 at https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Community_Affairs/Out_of_home_care/Report, p.225.

¹⁸ Australian Health Ministers' Advisory Council 2017. *Aboriginal and Torres Strait Islander Health Performance Framework 2017 Report*. Canberra: AHMAC, 2017. Accessed on 30 July 2018 at https://www.pmc.gov.au/sites/default/files/publications/2017-health-performance-framework-report_1.pdf.

¹⁹ Ibid.

²⁰ Central Land Council (CLC). *Kinship and skin names*. CLC, 2018. Accessed on 24 August 2018 at <https://www.clc.org.au/index.php?/articles/info/aboriginal-kinship>.

Furthermore, many Indigenous children exit and re-enter care on multiple occasions. This means that if length of time measures are based on episodes of OOHC (rather than total time for each child, regardless of the number of episodes of OOHC), they may not be well capture the relative time spent in OOHC by Indigenous children.

- 13.7 The Northern Territory’s much greater cost per child in OOHC (Table 13.1) will in part reflect the additional costs of Indigenous children, particularly those from remote areas. Quantifying the additional costs is difficult with case specific costing not supported by current systems and the Northern Territory lacks a reliable comparator as there are relatively few non-Indigenous children in OOHC. However, using states’ real recurrent expenditure on OOHC services in 2016-17 and numbers of children in care by Indigenous status, a simple linear regression model predicts that, on average, the additional cost per Indigenous child is 1.6 times the additional cost per non-Indigenous child (\$77,000 compared with \$50,000 for a non-Indigenous child).²¹

Table 13.1 – Real expenditure per child and proportion of Indigenous children in OOHC by jurisdiction, 2016-17

2016-17	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
Expenditure per child (\$)	611	383	445	429	857	467	425	1 785	525
Proportion of Indigenous children (%)	29	20	42	55	33	27	28	90	37

Source: Productivity Commission²²

- 13.8 The Northern Territory believes there is a strong conceptual case for an Indigenous cost weight and urges Commission staff to further investigate potential data sources given the strong national focus and policies on supporting Indigenous children in OOHC. While not the preferred approach, if a reliable data source cannot be located, the Northern Territory notes the Commission could apply judgement in capturing this disability.

Cultural and linguistic diversity

- 13.9 The staff draft assessment paper advises that the Australian Institute of Health and Welfare (AIHW) is currently investigating whether CALD and disability dimensions could be included in their unit record data. Should this data become available, Commission staff will investigate whether an adjustment for CALD population groups is required. This would require quantification of relative CALD/non-CALD costs.
- 13.10 A key additional driver of cost for CALD groups will be communication barriers. This is also relevant to the Northern Territory’s remote Indigenous population. More than

²¹ Productivity Commission. *Report on Government Services 2018*. Child protection services, Tables 16A.6 and 16a.18 – Attachment Tables. Accessed on 27 August 2018 at <https://www.pc.gov.au/research/ongoing/report-on-government-services/2018>. Children of unknown Indigenous status were classified as non-Indigenous.

²² Ibid.

a 100 Indigenous languages and dialects are spoken in the Northern Territory and for many people English can be a fourth or fifth language. Furthermore, even when family members are able to speak and comprehend English, there may be difficulty in understanding technical concepts or terminology specific to statutory and care protection systems. Sometimes there is no word in an Indigenous language that can be used to translate child protection terminology used in assessments and interactions. Communication barriers are addressed through use of professional interpreters, Aboriginal Community Workers and Remote Family Support Workers.

- 13.11 Should the Commission proceed with a CALD disability, it will need to consider whether the additional needs of the Northern Territory's remote Indigenous population should be recognised in the disability or whether they are adequately accounted for elsewhere (e.g., a remote Indigenous cost weight). These will not be sufficiently captured by remoteness adjustments with English typically spoken more proficiently in remote areas outside of the Northern Territory.

Locational costs

- 13.12 The Northern Territory incurs significant additional costs with 65 per cent of investigations occurring in remote and very remote areas (i.e., outside of Greater Darwin). Accordingly, recognition of regional costs and SDS is important for adequately assessing the Northern Territory's fiscal needs.
- 13.13 The Commission applies a discounted general regional cost gradient in the Welfare category. The Northern Territory notes that regional cost gradients will be updated in the 2020 Review, but extrapolation will be required to the Welfare category (category specific information is not likely to be available). The regional cost gradient needs to adequately capture the costs of delivering family and child services in small remote communities²³. This will not be achieved if the updated regional cost gradients are discounted, as currently occurs (refer to Chapter 23: Geography used by the Commission).

Other welfare services

- 13.14 Commission staff propose that non-NDIS expenses be merged with other welfare expenses following the full implementation of the NDIS. Similarly, it is proposed to include residual aged care expenses in the other welfare expenses component once the Commonwealth fully assumes funding responsibility for aged care services in 2018. Incorporation of expenses into the other welfare service component will change the assessment of needs with the measure becoming low SES, however, Commission staff consider it simplifies the assessment and the effect of the change is immaterial. The Northern Territory agrees with the proposed change but believes that the Commission should consider whether this adequately captures the higher

²³ OOHC facilities are largely located in major urban areas in the Northern Territory. This means that with the exception of Darwin, all facilities in remote or very remote areas.

utilisation by the Indigenous population consistent with their poorer economic, social, health and wellbeing outcomes.

- 13.15 The current measure for the other welfare services component is the ABS SEIFI. The Commission uses SEIFI rather than ABS area-based measures because of concerns that the latter do not adequately capture the relevant population (disadvantaged people may live in non-disadvantaged areas and vice-versa). SEIFI is, however, based on 2006 Census data. If the ABS does not update the measure with 2016 Census data, it is proposed to base the assessment on the relative proportions of states' populations in the bottom quintile of individual income in the 2016 Census.
- 13.16 People in the bottom quintile would include groups that are not typically users of other welfare services including university students, non-working or part-time parents and people transitioning to retirement. There is also a high non-response rate to income questions and other issues that mean income in isolation is not a suitable measure for identifying the relevant population for welfare services. The Northern Territory considers that states' population shares in the most disadvantaged quintiles of NISEIFA and IRSEO would be more appropriate because they are specifically designed to capture disadvantage using a range of indicators.

14 Housing

The Northern Territory:

- Urges the Commission to exclude funding received under the National Partnership on Remote Housing (NPRH) from its assessment of GST need, noting a commitment has been given by the previous Commonwealth Treasurer, the Hon Scott Morrison MP, to direct the Commission to do so.
- Strongly supports the continued application of the Indigenous cost weight. However, considers the current cost weight of 1.3 to be the bare minimum and that any reduction will fail to acknowledge the high mobility and overcrowding which are inherent in the Northern Territory's Indigenous population that utilise social housing.
- Considers further analysis of the AIHW data is required to ensure it is the most appropriate and reliable source to measure states total social housing households.

- 14.1 In this chapter, the Northern Territory discusses its history of remote housing, the new NPRH and identifies the importance of ensuring the Indigenous cost weight, at a minimum, remains at 1.3 to accurately reflect the Indigenous populations that utilise social housing.
- 14.2 Other issues raised in the *Staff Draft Assessment Paper CGC 2018-01/14-S – Housing* include:
- the impact of the cost of land
 - the impact of affordable housing policies
 - the assessment of First Home Owner Grants (FHOGs) and stamp duty concessions
 - the merits of Census and AIHW data on household numbers.
- 14.3 The Northern Territory supports the Commission staff's proposals on the first three issues, but questions the validity of the proposed use of AIHW data as discussed below.
- 14.4 There does not appear to be a direct link between providing recurrent housing services and the value of land, with most states setting social housing rents relative to household income, not the price of underlying land. Further, a differential assessment of land investment is unlikely to be material.

- 14.5 Given the lack of information on states affordable housing spending and an appropriate data source to make a separate assessment, the Northern Territory believes affordable housing should continue to be addressed in the social housing expenses component of the category.
- 14.6 Retaining the EPC assessment of FHOGs and stamp duty concession expenses is reasonable, due to lack of an alternative policy neutral measure.

Remote Housing

Remote Housing in the Northern Territory

- 14.7 The Commonwealth held responsibility for remote Indigenous housing in the Northern Territory until September 2007, at which time responsibility was handed to the Northern Territory as part of local government reforms and the Northern Territory Emergency Response. Subsequently, the Northern Territory's housing service delivery task was increased by around 4300 remote properties, many of which were in a significant state of disrepair. During the Commission's visit to Alice Springs in June 2018, the Northern Territory provided the Commission and its staff with images of what the majority of inherited assets looked like.
- 14.8 Since 2008, the Commonwealth has provided the Northern Territory with considerable funding specifically for Indigenous remote housing and housing services, including under the National Partnership Agreement on Remote Indigenous Housing (NPARIH) and NPRH. This funding is linked to many objectives and milestones, including reducing overcrowding, increasing housing stock, ensuring rentals were well maintained and managed, improving property and tenancy management and Aboriginal employment and business engagement. Regardless, there remains inherent unmet need due to underinvestment in the past by the Commonwealth, which continues to be a significant driver of the above average levels of overcrowding in the Northern Territory.
- 14.9 According to the 2017 *Remote Housing Review*²⁴, half of Australia's additional need to reduce levels of overcrowding in remote areas to acceptable levels is in the Northern Territory alone. Further, an estimated additional 4500 new three-bedroom remote houses are needed in the Northern Territory by 2028 to address overcrowded households requiring at least three additional bedrooms and homelessness. An additional 700 new houses would be required to address overcrowding in households requiring one or two additional bedrooms.
- 14.10 While considerable funding has been received, there are significant, complex and ongoing issues associated with delivering remote Indigenous housing in the

²⁴ Department of the Prime Minister and Cabinet. *Remote Housing Review: A review of the National Partnership Agreement on Remote Indigenous Housing and the Remote Housing Strategy (2008-2018)*. Canberra: Commonwealth of Australia, 2017. Accessed on 24 August 2018 at <https://www.pmc.gov.au/resource-centre/indigenous-affairs/remote-housing-review>.

Northern Territory. These issues are often outside of the Northern Territory Government's control and impact on the number and cost of houses and services that can be delivered. A few of these issues include:

- historical underinvestment in housing stock
- condition of inherited dwellings
- securing land tenure to build new stock
- lack of serviced lots
- cultural and sacred land issues
- ad-hoc changes to agreed outputs
- milestones driven by political targets rather than housing outcomes.

These issues were discussed in-depth with representatives from the Northern Territory Government's Department of Housing and Community Development (DHCD) during the Commission's visit to Alice Springs.

- 14.11 Before the visit, the Commission indicated it was interested in understanding the underlying drivers of Commonwealth and state funding for remote Indigenous housing. Representatives from DHCD explained funding was determined in January 2009 as part of the Remote Indigenous Housing Package. However, this was based on targets and cost parameters that were set by the Commonwealth, in isolation of the type and condition of existing assets or level of need in communities being assessed. In addition to construction materials costs increasing, completion targets and other requirements underpinning NPARIH have changed over time, without a corresponding change in funding levels. The Commonwealth has been the predominant driver of these changes.

New National Partnership on Remote Housing

- 14.12 In recent budgets, Northern Territory and Commonwealth governments have announced their commitment to addressing overcrowding, poor housing conditions and severe housing shortages in remote Indigenous communities.
- 14.13 At the time of the publication of the 2018 Update, the remote housing funding arrangement between the Northern Territory and the Commonwealth for 2018-19 was still being negotiated. The Commission indicated that as there was not sufficient information on the arrangements, it would wait for the agreement to be finalised before considering any change to its assessment.
- 14.14 While the Commonwealth has indicated it will provide funding of \$110 million, per annum, for a five year period starting in 2018-19 towards remote Indigenous housing, no formal agreement has yet been reached.

- 14.15 The Commission often states that the equalisation process is not intended to give states the fiscal capacity to address unmet need. The Northern Territory strongly believes that the Commonwealth payments aim to address this and therefore, should not be equalised.
- 14.16 The Northern Territory is of the view that resolution of this issue should not wait for the outcome of the Commission's 2020 Review. As demonstrated during the Commission's visit, despite the significant investment to date in remote Indigenous housing, there remains a significant level of unmet need, which leads to high levels of overcrowding, placing significant pressure on existing housing stock.
- 14.17 Contrary to views previously expressed by the Commission, and as evidenced during the visit:
- The current level of remote Indigenous housing stock in the Northern Territory does not provide the same standard of housing services compared to other states. There remains a significant gap in the level of stock inherited from the Commonwealth and the level that would be required to provide the average level of service.
 - The level of housing stock and relative level of overcrowding is not due to state policy. As noted above, while there are many issues outside of the Northern Territory's control that impact on the number of new houses that have been delivered under NPRH, the underlying driver of the above average levels of overcrowding is the inherent unmet need and Commonwealth underinvestment.
- 14.18 If NPRH and its next iteration continue to be included in the Commission's assessments, the combined significant efforts of the Northern Territory and the Commonwealth to address unmet need, legacy issues and overcrowding will continue to be greatly diminished.
- 14.19 The Northern Territory strongly urges the Commission to exclude NPRH from its assessment of GST need. It is noted that on 19 June 2018, the previous Commonwealth Treasurer, the Hon Scott Morrison MP, provided a commitment to the Northern Territory to direct the Commission to exempt the Commonwealth's contribution to remote Indigenous housing from its GST calculation.

Indigenous cost weight

- 14.20 The Northern Territory notes the proposal to update the Indigenous cost weight with states latest available data. The continued application of the Indigenous cost weight to both recurrent and capital expenditure is strongly supported due to the known overcrowding and high mobility that is evident in the Indigenous population that utilise social housing, and the impact this has on the cost of delivering social housing.
- 14.21 During the Commission's visit, the Northern Territory highlighted a number of elements which increase Indigenous-specific housing service delivery costs. In relation to recurrent expenditure, these included more intensive rent collection

efforts, tenancy education programs, highly mobile Indigenous population, practice of house swapping due to cultural and kinship obligations and overcrowding resulting in a greater impact on repairs and maintenance.

- 14.22 As the cost weight is applied across the states, it is considered that it ought to be reflective of both the urban Indigenous population, which is accounted for in the cost weight, and the remote Indigenous population, whose population characteristics diverge from the urban Indigenous population. The Northern Territory contends that the cost of delivering housing services to remote Indigenous populations is higher as this group uses services more intensely and requires additional linguistic, cultural and other services in comparison to urban based Indigenous populations. Therefore, a single Indigenous cost weight applied to all Indigenous households across Australia will not appropriately capture differences in the costs of servicing the urban and remote Indigenous populations.
- 14.23 While the current Indigenous cost weight is 1.3, the Northern Territory has previously advocated and provided evidence to support that this weight should be substantially higher to reflect the significantly higher expenses associated with delivering Indigenous-specific housing, including evidence on overcrowding rates, percentage of houses beyond economic repair, total property tenancy management costs and the like. Any reduction in the cost weight would underestimate the impact of high mobility and overcrowding, which are inherent in Indigenous populations that use social housing services. The Northern Territory contends the current cost weight reflects the absolute minimum necessary to appropriately recognise the higher costs associated with the delivery of Indigenous specific housing and housing services.

Census and AIHW data

- 14.24 Currently, ABS Census data on social housing households, disaggregated by income, Indigenous status and location, is used to determine states expenditure needs in the social housing expenses component of the Housing category. There are two other components to the housing category assessment, first home owner expenses and revenue. The revenue component assessment, which acknowledges the effects of household income, Indigeneity and remoteness on rent revenue, also uses Census data to measure household numbers. Census data on households has been used for these purposes since the Housing category was split out of the Welfare and Housing category in the 2015 Review.
- 14.25 The staff draft assessment paper indicates that data on social housing households is available from two sources, Census and the AIHW. Both data sets were considered during the 2015 Review, however, Census data were determined to be the more comprehensive set as it more reliably disaggregated total household numbers compared to AIHW data.

- 14.26 Commission staff have identified that the feasibility of the data sources need to be reconsidered as a comparison between 2016 Census data and AIHW data on social housing household numbers shows large discrepancies, with the size of discrepancy varying significantly across states.
- 14.27 Commission staff have concluded that Census data provides a more reliable and comprehensive picture of households income, Indigenous status and remoteness and also provides a comprehensive breakdown by rent range, enabling rents to be factored into the revenue assessment. On the other hand, AIHW is reported as providing a more complete picture of total social housing dwellings, especially for Indigenous community housing. While the Northern Territory considers Census data to be the most appropriate source to disaggregate households, it is hesitant about the use of AIHW data for determining total dwellings.
- 14.28 In the Northern Territory's opinion, the staff draft assessment paper does not appear to clearly illustrate how AIHW data is a more complete and reliable data set. AIHW's community housing and Indigenous community housing datasets are sourced from community housing organisations and states administrative systems. In the datasets corresponding 2016-17 Quality Statements²⁵, it is indicated that data can be incorrectly coded, inconsistent or out-of-date due to non- and under-reporting and incomplete data for some states. The Northern Territory would like to better understand how these issues will be addressed, and considers that further analysis needs to be provided to demonstrate that AIHW data is the best available and most reliable data source.
- 14.29 Further, the staff draft assessment paper proposes to recommend the Commission agree to develop an approach which scales the Census income, Indigenous status, remoteness and rent data of social housing households up to AIHW's household data, for both the expenses and revenue components of the assessment. The Northern Territory also questions how AIHW's socio-economic data will be used to test the validity of the scaling of Census data, given the staff draft assessment paper comments on the inconsistencies of AIHW's socio-economic data.

²⁵ AIHW. *Community Housing Data Collection, 2016-17; Quality Statement*. AIHW, 2018. Accessed on 24 August 2018 at <http://meteor.aihw.gov.au/content/index.phtml/itemId/677769> and <http://meteor.aihw.gov.au/content/index.phtml/itemId/677789>.

Services to Communities

The Northern Territory:

- Supports the proposal to split the utilities component of the Services to Communities category into electricity and water subsidies in recognition of the differences in average subsidies for these services.
- Agrees that electricity subsidies increase as community size decreases, but proposes alternative community size classifications to those presented in the staff draft assessment paper. The population threshold for the first community size grouping should be increased from 250 to 500 people.
- Supports the proposal to investigate the development of a differential assessment for water subsidies. However, should it not be possible to develop a robust differential assessment, the Northern Territory does not support maintaining the current community size threshold of 1000 people. A population threshold of at least 2500 is a more appropriate means of capturing the higher costs of smaller communities.
- Expects there will be the opportunity to review and comment on further analysis of the assessment for water subsidies once Commission staff have concluded this work.
- Notes the EPC assessment of protection of the environment expenses will be maintained unless reliable data and a single broad indicator for relative costs can be determined. However, notwithstanding this position, it is the Northern Territory's view a regional costs factor should be applied to the assessment.

15.1 The services to communities assessment covers state subsidies for the provision of electricity, water and wastewater services and a range of expenses for the administration of communities and community development, community amenities and environmental protection services.

15.2 *Staff Draft Assessment Paper CGC 2018-01/15-S – Services to Communities* proposes changes to the community development and amenities and protection of the environment expenses components of the category, as well as the more general proposals relating to the application of location, SDS and wage cost disabilities and user charges across the category. The key change proposed for the category is, however, the proposal to develop separate assessments for electricity and water

(including wastewater) subsidies based on community size and remoteness and to update the split between common and differential subsidies based on state data.

- 15.3 The Northern Territory's position on the treatment of subsidies and proposals relating to community development and amenities and environmental protection expenses, as warranted, are discussed in the following sections.

Utilities subsidies

- 15.4 Currently, the utilities subsidies assessment, which comprises electricity, water and wastewater subsidies, is divided between common subsidies (provided to all residents in the states where they apply), which are assessed EPC, and differential subsidies for residents outside of metropolitan areas. The differential assessment recognises that some states subsidise electricity and water services in smaller, geographically isolated communities where full cost recovery is not feasible. Relevant communities for the assessment are those in remote or very remote areas with populations of between 50 and 1000 people.
- 15.5 Total subsidies are allocated on a 50:50 basis to common and differential subsidies based on state data and the Commission's judgement. A discounted regional cost weight is also applied which recognises that higher subsidies are provided to small communities in very remote areas.
- 15.6 The staff draft assessment paper proposes development of separate assessments for electricity and water (including wastewater) and to annually update the split between electricity and water subsidies based on state provided data. The Northern Territory considers this should provide better recognition of average state policy, which is to provide larger subsidies to smaller communities and those in remote and very remote locations. Further, the shift away from the arbitrary 50:50 split to an assessment based on state data will better reflect what states do.

Electricity subsidies

- 15.7 Commission staff are proposing to undertake analysis of state data to:
- determine at what point full cost recovery for electricity services is not feasible
 - differentially assess electricity subsidies which are the result of unavoidably high costs recognising that subsidies vary by community size and remoteness area
 - not differentially assess electricity subsidies when the decision to not fully cost recover is due to state policy choice.
- 15.8 The staff draft assessment paper provides an initial analysis of state electricity subsidy data based on community size and remoteness. It indicates that very remote communities receive higher subsidies than remote communities and that as community size increases, the average subsidy falls. The paper shows there is a large difference between the average subsidy per capita for communities with up to

250 people and communities above this threshold. Table 15.1 below reproduces Table 6 from the staff draft assessment paper.

Table 15.1 – Electricity subsidies for off-grid populations by community size, 2015-16

Community size	Count	Average community size	Average connections	Total subsidies	Average subsidy	
		No. Persons	No.	\$m	\$ per capita	\$ per connection
0 to 250	50	132	62	29	4 429	9 479
251 to 1 000	70	494	194	63	1 826	4 647
1 001 to 2 500	16	1 449	518	42	1 794	5 019
2 501 to 20 000	11	6 424	3 256	113	1 600	3 156
All off-grid communities	147	919	413	247	1 830	4 065

Note: for our analysis it was necessary to combine the information for a number of very small Indigenous communities in South Australia which shared a common generation source. Data for Alice Springs and Tennant Creek are not yet available.

Source: based on data provided by Queensland, Western Australia, South Australia, Tasmania and the Northern Territory for the 2020 Review.

- 15.9 As the table shows, the average per capita electricity subsidy provided to communities with populations between 0 and 250 people is over twice the subsidy provided to larger communities. The final community size classification is particularly broad, but the Northern Territory would expect that there is a gradient within that group as well, however, differences may be less material, except where remoteness differs. The differences in subsidies reflect the higher costs associated with remoteness and SDS due to the need to establish independent power generation networks in smaller communities.
- 15.10 The Northern Territory’s data, presented in Table 15.2 below, also shows a gradient in subsidies based on community size, however, it shows the threshold for the first grouping has been set too low and should instead be raised to 500 people (rather than 250). Communities that are 251-500 in size have subsidies more akin to the smallest communities rather than larger communities. There is also a substantial difference between subsidies provided to communities with 501 to 2500 people compared to those with more than 2500 people.
- 15.11 In the Northern Territory’s view, the population groupings shown in Table 15.2 better recognise the relatively high cost of providing electricity subsidies to communities of varying sizes and provides a more appropriate basis for the development of a differential assessment. The choice of groupings will be particularly important should the assessment not make an allowance for the relatively greater isolation and remoteness of the Northern Territory’s communities.

Table 15.2 – Average electricity subsidies for off-grid populations by community size, Northern Territory, 2015-16

Community size	Count	Total operating subsidies		Average operating subsidy	
		No.	\$m	\$ per capita	\$ per connection
0 to 500	59		21	1 442	4 588
501 to 2500	11		20	1 031	4 021
2501 to 20 000	3		6	729	2 399

Source: Northern Territory Department of Treasury and Finance (DTF) calculation.

- 15.12 Notwithstanding the higher per unit cost of electricity in the Northern Territory, it is noted the Northern Territory has lower per capita and per connection operating subsidies than those presented by Commission staff in Table 15.1. This is likely reflective of the level of overcrowding experienced in the Northern Territory’s communities which results in fewer residential connections servicing a relatively high population. As further improvements are made to the Northern Territory’s stock of remote housing, growth in connections along with appliance use would be expected to increase demand and corresponding subsidy levels.
- 15.13 The Northern Territory also notes the proposal to discontinue applying the regional cost weight and SDS factor to this component once the new electricity subsidies assessment has been developed. Commission staff consider that these costs will already be captured in the new assessment through the recognition of community size and remoteness disabilities. While the Northern Territory supports the approach to develop a differential assessment for electricity subsidies, it is concerned that, given the analysis outlined above, this approach may underestimate the differential costs between states due to remoteness and scale.
- 15.14 Commission staff are also proposing the development of a fuel source disability. The Northern Territory will await the outcomes of this investigation, but notes that technologies for electricity generation are evolving and the on-going costs and viability of various technologies in the remote context may not yet be clear.
- 15.15 The staff draft assessment paper advises that state data suggests Indigenous communities receive lower subsidies per capita compared to non-Indigenous communities. The Northern Territory agrees that this is in part likely to be reflective of the limited business and economic activity that takes place in Indigenous communities. Non-residential connections are likely to have higher consumption than residential households, pushing up overall consumption and subsidies. Economic development in Indigenous communities is, however, an area of on-going focus in the Northern Territory (and no doubt other jurisdictions consistent with Closing the Gap goals). Lower subsidies may also reflect the housing shortages experienced in Indigenous communities as discussed above.

15.16 Given the influence of the above issues on per capita subsidies, a separate assessment of Indigenous and non-Indigenous communities does not seem appropriate, being suggestive of, and potentially reinforcing, different levels of average service between the populations.

Water subsidies

15.17 Commission staff are proposing to undertake analysis of state data to:

- determine at what point full cost recovery for water services is feasible
- differentially assess water subsidies which are the result of unavoidably high costs
- not differentially assess water subsidies when the decision to not fully cost recover is due to state policy.

15.18 Commission staff have indicated their intention to share their analysis with states in the second half of 2018. Should it be determined that it is not possible to develop a differential assessment, the current assessment approach for utilities subsidies is likely to be retained, but Commission staff will seek confirmation of whether the current community size threshold (50-1000 people) is appropriate.

15.19 The Northern Territory's data (Table 15.3) demonstrates that the average operating subsidy provided for water and wastewater services, on both per capita and per connection basis, is highest for the smallest communities, but there is also a substantial difference in subsidies between medium and larger sized communities. In 2015-16, the ratio of per capita subsidies for communities of 0 to 500 people and communities of 501 to 2500 was 1.4. The ratio was also 1.4 between communities of 501 to 2500 people and communities of 2501 to 20 000 people.

Table 15.3 – Average water subsidies by community size, Northern Territory, 2015-16

Community size	Count	Total operating subsidies	Average operating subsidy	
			\$ per capita	\$ per connection
	No.	\$m		
0 to 500	52	21	784	2 046
501 to 2500	18	20	555	1 938
2501 to 20 000	2	6	393	1 677

Source: Northern Territory DTF calculation.

15.20 The Northern Territory believes that a differential assessment for water subsidies is necessary to recognise the impact of remoteness and community size on the need for and level of water subsidies. The Northern Territory proposes the population groupings contained in Table 15.3 for the assessment. They also show that, should the current assessment be retained because data deficiencies do not enable a more sophisticated assessment, a change to the community size threshold is required.

Community development and amenities expenses

Community development

- 15.21 Currently, the community development component differentiates between spending on Indigenous and other communities in recognition that states' spend more on discrete Indigenous communities. Indigenous community development expenses are assessed based on states shares of discrete indigenous communities. Other community development expenses are assessed using the remainder of the population, which essentially equates to an EPC assessment.
- 15.22 The staff draft assessment paper proposes to maintain the current assessment method for discrete Indigenous communities and to expand the component's scope to include general revenue grants to local councils with a high proportion of Indigenous people in their service catchment in the assessment. It is also proposed to move the assessment of other community development expenses to the Other Expenses category and assess these expenses EPC on the basis that they are provided to the entire population, including those living in discrete Indigenous communities.
- 15.23 The Northern Territory is supportive of these changes as they will continue to recognise the increased costs associated with providing community development services to Indigenous communities and otherwise improve the clarity and transparency of the Services to Communities assessment.

Community amenities

- 15.24 Community amenities expenses are assessed on an EPC basis as the Commission considers state populations to be the most suitable way of allocating these expenses. The staff draft assessment paper proposes shifting the assessment of these expenses to the Other Expenses category. The Northern Territory is supportive of this proposal as the change will increase the simplicity and transparency of the current Services to Communities assessment.

Environmental protection expenses

- 15.25 In the 2015 Review, environmental protection expenses were assessed on an EPC basis because the expenses covered a wide variety of services and the cost drivers could not be identified. Notwithstanding improvements to measuring the different categories of environmental protection expenses following the 2015 Review, Commission staff have been unable to identify a single broad indicator of state total spending to enable a differential assessment.
- 15.26 The Northern Territory notes that in the absence of reliable data and a single broad indicator of relative costs, the current EPC assessment for this component will be retained. The Northern Territory strongly supports the proposal by Commission staff

to consider the application of a regional costs disability to the assessment of environmental protection expenses.

- 15.27 While it is desirable for a regional costs factor to be applied to the entirety of environmental protection expenses, at a minimum, the Northern Territory argues that the regional costs disability must continue to be applied to national parks and wildlife expenses. There is no case for the removal of this disability merely as a result of these expenses now being combined with environmental protection expenses under the Classification of the Functions of Government – Australia. Chapter 23: Geography used by the Commission further outlines the Northern Territory’s views on the application of regional costs disabilities.

The Northern Territory:

Police Assessment

- Notes Commission staff are developing an offence-based assessment model. A benefit of the model would be to remove reliance on the judgement-based 50:50 split between community and specialised policing.
- Has concerns about whether the proposed model can robustly assess socio-demographic composition (SDC), regional cost and SDS disabilities.
- As an expenditure outlier, is most at risk of any shortcomings in the proposed model and urges caution in proceeding with an offence-based approach.
- Should the current approach be retained, believes greater weight should be given to specialised policing.

Courts and Legal Services Assessment

- Supports retention of the 60:40 split between the criminal courts and other legal services components of the Courts and Legal Services assessment.
- Considers the assessment of wage costs, regional costs and SDS disabilities in the courts and legal services assessment continues to be relevant and is important for recognising additional costs faced by the Northern Territory.

Prisons

- Notes no changes have been proposed for the prisons assessment and the Northern Territory makes no comments on the assessment.

Police assessment

16.1 The cost of providing police services in the Northern Territory is high with real recurrent expenditure being three times the national average (\$1391 per person compared with \$448 nationally).²⁶ This reflects an extensive remote police posture; high rates of crime due to a large disadvantaged Indigenous population; and the impact of domestic violence (an average of 64 incidents per day in 2016-17), traffic related incidents (the highest motor accident fatalities and hospitalisations per capita in Australia) and substance misuse, particularly in relation to alcohol.

²⁶ Productivity Commission. *Report on Government Services 2018*. Police Services, Table 6A.1. Accessed on 24 August 2018 at <https://www.pc.gov.au/research/ongoing/report-on-government-services/2018>.

- 16.2 The Commission's current assessment method for police services adjusts for the differential impacts of SDC (for 'specialised' policing only), location and SDS disabilities. The strength of the current assessment approach is the explicit recognition and treatment of these respective disabilities.
- 16.3 The weaknesses of the current method are:
- The 50:50 split between community and specialised policing. This gives undue weight to community policing (which is assessed EPC) because it is assumed that this activity is targeted at the whole of population.
 - Use of data in the assessment that is over 10 years old.
 - Understatement of regional cost and SDS needs particularly for small remote communities.
- 16.4 Commission staff are currently developing a model that incorporates SDC drivers of offences and geographically based costs (an offence-based model). The proposed model aims to address two of the weaknesses of the current method by removing the need for the 50:50 split between community and specialised policing and using more contemporary data (provided by states).
- 16.5 It is not yet clear that the proposed approach can result in a more reliable assessment and the Northern Territory has significant reservations with the approach. The following section sets out those concerns.

Proposed per offence model

- 16.6 The Northern Territory's systems do not support offence or offender-based costing, with a substantial proportion of costs centralised and not aligned to business activity. Northern Territory Police have undertaken a major mapping exercise in order to better attribute costs to regions so that its data meets the Commission's needs.
- 16.7 The Northern Territory's data indicated that for the smallest stations, the average cost per offence varied considerably between the two years in the data return. This primarily reflected differences in the numbers of offences (minor changes had sizeable impacts) not variation in costs. This sensitivity to levels of offending has implications for the reliability of the proposed offence-based model and the interpretation of average costs.
- 16.8 A high average cost may reflect similar levels of cost, but not differences in offending due to population or community characteristics (e.g., some Northern Territory communities are more prone to unrest due to clan rivalries). Conversely, a high average cost could reflect the same level of offending, but differing levels of cost due to over servicing (e.g., high police presence in affluent, low crime areas) or non-policy influences (i.e., regional costs and SDS). The Northern Territory is

concerned that policy influences may distort an offence-based model, potentially obscuring the impact of legitimate and unavoidable costs.

- 16.9 The Northern Territory is also concerned that there are not classification and costing systems in place that can adequately deal with variation in the characteristics of offenders and policing outputs. Policing has complex outputs and users, but none of the sophisticated frameworks for classification and costing that have been established, for example, for hospital services where outputs and users are also highly complex. The absence of such systems means there is no ability to measure and determine the relative influence on costs of differences in types of offences (e.g., burglary vs assault vs homicide), types of offenders (e.g., arrested persons affected by drugs or alcohol) or incidents involving multiple offences or offenders. Furthermore, there are no mechanisms to account for criminal-related policing activity that is undertaken without an offence being recorded, for example, police work relating to the suspected murder of missing Larrimah resident, Paddy Moriarty.²⁷
- 16.10 It is understood that to date, Commission staff have only used data on Other Offences in the calculation of costs per offence; traffic and breach of bail offences have been omitted. While this aims to achieve a consistent approach across states, the Northern Territory is concerned that it may have substantial implications for outcomes, in particular the estimation of regional cost differences.
- 16.11 As shown in Table 16.1, the regional profiles for different types of offences differs. Over three quarters (78 per cent) of traffic offences are in outer regional areas followed by a further 16 per cent in remote areas. This is consistent with the remoteness profile of the Northern Territory's three major urban areas (Darwin, Alice Springs and Katherine) where it would be expected that most traffic offences will occur. While other offences also cluster in outer regional areas, the proportion is much smaller (58 per cent) and the remainder more evenly split across remote and very remote areas (23 and 19 per cent, respectively). Breach of bail offences have yet another profile with nearly half (46 per cent) occurring in remote areas and the remainder split almost equally between outer regional and very remote.
- 16.12 Differences in the distribution of offences affect police resourcing and thus, the Northern Territory's profile of costs. If all offences are used in the calculation of the cost per offence, costs increase by remoteness with the average cost per offence in very remote areas being four times the average cost in outer regional areas (Table 16.2). If only other offences are used, the cost gradient alters with the highest

²⁷ Dunlop C. *Inquest begins into disappearance of Larrimah man, Paddy Moriarty*. Darwin: NT News, 7 June 2018. Accessed on 24 August 2018 at <https://www.ntnews.com.au/news/crime-court/inquest-begins-into-disappearance-of-larrimah-man-paddy-moriarty/news-story/d0cde07d3e9e78b5a165523133ef7bc1>.

average cost occurring in remote areas and the variance between average costs for very remote and outer regional dropping to a twofold difference.

Table 16.1 – Proportions of offences by type and remoteness, 2016-17

2016-17	Traffic	Breach of Bail	Other	All Offences
	%	%	%	%
Outer Regional	78	28	58	70
Remote	16	46	23	19
Very Remote	6	26	19	11
Total	100	100	100	100
Proportion of Total Offences	68	3	31	100

Source: NT Integrated Justice Information System; NT Government Accounts System.

Table 16.2 – Cost per offence, all offences and other offences, 2016-17

2016-17	Cost/Offence: All Offences	Cost/Offence: Other Offences
Outer Regional	\$ 2 752	\$ 10 880
Remote	\$ 9 320	\$ 24 476
Very Remote	\$ 11 577	\$ 20 958
Ratio Very Remote to Outer Regional	4.2	1.9

Source: NT Integrated Justice Information System; NT Government Accounts System.

- 16.13 It might be that traffic and breach of bail offences are less resource intensive, but some part of police resourcing will relate to addressing traffic and breach of bail incidents. Furthermore, while there is substantial use of electronic traffic monitoring (e.g., fixed location safety cameras) in urban areas, in regional and remote areas, physical monitoring by police officers of traffic safety is more common. There is also considerable unproductive time incurred by officers to reach traffic incidents outside of townships, and in the Northern Territory these costs can be significant reflecting the large distances between settlements.
- 16.14 Omitting traffic and bail related offences distorts modelled outcomes. The above analysis suggests that the result would be to understate the relative costs of very remote areas and thus, the Northern Territory's relatively higher fiscal needs.
- 16.15 Commission staff advise preliminary modelling shows that the cost per offence increases with remoteness and that administrative areas with large populations have a lower cost per offence than those with small populations. Although this appears to recognise regional and scale issues, the Northern Territory remains apprehensive about the adequacy of the assessment. This concern is heightened given issues with the Health assessment where these disabilities were inadequately assessed despite the assessment being based on data derived using relatively sophisticated measurement and costing systems.

- 16.16 Preliminary results from the proposed model also suggest that the cost per Indigenous offence is half the cost per non-Indigenous offence. This result does not reflect experience in the Northern Territory where remote Indigenous offenders are costlier to process due to linguistic, cultural and other factors. The underlying data does not support identification of such factors and the model is simplistic, with the averaging approach failing to distinguish the relative resource implications of a minor offence such as breaching alcohol restrictions compared with a major offence such as homicide.
- 16.17 It will be problematic to compare outcomes from an implausible model (e.g., accepting the incorrect inference about the cost of Indigenous offences) with actual outcomes and thus, assess the model's fitness for purpose. The Northern Territory is concerned that a 'good enough' fit between results from an implausible model and actual state/territory outcomes will result in data and system limitations or model misspecification being overlooked and genuine additional needs (shown in shortfalls between actual and modelled outcomes) being ignored. As an expenditure outlier, the Northern Territory will be most at risk of any shortcomings in the proposed model and it urges caution in changing from the current method, which clearly identifies and accounts for relevant disabilities to a less transparent offence-based approach.

Current method – community vs specialised policing

- 16.18 The Northern Territory awaits further advice on the proposed model, noting that Commission staff still require data from some states before proceeding with further analysis. Should it not be suitable to proceed with the offence-based model and the current approach be retained, the 50:50 split between community and specialised policing should be reviewed. As argued in the 2015 Review²⁸, the Northern Territory considers more weight should be given to specialised policing.
- 16.19 The community may feel safer when there is a more visible police presence and benefit from reduced crime or risk of harm, but proactive activities (currently assessed EPC in the community policing component) are targeted at the high offending groups identified in the SDC assessment. Proactive activities either deter high risk groups from offending (e.g., increased presence or surveillance in locations of high offending) or reduce their ability to offend (e.g., alcohol restrictions). Even the threat of terrorism, which may be considered to have increased the level of community policing, has largely given rise to activity targeted at the same high-risk groups identified in the existing SDC assessment (terrorist acts are not typically planned or undertaken by the elderly or very young) and risk mitigation at high risk events as identified by previous incidents.

²⁸ Refer NT Second Submission to CGC 2015 Methodology Review, February 2014. Chapter 17.

16.20 Accordingly, the proportion for specialised policing should be much higher than the current 50 per cent. The Northern Territory is of the view that almost all expenses should be differentially assessed as most police work is either directly related to crime or targeted toward populations at greater risk of committing crime. The proportion of police activity targeted toward the whole of the population (i.e., community policing) is relatively minor and may not be sufficiently material to warrant separate assessment.

Legacies of the Commonwealth intervention

16.21 Police stations established during the Commonwealth Intervention in 2007 have been transitioned to Northern Territory Police responsibility. Additional funding for these stations, along with a specialist dog unit and resourcing for substance abuse intelligence and community engagement activities, is received under the National Partnership on Northern Territory Remote Aboriginal Investment (NTRAI). NTRAI funding is provided until 2021-22 and excluded from the Commission's assessments.

16.22 The current agreement recognises that it is challenging to recruit police officers to NTRAI stations and that the cost of running the stations is very high. As a result, restrictive staffing conditions in prior agreements (Stronger Futures) have been replaced with a more flexible whole-of-Territory remote posture numbers that enables rostering to highest priority events rather than individual stations. Despite this, growth in staffing related costs has outstripped funding increments and the Northern Territory Government is funding a shortfall of between \$4-5 million per annum for the NTRAI stations.

16.23 Crime demands in some NTRAI communities are low and in the absence of Commonwealth intervention, they would have been serviced by stations in larger communities. It is difficult, however, to reduce the police presence in these communities as they now have expectations of a permanent police presence and are dissatisfied with lesser servicing.²⁹ In addition to placing pressure on the Northern Territory Government to maintain a permanent presence in these communities, the Commonwealth intervention has also raised expectations and advocacy in other small communities for a permanent police presence.

16.24 Although NTRAI stations only comprise basic facilities, a maintenance liability associated with that infrastructure has also been passed on to the Northern Territory. No funding has been provided to replace the containerised stations with more suitable facilities, which would now ideally comprise a purpose-built interview room, a community meeting room, a muster room or office

²⁹ Everingham S. *NT remote community residents confused, disappointed by empty police stations*. ABC News, 10 July 2017. Accessed on 24 August 2018 at <http://www.abc.net.au/news/2017-07-10/remote-community-residents-confused-by-empty-police-stations/8692828>.

space that is secure for police officers to work in and a custody area (cell block) that meets requirements enabling good custody management and prisoner safety.

- 16.25 In the absence of a new agreement (and continued exclusion) post 2021-22, the full expenditure associated with NTRAI stations will be included in the Police assessment. It will be critically important to ensure that fiscal needs are adequately assessed in relation to providing policing services in isolated, very remote communities. Regional cost gradients and SDS disabilities need to be fully recognised and without application of discounts as occurs in the current assessment.

Courts and legal services assessment

- 16.26 The Northern Territory has not identified any significant issues with the Courts assessment, however, it provides the following views on the application of Indigenous costs weights and importance of continuing to assess location disabilities.
- 16.27 Commission staff have examined the nature of courts and legal services and confirmed that the current differential and EPC proportions (60:40, respectively) remain appropriate. The differential assessment applies to criminal courts and supporting services and Commission staff propose to continue to recognise differential usage by Indigenous status, SES and age, with updated data. The Northern Territory supports this approach.

Criminal court cost weights

- 16.28 Indigenous defendants are over represented in criminal courts, but only their additional usage is captured, not their additional costs (i.e., no Indigenous cost weight is applied). In *Staff Draft Assessment Paper CGC 2018-01/16-S – Justice*, Commission staff reviewed whether an Indigenous cost weight should be applied. Their investigation showed that that Indigenous and non-Indigenous defendants utilisation of higher and lower courts differs with Indigenous usage being greatest in the less costly magistrate’s courts³⁰.
- 16.29 Based on the relative cost and usage of the different courts, Commission staff have calculated that a matter involving an Indigenous person in the criminal court system costs, on average across all court types, 15 per cent less than one involving a non-Indigenous defendant. This result is not, however, reflective of all matters heard in courts. Commission staff are unable to incorporate traffic and related offences where Indigenous status has not been recorded. These cases comprise about 40 per cent of cases in magistrate’s courts
- 16.30 The results of the analysis would change depending on assumptions about the Indigenous status of traffic offence defendants. The staff draft assessment paper states that if the proportion of defendants is similar to their proportion for other (non-traffic) offences, it would mean that, on average, Indigenous defendants would

³⁰ Magistrate’s courts are lower courts.

cost 10 per cent less than non-Indigenous defendants. If, however, the proportion of Indigenous defendants is similar to their population proportion, the average cost for Indigenous defendants would be 20 per cent higher than non-Indigenous offenders. Given data limitations and the sensitivity of outcomes to assumptions about Indigenous status, Commission staff do not propose to recommend that cost-weights be applied to population groups.

16.31 The Northern Territory considers that any cost weights should be applied separately by court type (i.e., recognising the greater cost of higher courts for all defendants) and Indigenous status (i.e., recognising additional costs of Indigenous defendants regardless of the nature of the crime or court type).

16.32 It is possible to identify the nature of additional costs, however, the Northern Territory acknowledges that quantification may be difficult. Additional costs include the need for interpreters, particularly for remote Indigenous offenders where English is not their primary language. Indigenous defendants are also more likely to be represented by government funded legal aid services than non-Indigenous defendants (84 per cent of hearings compared with 48 per cent of hearings). The need for circuit courts, discussed below, also adds to the cost of Indigenous hearings.

Locational disabilities

16.33 Circuit courts bring the Local Court to Indigenous communities and help align the Indigenous and Western systems of law. Circuit courts are successful (compared to the alternative of urban courts) in the following ways:

- The community has a sense of involvement in the justice system and is more educated about the processes of justice.
- The rate of attendance at court is greater as defendants and witnesses may not have the means or desire to travel to courts in regional centres.
- Circuit courts avoid transport and accommodation costs of defendants and witnesses, associated police costs and social costs such as dislocation and alienation from family and increased risk of death in custody.
- Matters dealt with in the community tend to be dealt with more quickly.
- Listing more matters than might normally be heard in a day's sitting maintains a high rate of productivity despite adjournments caused by non-attendance and other issues.
- being in the community allows Local Court judges to interact with members of the community, building trust and gaining support. Local Court judges are also more aware of the social structure, available sentencing options and dynamics between community members so that sentencing can become more meaningful and

address the principals of the Sentencing Act. This takes into account cultural differences between Indigenous groups and individuals, and the views of the community, especially Elders.

- 16.34 Circuit courts require investment in the form of lengthier court proceedings and more time spent travelling to remote communities by the judiciary and support staff. However, being in a community and acknowledging its customs is beneficial to gaining the trust and confidence of remote Indigenous people as well as facilitating an alignment with the justice system. When more comfortable with the Western justice system, remote Indigenous people will feel more confident to participate in the system either as a defendant, witness or both.
- 16.35 Circuit courts demonstrate that the legal system respects the practical logistics of remote life and this has gained the response of people who live in communities.
- 16.36 Judges in Darwin, Katherine and Alice Springs service the circuit courts. Costs for circuit courts vary depending on travelling distance, facilities in the community and the number of sittings at each location. The cost of circuit courts increases the Northern Territory's relative fiscal needs and this should be captured through SDC, regional costs and SDS disabilities.
- 16.37 Circuit courts are also relevant to the Administrative Scale NT adjustment for the Department of the Attorney-General. The adjustment reflects the above average administrative structure associated with the justice system in the Northern Territory.

17

Roads

The Northern Territory:

- Supports further investigation of a new road length assessment based on states' actual road networks adjusted to maintain policy neutrality.
- Agrees that states' geospatial datasets are the best option for an actual road length assessment.
- Does not support the use of actual lane-kilometres in the road length assessment. Instead, actual road length should be adjusted by average lane numbers to ensure a policy neutral measure.
- Supports review of the allocation of expenses in the local roads component.
- Does not support the exclusion of light commercial vehicles from the definition of heavy vehicles or combining of vehicle classes.
- Supports a differential assessment of bridges and tunnels by including associated expenditure in the urban and rural roads components.
- Supports removal of the other services component and reallocation of this expenditure across the remaining category components on a proportional basis.
- Considers Commonwealth payments for National Network Roads (NNR) should be fully included in the assessment.
- Maintains its position from the 2015 Review that a physical environment disability should be developed.

17.1 *The Staff Draft Assessment Paper CGC 2018-01/17-S – Roads* proposes a number of changes to the assessment of roads expenses, noting any changes will flow through to the assessment of roads investment. The current roads assessment is based on five components of expenditure: rural roads, urban roads, local roads, bridges and other services and incorporates the assessment of need based on differences in road length and use, wages costs and the impact of remoteness.

17.2 The Northern Territory anticipates that Commission staff's proposals will result in substantial changes to the estimation of urban and rural road lengths, the classification of local roads and the treatment of the other services expenses, which materially affect GST redistribution. Key changes and their implications are discussed in the following sections.

Rural road length

- 17.3 The assessment of rural road length is currently based on a mapping algorithm developed in the 2010 Review. The algorithm calculates the length of roads connecting neighbouring localities larger than 400 persons by the fastest existing route. It assumes that there is only one connection route and that all roads have only one lane.
- 17.4 As detailed in Table 6 of the staff draft assessment paper, the Commission's synthetic rural road network equates to around 70 per cent of the total length of rural roads managed by states, and only captures around 40 per cent of the Commission's estimated actual length of Northern Territory managed rural roads.
- 17.5 The staff draft assessment paper acknowledges that the current approach may understate what states do. The Northern Territory shares this concern and considers that the main reasons for this result are likely due to the mapping algorithm omitting roads that connect localities with populations smaller than 400 and roads connecting significant regions used for tourism, mining, farming and other industries. It is expected that these omissions likely mean that a substantial proportion of the Northern Territory's remote and very remote roads are excluded from the assessment.
- 17.6 The staff draft assessment paper proposes two approaches to measure road length. Commission staff's first preference is to base states' road length on actual road networks adjusted to ensure only roads commonly classified as state roads are incorporated and that roads commonly classified as local roads are excluded to maintain policy neutrality. Alternatively, Commission staff propose retaining the current mapping algorithm, but expand it to incorporate all connections between urban centres, connections to smaller population centres and connections to significant regions.
- 17.7 The Northern Territory supports further investigation of a road length assessment based on states' adjusted road networks given this approach, conceptually, would most accurately uphold the supporting principle of what states do. Further, this approach calculates rural and urban roads length using the same methodology, as opposed to two separate length calculations. The staff draft assessment paper indicates that urban and rural road lengths on the finalised adjusted network will be determined according to the current urban areas definition. This length separation will allow the continued individual component assessments for urban and rural roads, and the application of disabilities based on the specific cost drivers.
- 17.8 Commission staff have analysed a number of data sources to measure road length and conclude that states' geospatial data is the best option. The Northern Territory agrees with this view.

- 17.9 It appears reasonable that Commission staff seek additional road length information from the states based on the new Austroads data definitions and formats, which are currently under development, to enhance the geospatial data. The Northern Territory notes that the Austroads standards will provide improved national data on functional classification, ownership of the asset, lane-kilometre length and surface material type (which would allow for the differentiation of sealed and unsealed roads). It is, however, concerned about the achievability of the 2019 timeframe for the Austroads standards to be determined and agreed upon by states.
- 17.10 If state data based on the Austroads standards can be collected for the 2020 Review, Commission staff propose to use states' actual lane-kilometres in the assessment for road length, rather than the current approach of assuming that all roads only have one lane. The Northern Territory considers use of actual lane-kilometres in the assessment would introduce policy contamination. If it is intended to introduce lane-kilometres, Commission staff must remove the potential for policy influence. This could be achieved by applying the national average rural lane numbers to each state's rural road length to convert these lengths to lane-kilometres. A similar approach could also be used for urban road kilometre conversion to lane-kilometres.

Urban road length

- 17.11 The proposed assessment approach for road length will improve the urban road assessment with urban road length currently measured using the proxy of states' proportion of the national urban population. The proxy measure is used as no other policy neutral measure of urban road length was able to be determined in previous reviews.
- 17.12 The Northern Territory is comfortable with retention of the current definition of urban areas based on ABS Urban Centres/Localities with populations over 40 000. The definition is consistent with the definition for urban areas in the ABS's Survey of Motor Vehicle Use and the National Transport Commission (NTC) data sets which are used in the roads assessment.

Local road length

- 17.13 The local road length assessment is currently based on the length of roads in areas with a population density of no more than one person per hundred square kilometres. This component of the assessment captures the need to maintain local roads in areas of states that are unincorporated and where there is insufficient population for the local government to support road maintenance. The Northern Territory is supportive of the current assessment.
- 17.14 The staff draft assessment paper indicates staff are concerned that expenses currently captured in the local roads component may be overstated. The paper suggests that the NTC H5 category (any other direct spending on local access roads) includes expenditure outside the scope of the local roads component and that this

expenditure may be better captured in the rural roads component. Based on advice from the Department of Infrastructure, Planning and Logistics, the Northern Territory has provided, to Commission staff, feedback on the expenditure it captures in each of the H3, H4 and H5 NTC categories. As the Northern Territory has explained, its expenditure in the H5 category captures expenditure on roads managed by the Northern Territory Government in incorporated areas where there is limited financial and resource capacity, due to insufficient populations, for local governments to manage the roads. In the Northern Territory's view, this expenditure is appropriately classified and should continue to be included in the Commission's assessment of local road expenditure needs.

- 17.15 However, if states' advice regarding their expenditure in the H3, H4 and H5 NTC categories leads to a reallocation of funding that reduces the size of the component, resulting in an immaterial assessment, the Northern Territory would support moving the remaining local roads expenditure into the rural roads component.

Road use – traffic volume and heavy vehicle use

Heavy vehicle use

- 17.16 The heavy vehicle use disability is currently based on average gross mass-kilometres, which capture the gross mass of different heavy vehicle types and the kilometres travelled of five classes: passenger vehicles, light commercial vehicles, articulated trucks, rigid and other trucks, and buses. The disability covers all classes, except passenger vehicles, recognising that heavier vehicles cause greater road damage. The disability is applied to the urban and rural roads component of the assessment.
- 17.17 The staff draft assessment paper proposes to retain the current disability, but align the definition of heavy vehicles with the Australian Heavy Vehicle National Law and the NTC, namely, vehicles over 4.5 tonnes. This would exclude light commercial vehicles, which according to the staff draft assessment paper have an average weight of 1.9 tonnes, similar to larger passenger vehicles.
- 17.18 The Northern Territory agrees in part with the view expressed in the staff draft assessment paper that the weight of a passenger vehicle has no or little impact on roads. While it may be reasonable to suggest that a light commercial vehicle would cause no more appreciable road damage on a sealed road than a larger passenger vehicle, this is unlikely to be the case for unsealed roads. All vehicles contribute to damage on unsealed roads, with the level of damage increasing with vehicle weight. Service providers and rural and remote businesses commonly use light commercial vehicles on unsealed roads in order to access their businesses and to service clients and remote infrastructure. The Northern Territory does not support the exclusion of light commercial vehicles from the heavy vehicle use disability as this would mean that the relatively greater impact on unsealed roads of these vehicles would not be recognised in the assessment. In addition, the Northern Territory is of the view that,

in the absence of a physical environment factor, removing light commercial vehicles from the heavy vehicle disability would result in further underestimating states expenditure needs in this area.

- 17.19 The staff draft assessment paper also proposes to simplify the assessment of heavy vehicles by combining the rigid and other trucks, and buses classes. The tables in staff draft assessment paper indicate that the current method of sub-dividing the data by vehicle class, including light commercial vehicles, facilitates a more accurate assessment given road damage is exponentially proportional to axle group loadings. The Northern Territory does not support combining the vehicle classes and does not support trading equalisation for simplicity. Further, the Northern Territory questions whether this change is introducing an additional step of calculations rather than simplifying the assessment.

Urban population density

- 17.20 The Australian Capital Territory have proposed that the Commission investigate why states with higher urban area per capita generally appear to spend more per capita in those areas. Commission staff do not intend to investigate this issue given they do not believe there is a strong correlation between the two. The Northern Territory hypothesise that the relationship exists due to the different road requirements for greenfield and brownfield development. Urban greenfield development, that is, the development of undeveloped land, requires construction of new roads. Whereas brownfield development, that is, the development of previously used land, potentially does not require new road construction given new populations can utilise existing roads and urban transport. As the decision to develop new or existing urban areas is potentially policy contaminated it is unclear how the Commission would incorporate a disability for urban population density.

Bridges and tunnels

- 17.21 Bridge and tunnel expenses are currently assessed EPC as no reliable measure of needs had been identified in previous reviews. Commission staff are examining a number of possible indicators of relative need for bridge and tunnel expenditure in order to introduce a differential assessment. If no reliable measure of states' needs can be determined, the staff draft assessment paper proposes to move the associated expenditure into the urban and rural roads components and apply the disabilities for those components.
- 17.22 It would be desirable to apply a differential assessment to this expenditure given needs will differ due to the topological features of states and the need to build over or underpasses for safety and expansion of heavily developed urban areas. Unfortunately, while the conceptual case exists, there does not appear to be a clear policy neutral influences to account for difference in the size and complexity of bridges and tunnels or an easy way to measure the expenditure need.

17.23 Accordingly, the Northern Territory supports moving this expenditure into the relevant urban and rural roads components. While this movement will not capture bridge and tunnel specific cost drivers, it will apply the disabilities currently applied to urban and rural roads expenditure, which would better reflect states' relative expenditure needs in relation to bridges and tunnels, than an EPC assessment.

Other services

17.24 The other services component includes expenses associated with corporate services, driver licensing and vehicle registration and is currently assessed EPC. In the majority of the Commission's expense assessments, corporate services are apportioned across the service delivery components of the assessment. To create consistency, the staff draft assessment paper proposes to remove the other services component from the category and reallocate the expenditure across the remaining roads components on a proportional basis and apply the disabilities for those components. The Northern Territory supports this approach as it is consistent with the approach in other categories and appears to better capture the drivers of corporate and regulatory costs given they are related to road use.

National network roads

17.25 The Commission currently treats half of the Commonwealth payments for the NNR as having no impact on the GST distribution. The staff draft assessment paper indicates that the concept of a 'National Network' is fading as an influence on Commonwealth investment funding allocation and that the roads assessment adequately captures the main drivers of investment. Commission staff have sought states' views on whether 50 per cent (as currently) or some other proportion of Commonwealth payments for NNR and rail projects should be treated as having no impact on GST distribution.

17.26 The Northern Territory considers that all Commonwealth payments for road and rail projects should be included in the Commonwealth payments assessment. NNR investment objectives are more aligned with objectives for non-NNR projects, for example improving access and connectivity and reducing congestion, than building a national network. Investments also tend to align with state priorities and as such, reduce state expenditure needs, and this should be reflected in the assessment.

Physical environment

17.27 Commission staff do not propose to pursue the development of a physical environment disability for road investment and maintenance expenses. However, the Northern Territory remains strongly of the view that the impact of the physical environment on states' investment needs is not being adequately captured and that this should be addressed.

- 17.28 The Northern Territory understands that the consultants employed for the 2015 Review were unable to develop a measure of needs that captured all of the relevant physical environmental influences. However, their report³¹ evidenced that the physical environment has a material impact on the cost of road construction.
- 17.29 The Northern Territory maintains its position from the 2015 Review. It considers that the consultant's report represents the most comprehensive work available on the physical environment impact on the cost of roads. Through a consideration of three asset classes (urban and rural state roads, public schools and public housing), the consultant's report demonstrates the link between topography, rainfall, temperature, wind, shrink-swell capacity and acid sulphate in soil and the cost of constructing and maintaining state infrastructure. The Commission produced cost factors based on the consultant's report for the construction of urban and rural roads as presented in Table 17.1.

Table 17.1 – Physical environment cost factors for construction

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
Rural roads	0.994	0.992	1.016	0.993	0.989	0.983	0.970	1.011
Urban roads	0.988	0.996	1.017	0.984	0.994	1.002	1.000	1.025

Source: Commonwealth Grants Commission: Physical Environment Factors and GST Impact 2015 Review.

- 17.30 The Northern Territory believes that the consultant's report provides a sound basis for the development of a physical environment disability. The Northern Territory acknowledges that the Rawlinson's index in the investment category provides some recognition of environmental impacts, but does not believe that it sufficiently captures the measurable impact of the physical environment.

Location factor

- 17.31 The Northern Territory is supportive of the application of the wage cost factor to all components of the roads assessment to acknowledge the difference in wage costs between states. The Northern Territory continues to support the application of the general regional cost gradient to the rural roads component to acknowledge the costs of maintenance increases with increasing remoteness. The Northern Territory's general position on wage costs and regional costs is described in Chapter 22: Wage Costs and Chapter 23: Geography used by the Commission.

³¹ Pottinger, AECOM. *Optimising GST Allocations – Final Report, Commonwealth Grants Commission 27th June 2013*. Accessed on 24 August 2018 at <https://www.cgc.gov.au/attachments/article/177/Impact%20of%20Environmental%20Characteristics%20on%20Asset%20Costs%20-%20Final%20Report%20Publi~.pdf>.

18 Transport

The Northern Territory:

- Is generally supportive of the current assessment.
- Will provide further comment when stage two of the consultation on urban transport is finalised and states have been provided with the report.

- 18.1 *Staff Draft Assessment Paper CGC 2018-01/18-S – Transport* largely proposes the Commission retain the transport assessment methodology adopted in the 2015 Review, with one assessment change to the Significant Urban Areas (SUAs) included in the urban transport component.
- 18.2 The current assessment of urban transport encompasses SUAs with populations above 20 000. In contrast, the staff draft assessment paper proposes to include all SUAs in the assessment. If the majority of SUAs provide public transport services, reflecting the supporting principle of what states do, and this adjustment is material then it appears reasonable for the Commission to incorporate this change.
- 18.3 While the Northern Territory is content with the transport assessment, it wishes to emphasise the importance of correctly identifying and applying the regional cost and wage disabilities within this assessment. Currently a wage cost factor is applied to both the urban and non-urban components, while the regional costs disability is only applied to the non-urban component of the assessment. It is vital that the general regional cost loading continues to be applied to the non-urban transport component in recognition that distances between population centres increase costs.
- 18.4 The Northern Territory's general position on the wage costs and regional cost disabilities is described in Chapter 22: Wage Costs and Chapter 23: Geography used by the Commission.
- 18.5 The Northern Territory will provide further comment on the assessment methodology of the urban transport component once the report on stage 2 of the urban transport consultancy has been completed. The consultants have been tasked with developing an appropriate model to assess states' urban transport recurrent and infrastructure expenditure requirements.

19

Services to Industry

The Northern Territory:

- Considers that an EPC assessment of business development expenses fails to account for jurisdictional differences in the size of the public sector relative to the workforce, and the reliance this creates on public sector funding.
- Supports the proposals in relation to user charges, apportioning component expenses and developing an alternative set of disabilities to apply to regulatory expenses.
- Does not support an EPC assessment of other Research and Development (R&D) expenses. An EPC assessment of other R&D expenses would fail to account for key drivers of R&D expenditure such as population composition and specialised jurisdictional issues.

19.1 *Staff Draft Assessment Paper CGC 2018-19-S – Services to Industry* does not propose significant changes to the 2015 assessment methodology. For the 2020 Review, Commission staff propose to:

- seek new data from states for the purpose of splitting regulation and business development expenses
- consult state line agencies regarding cost drivers of regulatory expenses
- net off all user charges, including agricultural levies provided they are not found to be material
- assess other R&D expenses EPC if found material upon testing.

19.2 The current assessment splits Services to Industry into agriculture and other industries, with expenditure on regulation and business development in these components separately assessed. Regulation and support based expenses are assessed according to the economic environment disability, while business development expenses are assessed EPC.

19.3 Aside from the aforementioned issues, the Northern Territory supports the proposed assessment structure for Services to Industry as a whole.

Business development expenses

- 19.4 The staff draft assessment paper proposes retaining the EPC assessment of business development expenses. These expenses make up 60 per cent of the expenses assessed in the Services to Industry category.
- 19.5 The Commission has cited concerns over the level of discretion states exercise in determining how much is spent on business development, and which industries benefit most, as the main reasons for continuing to assess business development expenses on an EPC basis.
- 19.6 The Northern Territory considers that the proportional makeup of the public and private sectors relative to the total workforce may influence the level of state expenditure on business development. Specifically, that jurisdictions characterised by a proportionately larger public sector expend more on business development to facilitate growth and development in private sector business.
- 19.7 Conversely, jurisdictions characterised by strong, well-developed private sectors, may not require as much Government investment in business development if there are higher levels of private investment underpinning the growth and development of private businesses.
- 19.8 The Northern Territory recommends that the Commission continue to investigate grounds for a differential assessment for business development by considering the public/private proportionate makeup of each jurisdiction's workforce. The Commission may wish to consider data from states comparing public and private shares of gross state product to see if this provides a significant explanation for business development expenditure.

User charges

- 19.9 The staff draft assessment paper is proposing to extend the approach taken toward mining user charges by assessing all expenses within Services to Industry as net of user charges. Commission staff have found that most revenue from user charges relates to regulation rather than business development, and should be netted off from regulation expenses to ensure consistency with what states do.
- 19.10 The Northern Territory is supportive of the net measure approach based on its consistency with what states do.
- 19.11 The Northern Territory notes the Commission staff's proposal to net off agricultural levies along with user charges and is supportive should the data show that agricultural levies are not material, given these levies relate to business development functions which are currently assessed EPC.

Estimating business development and regulation expenses

19.12 The Northern Territory supports continuing to assess agriculture and other industries expenses separately, if it remains material to do so and updating the business development and regulation weights based on a combination of state provided data and GFS data.

Weighting the drivers of regulation

19.13 The Northern Territory supports retaining the differential assessment of industry regulation expenses based on the size of the industry sector.

19.14 Commission staff propose developing a series of questions for states that will allow Commission staff to develop an alternate set of disabilities to apply to regulation expenses. By implementing this alternative method, Commission staff aim to alleviate some of the complexity and ambiguity associated with the level of judgement required in the current assessment.

19.15 The Northern Territory supports the Commission staff's proposal for a more methodical approach in determining drivers of states regulation expenses, contingent upon allowing adequate time for states to review the resulting set of disabilities.

Other R&D expenses

19.16 Other R&D expenses (for example health and education) are currently included in other expenses in their respective categories. As such, these expenses are assessed according to the disabilities in each of the relevant categories. Commission staff propose removing these other R&D expenses from their respective categories and assessing them EPC, along with industry R&D expenses in the Services to Industry category, on the basis that this approach will ensure consistency in the treatment of R&D expenditure.

19.17 The Northern Territory considers that the extent and nature of other R&D expenses is likely to be influenced by the major drivers of expenses in their respective categories. Given these drivers will differ across jurisdictions, an EPC assessment is not appropriate.

19.18 The Northern Territory has a major investment in health R&D through support for the Menzies School of Health Research (Menzies). Menzies is a body corporate of the Northern Territory Government established to research the specialised health needs of the Northern Territory's Indigenous population, as well as address tropical medicine requirements. Menzies is partly funded by the Northern Territory Government and attributes over 65 per cent of its total expenses to research costs³².

³² Menzies School of Health Research. *Financial Report 2017*. Accessed on 24 August 2018 at https://www.menzies.edu.au/icms_docs/283353_2017_Financial_Report.pdf.

- 19.19 The need for this specialised investment reflects the Northern Territory's unique demographic, climatic and environmental characteristics. Accordingly, health R&D expenses should remain in the Health category and be assessed on a differential basis.
- 19.20 The DoE also conducts research to develop strategies that will achieve outcomes such as increasing overall attendance and the rate at which students' complete school. For example, research by the DoE informed the development of the Every Day Counts – Northern Territory School Attendance Strategy, aimed at increasing school attendance rates amongst Indigenous students and people living in remote communities³³.
- 19.21 An EPC assessment would fail to account for the drivers of this R&D expenditure, in this case Indigeneity and remoteness, and their relatively greater importance to the Northern Territory.
- 19.22 The Northern Territory recommends that the Commission continue assessing other R&D expenses by their respective category disabilities, as governments' investment in R&D will align with the specific characteristics of their service populations and needs will not be equivalent across jurisdictions. Furthermore, the primary beneficiaries of this research are government agencies not the private sector, which is the case in the Services to Industry category.

³³ Northern Territory Department of Education. *Every Day Counts Northern Territory Government School Attendance and Engagement Strategy 2016-2018*. Accessed on 24 August 2018 at https://education.nt.gov.au/_data/assets/pdf_file/0007/457504/school-attendance-strategy-2016-2018-every-day-counts.pdf.

20 Other Expenses

The Northern Territory:

- Supports the proposal to continue to assess natural disaster relief expenditure on an APC basis.
- Considers natural disaster relief mitigation spending should continue to be assessed on an EPC basis given there is no suitable alternative.
- Believes that as the current assessment for capital grants to local government for community amenities is no longer material, these expense should be moved to the services expenses component of the category.
- Considers the Commission should further investigate adopting a cost of borrowing factor given the varied borrowing costs faced by differently sized states.

20.1 The *Staff Draft Assessment Paper CGC 2018-20-S – Other Expenses* identifies four main issues for consideration in the 2020 Review:

- natural disaster relief expenses
- natural disaster mitigation spending
- capital grants to local governments
- national parks and wildlife services.

20.2 Additionally, the staff draft assessment paper notes a number of other proposals, including in relation to the assessment of administrative scale and location disabilities. The Northern Territory's response to these issues are discussed in the corresponding Administrative Scale, Wage Costs and Geography chapters. Similarly, Commission staff's proposals to shift expenses from other categories into the Other Expenses category are addressed in the relevant chapters.

20.3 The Northern Territory reiterates its views raised in the 2015 Review that the differences in states cost of borrowing on public debt transactions should be recognised.

20.4 It is also noted that Commission staff are proposing not to develop a separate assessment for national parks and wildlife services due to uncertainties around policy influences on the number and size of national parks and how these could be reliably measured. While the Northern Territory supports a differential assessment, and has previously canvassed this in submissions, it acknowledges there are issues

currently prohibiting a robust and reliable assessment and believes this should continue to be monitored.

Natural disaster relief expenses

- 20.5 Natural disaster relief expenses are expenses incurred by states under the Natural Disasters Relief and Recovery Arrangements (NDRRA) framework. Currently, these expenses are recognised in a separate component of the Other Expenses category, assessed on an APC basis to reflect that state expenses are not policy influenced and are sufficiently comparable. Commission staff acknowledge that while the new *NDRRA Determination 2017* replaces the *NDRRA Determination 2012 (version 2)*, there are no significant changes to warrant a change from an APC assessment.
- 20.6 During the 2015 Review, the Australian Capital Territory identified that there are policy differences around states insurance arrangement and natural disaster mitigation measures, and that an EPC assessment of these expenses was more appropriate.
- 20.7 As noted in the staff draft assessment paper, the *NDRRA Determination 2017* requires all state governments to have adequate capital or access to capital to fund liabilities or infrastructure losses, including via commercial insurance/re-insurance, reducing the extent of any significant policy differences between states.
- 20.8 The Northern Territory supports the proposal to continue to assess natural disaster relief expenses on an APC basis.

Mitigation

- 20.9 To be eligible for funding under the NDRRA, states must develop and implement natural disaster mitigation strategies to recognise likely or recurring disasters. Mitigation expenses are currently assessed on an EPC basis in the services expenses component of the category.
- 20.10 Commission staff indicate that an APC assessment of mitigation expenses would be inappropriate as state policies can affect spending. Additionally, it is not clear what the policy neutral driver of differences in states mitigation expenditure would be and there are a number of data issues hindering the identification of these expenses in state budgets.
- 20.11 The Northern Territory subsequently supports the Commission staff view that there is no suitable alternative to an EPC assessment of mitigation spending.

Capital grants to local governments

- 20.12 In the 2015 Review, the Commission introduced a capital grants to local government assessment to acknowledge the need for states to support local governments for

cultural and recreation facilities and community amenities. The assessment recognised that population growth impacts on the level of need.

- 20.13 Commission staff are proposing to cease this differential assessment, indicating funding appears to be provided for regional economic development and that the drivers of expenses for this component are unclear. The proposal will see capital grants to local government moved to the service expenses component of the category and assessed EPC, with wages and regional costs factors applied. Given that staff indicate the component failed to meet the materiality threshold in the 2018 Update, the Northern Territory considers the proposal reasonable.

Cost of borrowing

- 20.14 During the 2015 Review, the Northern Territory raised the issue that no allowances are made for the impact of interstate differences in the cost of borrowing on public debt transactions. The Northern Territory notes that the Commission subsequently acknowledged that states may face diverse borrowing costs, however, that they are affected by several factors, including credit ratings, which are often policy influenced.
- 20.15 The Northern Territory contends that liquidity is an important influence on trading margins, a point frequently highlighted by Northern Territory Treasury Corporation's (NTTC) financial intermediaries and institutional investors. Due to the relatively small size of the Northern Territory and the Northern Territory's borrowing program, institutional investors demand a liquidity premium when purchasing NTTC bonds. This is outside the control of the Northern Territory Government and is therefore not representative of policy influence.
- 20.16 The Northern Territory believes smaller states have higher liquidity margins than larger states. This can be evidenced in the financial market by comparing the quoted yields of jurisdictions that have the same credit rating, but significantly different volumes of debt on issue. For example, the Australian Capital Territory, which shares the same AAA credit rating as New South Wales and Victoria, is reported in the market at significantly higher yields than its counterparts.
- 20.17 In recent years, NTTC has established a number of bond series with varying maturity rates. An example is the bond series first issued by NTTC in October 2017. At that time, NTTC issued the bond at an average margin of 35 basis points to AAA rated semi-government bonds. In May 2018, the NTTC increased the amount on issue, achieving an average margin of 29 basis points. This demonstrates the higher costs associated with borrowing in the Northern Territory. It is noted that due to NTTC's increased market activity and volume on issue, margins contracted during the 2017-18 financial year are less than previous years.

20.18 The Northern Territory considers that the Commission should investigate this issue further to determine if a cost of borrowing factor would be material. Additional data can be provided, if necessary.

Physical and Financial Assets

The Northern Territory:

- Provides in-principle support for the suite of changes proposed by Commission staff to the broad structure of the current assessment, specifically:
 - functionalising the assessment
 - removing three year averaging of stock disabilities
 - utilising category specific growth measures, where appropriate
 - freezing disabilities.

However, the Northern Territory requires the opportunity to review the changes once they have been fully developed to ensure its infrastructure needs and circumstances are adequately recognised.

- Does not support the proposal to establish a method of using change in population levels by incorporating any intercensal difference into the measure of population growth. It is considered that setting aside intercensal discrepancy and deriving population growth estimates using published components of growth (births, deaths and net migration) is the best measure of population growth.
- Notes that the suitability of recurrent disabilities in assessing capital stock needs will be considered when proposed category assessments are further progressed.
- Considers the cost impact of physical environment factors ought to be revisited.
- Considers the assessment of depreciation and net investment should remain separate.

21.1 *Staff Draft Assessment Paper CGC 2018-01/21-S – Physical and Financial Assets* proposes a suite of changes to the overarching Infrastructure category assessment, as outlined above. Commission staff indicate the changes will improve equalisation outcomes and provide greater transparency, however, the full effects are currently difficult to ascertain given the preliminary stage of the proposals. While the Northern Territory provides current in-principle support for the changes due to the specified benefits, further analysis to support the changes and the opportunity to comprehensively review these once they have been further developed is sought.

21.2 Other issues discussed in this chapter include:

- the appropriate measure of population growth
- appropriateness of the current construction cost indices
- recurrent versus capital disabilities
- the impact of physical environment factors
- net versus gross investment
- presentation
- the net borrowing assessment
- difficulties in smaller states attracting privately provided assets.

Suite of changes to the broad structure

Functionalising the assessment

21.3 Currently, net investment is assessed within the Infrastructure category in four separate components: roads, urban transport, land and other services.

21.4 The other services component reflects the combined infrastructure need across ten different categories: schools education, post-secondary education, health, welfare, housing, services to communities, justice, transport (excludes assets used for roads and urban transport), services to industry and other expenses.

21.5 Commission staff consider that the amalgam of the ten categories makes it difficult to associate redistributive impacts to any one category and subsequently propose separately assessing investment need for each of the ten categories which currently make up the other services component. The Northern Territory finds this proposal reasonable as it will better enable the impact of each category to be observed, therefore improving the transparency of the Commission's assessment.

21.6 The Northern Territory also notes that \$37 million was redistributed away from the Northern Territory in the 2018 Update due to a revaluation in Victoria's services to communities assets. Commission staff have indicated that under the functionalisation approach, revaluations will have no effect on the redistribution of GST, as they currently do. This would be a welcomed outcome given revaluations are not an indication of investment need. They are defined as non-cash adjustments, reflecting a holding gain driven by changes in the level and structure of markets, and not a transactional change, over which governments have no influence or control.

Averaging disabilities

21.7 During the 2010 Review, concerns were raised around the then proposed Infrastructure category assessment resulting in volatility and consequent budget uncertainty. As a result, the Commission smoothed the applied stock disabilities by

using a rolling three-year averaging process for the end of year and beginning of year disabilities.

- 21.8 Using rural roads investment assessment as an example, the staff draft assessment paper shows how the three-year averaging process has actually increased volatility for the Northern Territory. In the Northern Territory's view, this outcome is contrary to what was hoped to be achieved by undertaking three year averaging (i.e. to reduce volatility), while also adding unnecessary complexity and being inconsistent with the underlying premise of the assessment that it reflects needs as they arise.
- 21.9 Given the removal of this process will produce a simpler equalisation outcome, the Northern Territory conceptually supports the proposal.

Category specific measures of growth

- 21.10 Total population growth is currently used as the principal measure of investment need for roads, urban transport and all components of other services. This results in states with fast growing populations having greater infrastructure needs. Commission staff have identified that by functionalising the assessment, specific measures of growth in the service use populations or asset requirements of each category could instead be used.
- 21.11 This change would allow the Commission to draw a more direct link between growth of the relevant populations or requirements and impact on states infrastructure needs in each category. For example, the proposed change to the schools component would see government school enrolments used to determine the required investment in schools, not total population growth. When interpreting the Infrastructure category, this change will allow a more specific explanation of changes in service use population, as opposed to total population. The Northern Territory notes that this change appears reasonable from a conceptual basis, as long as there is a clear link between the user group and investment need.
- 21.12 At this stage, the Northern Territory considers the potential category growth factors specified in Table 5 of the staff draft assessment paper to be reasonable, noting that Commission staff are yet to identify relevant growth factors for the post-secondary education, health and justice investment assessments. However, the Commission should consider the merits of using the share of rural roads identified in the rural roads expenditure assessment as the rural roads growth indicator.
- 21.13 The Northern Territory finds the continued use of total population growth to measure infrastructure needs, if data is not available or an appropriate method cannot be determined, appropriate.

Intercensal difference

- 21.14 The staff draft assessment paper identifies that in the 2018 Update, the Commission was faced with a decision of whether the intercensal error identified as part of the

2016 Census should be captured in its measure of population growth. The 2018 Update Report indicates that the Commission ultimately used the measure of population growth, including intercensal differences, based on the ABS estimates of population levels. Staff are proposing the Commission establish a method of using change in population levels, incorporating any intercensal difference into its measure of population growth, in all updates, using the 2020 Review methods.

- 21.15 As indicated in the Northern Territory's response to the New Issues for the 2018 Update – Further Consultations Paper, the Northern Territory remains of the view that an approach of setting aside intercensal discrepancy and deriving population growth estimates using published components of growth (births, deaths and net migration) is the best measure of population growth. This is because the intercensal discrepancy is not a measure of population growth, but rather an error adjustment. The Northern Territory notes it is odd that Commission staff are proposing to incorporate an error adjustment, which will vary from census to census.

Freezing disabilities

- 21.16 Currently, each states assessed investment need captures the difference between infrastructure need at the start of the year, compared to the end of the year, adjusted for stock (disability) factors. The aim of this is to account for changes in state circumstances, which affect the use and cost of services and therefore infrastructure needs within the year.
- 21.17 Commission staff acknowledge that the ability to measure the change between the start and end of year relies on the utilised data reliably capturing the change. The staff draft assessment paper notes that, while staff are confident data provided in any given year in relation to the stock factors is the best available measure of relative need in that year, they hold reservations around the ability of the data to reliably capture changes in states relative need between years, given the potential influence of changes in data collection models and timing differences.
- 21.18 This is demonstrated by looking at the capital needs of Indigenous students relative to non-Indigenous students in the Northern Territory between 2012-13 and 2013-14. The data shows that this relative need significantly dropped between years, which Commission staff suggest may be driven more by improvements to the underlying data set as opposed to a decline in the Northern Territory's infrastructure need.
- 21.19 While the Northern Territory considers improvements to cost allocation models are a positive outcome, and that the significant changes to such models over recent years following the changes to schools funding arrangements may be driving such changes and improvements, it agrees that this result appears counterintuitive. This is particularly as it suggests the Northern Territory would need to divest itself of school assets over the period.

- 21.20 Commission staff suggest that adopting category specific growth measures and applying a single year disability to both the beginning and end of year stock to measure service use on investment need will result in a more reliable, transparent and comprehensive assessment. While on this basis, the Northern Territory considers the proposal reasonable, it seeks further detail on how these changes will be applied in practice to assure itself that an improved equalisation outcome will be realised.
- 21.21 Perhaps at a later stage the Commission could run the 2018 Update Infrastructure data through the model, applying the proposed changes. The Northern Territory would be interested in the results of this exercise.

Construction cost indices

- 21.22 Currently, a capital cost disability is applied to each component of the Infrastructure assessment to recognise the impact of differences between states in the cost of constructing roads, urban transport infrastructure and other services infrastructure. In the 2015 Review, these disabilities were produced using Rawlinsons construction cost indices (capital city index and regional indices) and recurrent wage and regional cost factors. Commission staff are proposing to recommend the Commission retain this assessment.
- 21.23 The Northern Territory holds some concerns around the appropriateness of the Rawlinsons indices, particularly around the assumption that regional centres with similar populations and degrees of remoteness have similar construction costs. However, it is acknowledged, as was done so in the Northern Territory's Submission to the Commonwealth Grants Commission 2015 Draft Report, that the indices are fit for the required purpose and that there does not appear to be any other appropriate policy neutral alternative.
- 21.24 The Northern Territory considers there may be merit in determining whether the indices adequately factor in the additional costs of building on Aboriginal land. For example, as evidenced during the Commission's visit to Alice Springs, a greenfield subdivision had to be constructed in Maningrida due to sacred site and cultural issues on existing sites, significantly adding to construction costs. This is not an isolated example, but rather one that clearly demonstrated issues outside of the Northern Territory Government's control that impact on its expenditure.

Recurrent versus capital disabilities

- 21.25 The Northern Territory notes Commission staff are proposing to assess the suitability of using recurrent disabilities in assessing investment needs when the relevant category assessments, from where the disabilities are derived, are further progressed. The Northern Territory considers this approach reasonable, given the significant changes proposed across the category structure.

Physical environment factor

- 21.26 As part of the 2015 Review, consultants were engaged to investigate the effects of physical environmental characteristics on state government spending on roads and public schools and housing. The report identified that topography, rainfall, temperature, wind, shrink well of soil and sulphate in soil impacted on the costs of construction and maintenance. While flooding, soil salinity and natural disasters were also considered, these factors were not included due to lack of data.
- 21.27 The report ultimately found that environmental characteristics have the largest impact on the overall cost of roads and that while the impact on public schools and housing were smaller, they were significant. Nevertheless, the Commission chose not to introduce a physical environment factor, indicating that the current investment assessment captures capital construction cost factors, based on the Rawlinsons indices, which allow for some environmental influences. The Commission indicated a physical environment factor would only be considered if all environmental impacts could be captured, without double counting the influences contained in the Rawlinsons indices.
- 21.28 In the Northern Territory, the annual wet season is one of the most significant physical environment factors that influence the cost of delivering infrastructure. Specifically, the unpredictability of the length and timing of the season can add significantly to the costs of projects, particularly where demobilisation and remobilisation of materials, equipment and personnel is required, with shut down costs of some projects exceeding \$100 000 a week. While risk elements relating to the variability of climate are not included in Rawlinsons indices, they are reflected in Northern Territory's tender pricing. The Northern Territory considers these significant costs required to complete projects should be captured in the infrastructure assessment.
- 21.29 The Northern Territory considers that there is merit in re-visiting the issue of physical environment factors significantly impacting on the cost of delivering infrastructure, across Australia. Failure to do so is potentially underestimating states infrastructure needs.

Net versus gross investment

- 21.30 Currently, depreciation and net investment assessments occur separately within the Infrastructure category. Commission staff have identified that there is a case for depreciation and net investment being assessed together, in an assessment of gross investment. Staff acknowledge that while this change would make the presentation of total recurrent expenses (depreciation) difficult and fail to produce an operating result, it would simplify the assessment, increase transparency and reduce the incidences of a negative net investment, which at times occurs in the current assessment.

21.31 Presently, the Northern Territory does not consider that a change to assess depreciation and net investment, together, would result in improved transparency. This identified change is more likely to confuse due to the mismatch between stable depreciation and volatile investment. Further, the staff draft assessment paper does not detail how the assessment of depreciation, either under a net or gross approach, will be made under the functionalisation approach. On this basis, a change from the current assessments and presentation of depreciation and net investment is not supported.

Presentation

21.32 Currently, the calculation of investment needs for each category are assessed within the other services component of the Infrastructure category. Commission staff have indicated that by functionalising the investment assessment, there is potential to determine whether investment in a particular function area fits best in the relevant category assessment, in the investment assessment, or in a combination of the two assessments.

21.33 While each of the proposed options have merit, the Northern Territory finds it more appropriate for investment to be assessed in and remain in the Infrastructure category, distinct from recurrent expenses. This is because capital programs are lumpy in nature and reviewed by governments in their entirety annually, while recurrent expenses are largely fixed and experience limited changes from year-to-year. Hence, combining the two will complicate the assessments and introduce unnecessary volatility.

Net borrowing

21.34 As identified in the staff draft assessment paper, net borrowing reflects the extent to which the states' total outlays on service delivery and investment in infrastructure exceed their total revenue. This assessment currently recognises one disability, interstate differences in population growth, also referred to as population dilution. Due to concerns that not all factors affecting net financial worth are included in the assessment and data quality, a 25 per cent discount was adopted in the 2010 Review. This was subsequently reduced in the 2015 Review to 12.5 per cent, due to reduced concerns.

21.35 As stipulated by the Commission, when net financial worth is negative, states with above average population growth are assessed with lower per capita borrowing, with the borrowing task shared across a larger population, therefore reducing the need for GST. The effect of applying the 12.5 per cent discount, however, has been to redistribute GST towards the faster growing states. Given the result of the discount now appears to be immaterial, the Northern Territory supports the Commission staff's proposal to retain the current assessment, remove the 12.5 per cent discount and not recognise any other disabilities.

21.36 The Northern Territory supports the proposal outlined in the staff draft assessment paper to retain the isolated assessment of Net Borrowing within the Infrastructure category. This is due to the inverse relationship of net borrowing redistributing GST away from the faster growing states and net investment redistributing GST towards those states.

22

Wage Costs

The Northern Territory:

- Supports the econometric assessment approach for the wage costs disability and annual update of the model using ABS Characteristics of Employees survey (CoES) data.
- Notes that the Commission intends to update the proportions of service delivery expenses relevant to the wage cost disability in the 2020 Review and these will remain fixed in subsequent updates.
- Does not support discounting of the wage costs assessment.
- Considers discounting diminishes recognition of the Northern Territory's additional costs.

- 22.1 *Staff Draft Assessment Paper CGC 2018-01/22-S – Wage Costs* proposes the Commission retain the wage costs assessment methodology adopted in the 2016 Update based on CoES data. The Northern Territory supports the assessment method with the exception of the 12.5 per cent discount, which is applied to the modelled outcomes. The discount dilutes the effect of the assessment and recognition of the Northern Territory's needs.
- 22.2 A low level discount is applied due to uncertainty about how accurately the CoES data capture wage costs, how accurately the model controls for productivity differences between occupational types and how well private sector wages proxy public sector wage pressures. This uncertainty arises in part because the Commission chooses to use private sector rather than public sector data due to policy neutrality concerns. Discounting also suggests that the Commission believes the assessment is overstating differences between jurisdictions.
- 22.3 The Northern Territory does not believe the assessment overstates jurisdictional differences in wage costs, instead considering that the assessment may understate the Northern Territory's needs. Public sector employee costs are higher in the Northern Territory reflecting differences in the level of wages and important productivity related impacts including an additional two weeks leave to assist employees maintain connections with family and friends interstate or overseas. This is an important recruitment and retention tool given the Northern Territory's isolation from major centres in other jurisdictions and its dependence on interstate and overseas workers to meet its labour force needs.

22.4 The Northern Territory's reliance on non-local labour is evidenced by measures of mobility in the Census (Table 22.1). In 2016, 7 per cent of employees in the Northern Territory public sector had been living interstate or overseas in the prior year (2015) and 24 per cent were living outside the Northern Territory at the time of the previous Census (usual residence five years ago – 2011). This compares to an average of 2 per cent (one year ago) and 9 per cent (five years ago) across other jurisdictions.

Table 22.1 – Public sector employees by usual residence at Census, one and five years ago, 2016

State ¹	One Year Ago			Five Years Ago		
	Local	Non-local ²	Total	Local	Non-local	Total
	%	%	%	%	%	%
NSW	98.5	1.5	100.0	94.4	5.6	100.0
Vic	98.2	1.8	100.0	93.0	7.0	100.0
Qld	98.2	1.8	100.0	93.2	6.8	100.0
WA	98.7	1.3	100.0	92.3	7.7	100.0
SA	98.7	1.3	100.0	94.5	5.5	100.0
Tas	97.3	2.7	100.0	91.4	8.6	100.0
ACT	95.0	5.0	100.0	81.7	18.3	100.0
NT	93.1	6.9	100.0	76.4	23.6	100.0
Average excluding NT and other Territories	97.8	2.2	100.0	91.5	8.5	100.0

¹ Employee's usual address at 2016 Census; excludes fly in/fly out and other workers who work in a jurisdiction, but usually reside outside that jurisdiction.

² Interstate and overseas.

Source: ABS³⁴.

22.5 More generally, churn in the Northern Territory population is high, and impacts on turnover and employment conditions in the public sector workforce. In 2015-16, population turnover in the Northern Territory (interstate and overseas arrivals and departures, all ages) was 43 014 persons, which equates to 17.6 per cent of the total population.³⁵ In contrast, Victoria's total turnover of 358 196 persons equates to only 6.0 per cent of its total population.³⁶ If Victoria had the same turnover rate as the Northern Territory, it would have meant over a million people would have moved in and out of the state in one year.³⁷

³⁴ Australian Bureau of Statistics (ABS). *2016 Census – Counting Persons, Place of Usual Residence*. ABS TableBuilder Pro, 2016. Table based on use of ABS TableBuilder data.

³⁵ Northern Territory Government. *Population* page. 2018. Accessed on 27 August 2018 at <https://nteconomy.nt.gov.au/population>.

³⁶ Ibid.

³⁷ Ibid.

- 22.6 High turnover in the Northern Territory public sector has productivity related impacts that will not be well reflected in a wages-based measure. These include a greater amount of senior staff time spent on recruitment related activities (e.g., reviewing applications and interviewing prospective staff), reduced productivity of new employees and existing staff involved in the training and day to day management of those employees³⁸, and the need for higher cost options to fill vacancies (e.g., overtime by existing staff or agency nurses).
- 22.7 Even if new employees have worked in the public sector elsewhere in Australia, they encounter a very different work environment in the Northern Territory reflecting the small size of the public sector and its distinctive service delivery models (refer to Chapter 24: Administrative Scale for further discussion of ‘dual’ service delivery models). This enhances the productivity related impacts associated with new staff.
- 22.8 While it usually takes new staff several weeks to become familiar with their work environment and productive in their role, the period of reduced productivity can be even longer in the Northern Territory when people have little prior experience or knowledge of Indigenous clients or remote service delivery. For staff recruited from overseas or non-English speaking backgrounds, the time to adjust and become confident at work can be even greater. For example, a study of nursing mobility in the Northern Territory observed that the period of reduced productivity for overseas nurses could be six months or more compared to three months or less for other nurses.³⁹
- 22.9 The limited local labour pool, high turnover and opportunities for career advancement and distinctive work experiences (particularly in Indigenous and remote service provision) mean that people in the early years of their career are more likely to be attracted to and employed in positions that in other jurisdictions are occupied by more experienced and skilled people. This is illustrated by the limited experience of the Review process among the Northern Territory’s Intergovernmental Relations team members compared with staff in other jurisdictions. Recruitment challenges faced by agencies were demonstrated during sessions with Health, Education and Police during the Commission’s visit in June.
- 22.10 It is unclear how well productivity-related differences are accounted for in the CoES data, however, if these differences are being captured in the data, the discounting of modelled outcomes reduces recognition of these needs for the Northern Territory. Accordingly, the discount should be removed in its entirety or not applied to the modelled outcomes for the Northern Territory.

³⁸ Neese B. *The Hidden cost of Employee Turnover*. Alvernia University Online, 2016. Accessed on 5 July 2018 at <https://online.alvernia.edu/cost-employee-turnover/>.

³⁹ Garnett et al. *Attracting and Keeping Nursing Professionals in an Environment of Chronic Labour Shortage: A Study of mobility among nurses and midwives in the Northern Territory of Australia*. Darwin: Charles Darwin University Press, 2008.

National market

- 22.11 The Commission has sought views on, and potential measures for, the influence of national markets on the level of wages. If states were primarily competing among one another for workers, it would be expected that this would be evidenced by movement of workers between states. As Table 22.1 shows, this is not the case in the public sector workforce with most states showing relatively little interstate movement. This implies that government decisions about wage levels largely reflect local pressures. The exception may be a few highly skilled and scarce professionals or professions where jurisdictions compete both nationally and internationally. In these cases, a range of incentives may be used to attract workers, not simply wages. Additional costs relating to these professionals are not reflective of the circumstances for general public sector workers assessed by the wage costs disability and they would be best assessed in the relevant expenditure category, if cost differentials are material.
- 22.12 The Northern Territory Government has a greater dependency on non-local workers than other jurisdictions to meet its labour force needs. It does not, however, seek to be a wage leader or set the level of wages for its public sector based on national levels. Rather the base level of wages is influenced by local conditions. More consideration may be given to national conditions in the setting of growth rates, particularly when local indicators are behaving atypically or not reflective of general cost of living pressures across the Northern Territory. However, adjusting for local conditions and maintaining a balance with the private sector remains paramount.
- 22.13 The Northern Territory does not believe that wage levels will converge at a national level and result in more uniform wage levels. Even if there is apparent similarity in wages, there will be productivity related factors that need to be captured in the wage costs disability to account for differences between the Northern Territory and other jurisdictions. Where the model is capturing some of these impacts, the discounting of the modelled outcomes reduces recognition of the Northern Territory's additional costs.

Geography used by the Commission

The Northern Territory:

Indigenous Socio-Economic Disadvantage

- Strongly supports use of an Indigenous specific measure of socio-economic disadvantage.
- Considers that the IRSEO index is the best available measure, but notes that the Centre for Aboriginal Economic Policy Research (CAEPR) proposes to make refinements to the measure (IRSEO+).
- Anticipates that jurisdictions will have the opportunity for input prior to any uptake of IRSEO+ or other possible measures of state service use.

Service Delivery Scale

- Strongly supports the SDS assessment.
- Notes the proposal to maintain the current methodology with updated data.

Regional Costs

- The Commission needs to ensure that its assessments adequately capture the impact of remoteness:
 - SDS and regional costs are not adequately assessed in the Health category. This needs to be rectified in the 2020 Review.
 - The cost gradient between Remote and Very Remote areas is not the same, and these categories of remoteness should not be combined.
 - The Very Remote classification does not adequately capture the higher cost of servicing isolated remote communities.
- Does not support discounting of regional cost gradients. In particular, it strongly objects to the judgement-based discount applied to the regional cost allowance for Darwin.

23.1 This chapter responds to issues raised in *Staff Draft Assessment Paper CGC 2018-01/23-S – Geography used by the Commission* and related matters regarding regional costs, SDS and area-based measures of disadvantage.

Measures of Indigenous socio-economic disadvantage

23.2 The Commission uses IRSEO, an area-based measure, to capture differences in SES within the Indigenous population. IRSEO measures Indigenous SES separate to the

SES of the non-Indigenous population. A non-Indigenous specific version of ABS's SEIFA (NISEIFA) is used to measure SES differences within the non-Indigenous population.

- 23.3 The staff draft assessment paper suggests that some states have residual concerns about IRSEO because of differences in the approach to constructing the index and its geographic base. The Northern Territory agrees with the view of Commission staff that IRSEO can be used alongside NISEIFA despite differences in how it is constructed (variables used) and that it measures relative advantage rather than relative disadvantage.
- 23.4 In a predominantly disadvantaged population, it is more sensible to differentiate based on relative advantage than disadvantage. This focus does, however, mean that there will be differences in the variables used for IRSEO. Moreover, as the staff draft assessment paper notes, inclusion of household-level variables, as used in NISEIFA, would be problematic given the need to determine how to treat mixed (Indigenous/non-Indigenous) households in an Indigenous-specific measure. Regardless, there is no reason to assume that disadvantage (or advantage) has the same characteristics in the two populations, particularly when overlaid with remoteness.
- 23.5 The geographic unit used in IRSEO is Indigenous areas. These are larger than the Statistical Area 1 geography used in NISEIFA. CAEPR propose to revise IRSEO (IRSEO+) using a purpose built geographic unit that will be more disaggregated than Indigenous areas. This may better capture pockets of disadvantage in some areas.
- 23.6 The staff draft assessment paper advises that CAEPR proposes to investigate change (or consistency) in identification as a possible indicator of SES. CAEPR is also considering developing an index based on a regression predicting aspects of state service use. The Northern Territory notes this work and expects that jurisdictions will be consulted during the process of development and ahead of any proposed uptake of potential measures by the Commission. These developments may be useful in better distinguishing Indigenous disadvantage in the urban context, but whether they will better distinguish the relatively greater disadvantage and high need for services of the Northern Territory's Indigenous population is less clear.

Service delivery scale

- 23.7 The SDS assessment recognises diseconomies in the provision of services to small isolated communities, in particular the indivisibility of labour and unproductive travel time. The Commission defines SDS areas as those more than 50km from towns of 5000 people.
- 23.8 The staff draft assessment paper shows the importance of the SDS assessment to the Northern Territory with the assessment redistributing \$84 per capita. The next highest is South Australia at \$14 per capita. This does, however, understate the

importance of the disability as SDS needs were not assessed in the Health category; an omission that the Northern Territory expects to be rectified in the 2020 Review (see Chapter 12: Health for further discussion).

- 23.9 The Northern Territory strongly supports continued assessment of SDS needs. It is critical for recognising the additional costs of servicing the Northern Territory's small isolated communities, the need for coverage of events that occur beyond townships (e.g., traffic accidents and search and rescue) and the vast distances that need to be covered by staff in order to deliver services.
- 23.10 The staff draft assessment paper notes that large towns such as Alice Springs and Broome are remote and suffer from the costs associated with remoteness, but not SDS. Accordingly, they and other towns over the 5000 person SDS threshold are excluded from the SDS assessment. The Northern Territory is concerned that this view indicates a lack of appreciation of service delivery in the remote, isolated context and understates fiscal needs associated with larger remote centres.
- 23.11 Alice Springs and Katherine do not have extensive social and economic infrastructure or good interconnections with more sizeable urban centres. While less likely to experience labour divisibility or minimum staffing cost imposts, service providers in Alice Springs and Katherine bear additional costs associated with providing outreach services (i.e., they are the central point of hub and spoke service delivery models) and support or surge (in the case of police) capability to smaller service units in their geographic region. These service models were evidenced, particularly in the context of policing, during the Northern Territory visit in June 2018.
- 23.12 The Northern Territory is concerned that these impacts are not being adequately captured in either the SDS or regional cost assessments. Even if captured in the regional cost assessment, the impact is diminished by discounting of regional gradients. These issues are further compounded by approaches that attempt to jointly assess SDC, SDS and regional cost disabilities as occurs in the Health category and now being considered for the Police assessment. As an expense outlier, inadequacies in these approaches and discounting of assessments are detrimental to the Northern Territory.

Regional Costs

- 23.13 The Commission currently uses the ABS remoteness areas geography, which comprises of five classifications: major cities, inner and outer regional, remote and very remote areas.

Geography used in Regional Costs assessment

- 23.14 In some categories, the Commission combines remote and very remote classifications. The Northern Territory does not believe that this practice is appropriate. Remote and very remote areas are not homogeneous in terms of

service utilisation or costs of service provision. If there is an absence of a regional cost gradient, it more likely reflects data or methodological limitations than an absence of costs.

- 23.15 The residual nature of the Very Remote classification means that the considerable disparity between communities within the Northern Territory is not well captured. The cost gradient within very remote communities can be demonstrated using relative diesel prices. The undiscounted price of diesel on 23 July 2018 in Katherine (classified as remote) was between 153.9 and 155.9 cents per litre.⁴⁰ At Timber Creek and Dunmarra (classified as very remote), which are on main highways about 300km to the west and south of Katherine⁴¹, respectively, the price was 170 cents; a price differential of about 9 per cent. At Bulman, however, which is east on the Central Arnhem Highway (about 300km from Katherine, but two thirds of the distance to the community is on unsealed road), the price was 195 cents; a price differential of 25 per cent. In the even more remote communities of Ramingining (about 500km from Katherine; 4WD dry season access only) and Milingimbi (85km from Ramingining), the price was 251 cents and 269 cents per litre, respectively. This equates to a cost differential of over 60 per cent.
- 23.16 Similar gradients can be seen in Central Australia where the price of diesel was 161.9 cents in Alice Springs; 195.0 cents at Hermannsburg (125km away); 215.9 cents at Yulara (445km away) and up to 260.0 cents at Kaltukatjara near the border with Western Australia (674km away including about 200km of unsealed road).
- 23.17 Given the disparities within the Very Remote classification, it is disappointing that the staff draft assessment paper has afforded little effort to this issue and instead focuses on investigating the merits of an alternative model (the Modified Monash Model), which includes a greater breakdown of inner and outer regional (rural) areas into four rather than two classifications. The analysis by Commission staff based on schools and hospital data showed little difference between the first three (least rural) classifications, but some (upward) differentiation in the last, most rural classification. The alternative classifications did not better proxy state spending than the ABS classifications.
- 23.18 The Northern Territory agrees with the proposal by Commission staff to not use the Modified Monash Model classification. Commission staff should, however, investigate alternative approaches, for example, population density measures⁴², to better distinguish the relative circumstances of more isolated communities.

⁴⁰ Compared with between 148.7 and 155.9 cents in Darwin. All prices from the Northern Territory Government *MyFuelNT* website at <https://myfuelnt.nt.gov.au/>.

⁴¹ Timber Creek is west on the main highway to Western Australia. Dunmarra is south on the Stuart Highway.

⁴² For example, the Remoteness and Incapacity Index (see Zhao Y, Guthridge S. *Rethinking remoteness: A simple and objective approach*. Geographical Research, 2008. 46(4):413-420).

Broadening the evidence base

- 23.19 Commission staff propose to develop a regional costs assessment using data from schools, police, post-secondary education and hospitals. They will test whether there are significant differences in the cost gradients between these services and, if not, use a single measure for all categories.
- 23.20 The Northern Territory welcomes further work in this area. A broader set of gradients should eliminate the need for discounts, which were imposed on most regional cost assessments in the 2015 Review because of concerns about the reliability and extrapolation of gradients based on police and schools data to other categories. This diluted the assessment of the Northern Territory's fiscal needs.
- 23.21 The Northern Territory notes that Commission staff are considering use of IHPA hospital adjustments for the development of regional cost loadings. As discussed in Chapter 12: Health and during the June visit, the patient residence remoteness area adjustment captures different influences to those assessed by the regional cost disability and does not appear appropriate to use. The patient treatment remoteness area adjustment is more relevant, however, it understates regional cost impacts as it does not capture the additional costs of block funded hospitals.
- 23.22 Further, hospital gradients would not be suitable for extrapolation to the Community Health assessment as the localities where hospitals are based are not equivalent to the localities where remote primary health care centres are located. A hospital gradient reflects costs in regional centres such as Katherine, Tennant Creek and Alice Springs. The majority of health centres are located in small, more remote and isolated communities such as Ramingining and Kaltukatjara. A better measure for community health would be police or education gradients, with these services typically located in similar communities.

Impact of turnover

- 23.23 A key issue in remote areas, particularly in the more isolated localities is the recruitment and retention of staff. This is an issue that affects all agencies in the Northern Territory, but is not isolated to the Northern Territory or the public sector. This is shown in data from the Commonwealth's On-line Community Health Reporting Environment, which provides detail on the characteristics of organisations receiving Commonwealth funding to provide primary health care to Indigenous Australians. A total of 204 organisations across Australia contributed to the report, a quarter of which were government operated health services.
- 23.24 As Table 23.1 shows, vacancy rates in Indigenous primary health care services differ substantially by region with the lowest rate being in inner regional areas at 33 full time equivalent (FTE) vacancies and highest in very remote areas at 166 FTE vacancies. The length of vacancies is also greater in very remote areas with 44 per cent of vacant health positions having a vacancy length of 27 weeks or more

compared to only 7 per cent in major cities and about 30 per cent in other areas.

Table 23.1 – Vacancy rate by position type and remoteness area, Indigenous primary health care services, 2015-16

Position type	Major cities	Inner Regional	Outer Regional	Remote	Very Remote
FTE vacancies per 100 000 clients					
Health	36	27	54	74	135
Other	8	6	6	4	32
Total	44	33	61	78	166

Source: AIHW⁴³.

- 23.25 Data from the Northern Territory’s Central Australian Health Service, which operates services in only remote and very remote areas, showed that agency nursing labour, overtime and recruitment costs comprised 14 per cent of personnel costs in 2016-17. When narrowed to only primary health care services, which operate predominantly in very remote communities, the costs of turnover increased to 23 per cent of personnel costs.
- 23.26 Some of aspects of turnover can be identified and quantified, but where these costs are centralised (as occurs in some agencies) they may not be correctly attributed to the relevant remoteness area. Furthermore, there are considerable productivity losses associated with turnover (refer to Chapter 22: Wage Costs for further discussion), which are unlikely to be well captured in wage and non-wage data due to the intangible nature of these costs. Unfilled positions and lost productivity of new starts and their co-workers and supervisors mean that work units are less able to deliver an equivalent (average) level of service provision as work units in less remote setting where there is less turnover.
- 23.27 It will be challenging to fully capture these cost impacts in regional cost gradients. This means that estimates of the cost gradient, particularly for very remote areas, are likely to be understated. This issue needs to be balanced against concerns about data reliability and/or extrapolation of gradients to other categories. The application of discounts as the response to data issues implies a concern that gradients have been overestimated, whereas the opposite is likely to be the case.

Non-wage costs - ICT

- 23.28 As discussed in Chapter 24: Administrative Scale, the uptake and utilisation of information and communications technology (ICT) by government services has changed substantially in the past decade. This presents a challenge in remote areas

⁴³ AIHW. *Aboriginal and Torres Strait Islander health organisations: Online Services Report — key results 2015–16*. Aboriginal and Torres Strait Islander health services report no. 8. Cat. no. IHW 180: Canberra, 2017. Supplementary tables – Primary health care, Table S3.51.

where the installation, set-up and operation of ICT can come at a substantial cost. In many areas of the Northern Territory, there is no choice but to rely on expensive and limited satellite connections. A report by the Commonwealth Department of Communications and the Arts in 2017 showed the price per month of National Broadband Network (NBN) satellite plans for usage above 40GB per month could be up to twice the price of asymmetric digital subscriber line (ADSL) and NBN fixed-line and fixed wireless plans.⁴⁴ Even if monthly prices were comparable, connections to remote services (e.g., schools and health clinics) are servicing smaller populations, meaning that the per capita cost would be higher.

- 23.29 Access and utilisation of ICT is not equivalent between remote and non-remote areas. For example, the Northern Territory DoE advises that a movement toward national online testing (e.g., for NAPLAN) would present a challenge with about half of its schools not having the bandwidth required to access such tests. ICT can enhance and expand service provision and agency capability, but suggestions that it reduces costs, particularly in the very remote context, should be viewed with caution. Technology developments and changing expectations about how services are delivered or performance assessed continue to evolve, it will likely increase not diminish regional cost gradients.

Non-wage cost adjustments for capital cities

- 23.30 In the 2015 Review, the Commission made a judgement-based decision that a 50 per cent discount should be applied in relation to non-wage costs for Darwin. This reduced the regional costs allowance for Darwin by \$55 million or over \$400 per resident.⁴⁵ A downward adjustment was also made to Hobart (about \$140 per resident) while regional costs were increased for Canberra and Perth (about \$80 and \$40 per resident respectively).⁴⁶
- 23.31 The adjustment reflects the Commission's belief that Darwin and Hobart have some of the attributes of capital cities while Perth and Canberra have some of the attributes of inner and outer regional areas. Commission staff intend to recommend the continuation of these adjustments, with the same values, indexed from 2011-12 for growth in total state expenses.
- 23.32 The Northern Territory strongly objects to the adjustment for Darwin. The per capita impact is disproportionate and there is little conceptual or quantitative evidence to

⁴⁴ Bureau of Communications and Arts Research. *Trends and drivers in the affordability of communications services for Australian households*. Canberra: Commonwealth of Australia, 2017. Accessed on 24 August 2018 at <https://www.communications.gov.au/documents/trends-and-drivers-affordability-communications-services-australian-households-0>.

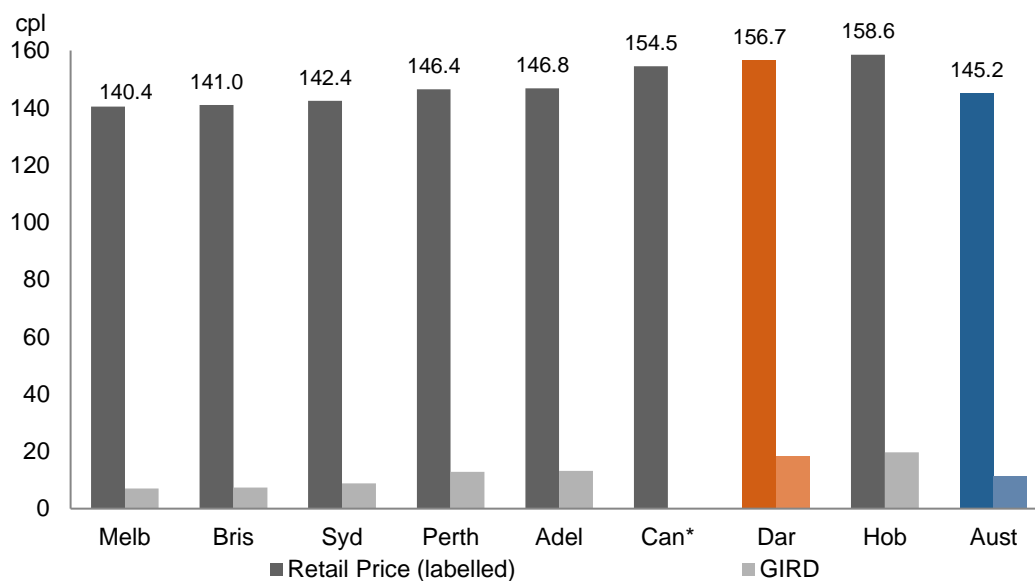
⁴⁵ ABS. *Australian Demographic Statistics, December quarter 2017*. Catalogue no. 3101.0, 2018. Accessed on 24 August 2018 at <http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/3101.0Dec%202017?OpenDocument>. Based on 2011 Greater Darwin population.

⁴⁶ Ibid. Based on 2011 Greater Hobart, ACT and Greater Perth populations.

justify the adjustment. Darwin is the smallest capital city and more isolated than other similar sized regional centres. The nearest capital city to Darwin is Adelaide, 32 hours away by road.⁴⁷ Even Perth is closer to Adelaide (28 hours).

23.33 Darwin is not like other capital cities, having a narrow production and manufacturing base, which is largely based around mining-related processing (LNG production). Goods, equipment, parts and other inputs are predominantly shipped from interstate capitals. Basic commodities are more costly, for example, the price of unleaded fuel in Darwin was second only to Hobart in July 2018 (Figure 23.1).

Table 23.1 – Retail unleaded price (cents per litre) and gross indicative retail difference (monthly average) by capital city, July 2016



*No fuel import terminal in Canberra

Source: Northern Territory DTF analysis of Australian Institute of Petroleum data.

23.34 Darwin also lacks the extent and breadth of commercial and social infrastructure found in other capitals. Consumer choice and commercial competition is limited.

23.35 Darwin’s circumstances are clearly not similar to other major cities, as such the non-wage adjustment should be discontinued.

⁴⁷ Google Maps. 2018. Accessed on 24 August 2018 at <https://www.google.com.au/maps/dir/Darwin,+Northern+Territory/Adelaide,+South+Australia/@-23.4189252,125.6983434,5z/data=!3m1!4b1!4m14!4m13!1m5!1m1!1s0x2cc0a0fc9f59043f:0x30217a82a247c20!2m2!1d130.8456418!2d-12.4634403!1m5!1m1!1s0x6ab735c7c526b33f:0x4033654628ec640!2m2!1d138.6007456!2d-34.9284989!3e0>

Administrative Scale

The Northern Territory:

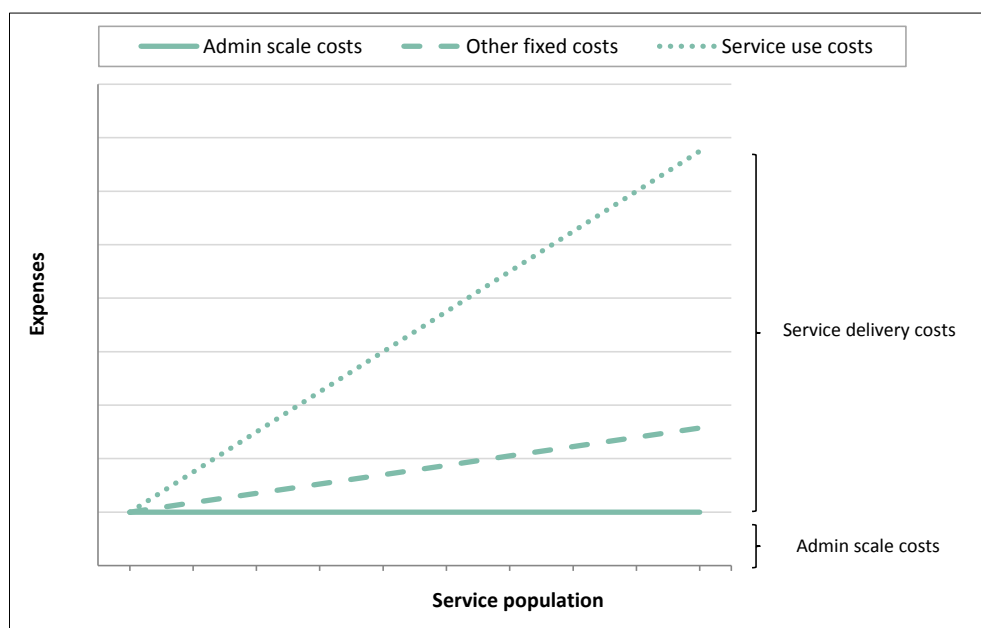
- Considers the conceptual case for the administrative scale disability and its definition is settled and does not require further examination in the 2020 Review.
- Agrees the appropriate focus for the 2020 Review is to re-calculate the quantum of administrative scale expenses, with these last estimated in the 2004 Review.
- Contends that the quantum should be higher reflecting changes in the nature and use of ICT and increased legislative and reporting requirements and collective government activity.
- Considers that preliminary estimates of staffing requirements for administrative scale expenses are too low. Using Education as an example, the Commission's preliminary estimate of 133 staff is well below minimum staffing estimates of over 200 staff by the Northern Territory and the Australian Capital Territory.
- Contends that the minimum fixed costs of ICT infrastructure have only been partially captured in the preliminary estimates and the following additions are required:
 - An increase in minimum staffing for agency specific ICT functions.
 - An increase in minimum staffing for the whole of government ICT strategy and policy function and application of higher staff classifications.
 - Addition of an ICT function for policing services.
 - Inclusion of functions for whole of government data centre services and corporate systems support.
- Does not support discontinuation of the NT adjustment for 'dual' service delivery.
- Is of the strong view that the NT adjustment for Education, Health, Welfare, Housing and Services to Communities should be retained and the adjustment be expanded to recognise additional functions in the Department of the Chief Minister and Northern Territory Police.

24.1 The administrative scale disability is important for the Northern Territory and other small jurisdictions. It recognises that the minimum cost of core head office functions and other services provided for the whole of the state must be spread over a smaller number of residents resulting in higher per capita costs. The conceptual case for the disability is clear and the definition of administrative costs, established in the

2015 Review, has been retained for the 2020 Review and does not require further examination.

- 24.2 The Northern Territory notes that administrative scale is not an assessment of all staffing and other resources associated with head office or whole of state services or other non-front line services. Rather, it is an assessment of minimum fixed costs which do not vary with service populations. This distinction is usefully depicted in *Staff Draft Assessment Paper CGC 2018-01/24-S – Administrative Scale* and replicated in Figure 24.1.

Figure 24.1 – Graphical depiction of administrative scale costs



Source: Commonwealth Grants Commission

- 24.3 The re-estimation of the quantum of administrative scale costs, represented by the solid green line in Figure 24.1, is a major element of the 2020 Review work program. The Northern Territory acknowledges and supports the work that has been undertaken by Commission staff to progress this issue. Administrative scale expenses were last estimated about 15 years ago and since then there have been changes in the way that governments do business and interact with clients as well as other governments. Accordingly, indexed estimates in the 2018 Update are not expected to reflect current minimum fixed costs.
- 24.4 The staff draft assessment paper and an earlier staff research paper⁴⁸ provide preliminary estimates of minimum staffing structures and associated costs for major

⁴⁸ Commonwealth Grants Commission. *Staff Research Paper CGC 2017-06-S – Administrative Scale: Proposed approach to estimating administrative scale costs for the 2020 Review*. 2017. Available at: https://cgc.gov.au/index.php?option=com_content&view=article&id=268:r2020-staff-research-paper-on-the-proposed-approach-to-estimating-administrative-scale-costs-for-the-2020-review-april-2017&catid=83&Itemid=561.

functional areas. While the Northern Territory supports the process undertaken to derive the estimates, it considers that the preliminary estimates of staffing requirements (and thus administrative scale expenses) are too conservative. The Northern Territory is also concerned by suggestions that the current adjustments, which recognise additional administrative scale expenses driven by the Northern Territory's unique socio-demographic profile (NT adjustments), may be discontinued.

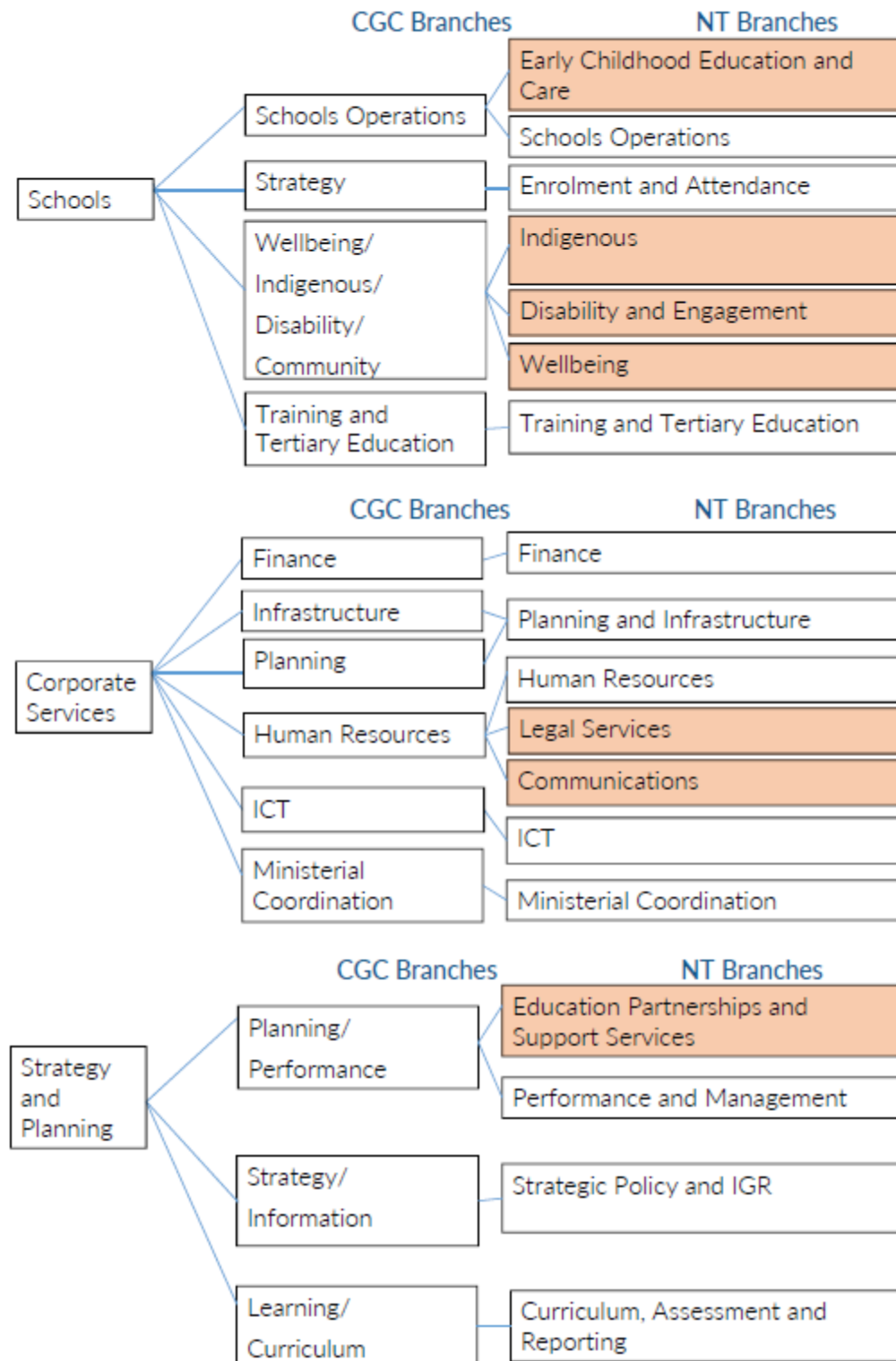
- 24.5 The staff draft assessment paper notes the Northern Territory's argument that the scope of administrative scale expenses should include the minimum level of ICT infrastructure required to run a bureaucracy including requirements specific to certain agencies (most notably health and education) and seeks further evidence on the nature and extent of these expenses.
- 24.6 This chapter addresses each of these matters. First, it compares Northern Territory and Commission staff estimates of the minimum staffing structure using Education as the example. Comments are also provided on issues raised in the staff draft assessment paper regarding costing, indexation, wage cost and presentation of administrative scale expenses. The chapter then informs on ICT infrastructure functions and costs relevant to the minimum structure. Finally, retention and expansion of the NT adjustment is discussed.

Preliminary estimates of Administrative Scale expenses

- 24.7 As the smallest state, the Northern Territory sought to validate preliminary estimates of the minimum staffing structure provided in the staff research paper in 2017. The Northern Territory DoE undertook an exercise, using a bottom up approach, to determine the minimum skillsets and functions required for an Education head office. This approach identified a minimum staffing structure of over 200 staff compared with a head office structure of over 800 staff.
- 24.8 The estimate is substantially higher than the preliminary estimate by Commission staff of 133 staff. To understand where differences arise the Northern Territory's structure was mapped to the preliminary stylised structure, with the following outcomes:
- The proposed structure of three divisions (Schools; Strategy and Planning; and Corporate Services) as well as an Office of the CEO appears reasonable.
 - Commission staff allow for a CEO, a head for the Office of the CEO and a personal assistant as well as three divisional managers, each with a personal assistant (a total of nine staff). The Northern Territory's estimate is similar except the CEO and Head of Office each have an assistant (a total of 10 staff).

- Within each of the three divisions, additional branches are required as shown in Figure 24.2. These ensure all relevant functions and staffing can be appropriately captured.

Figure 24.2 – Comparison of minimum staffing requirements for education, Commission staff and Northern Territory structures



- The Northern Territory accepts the Commission’s standardised approach of a head and 0.5 FTE personal assistant for each branch (18 branches which results in 27 staff compared to the Commission estimate of 20 staff).
- Subordinate staff numbers in each of the Northern Territory’s branches varied, but applying a standard approach across branches (as taken by Commission staff) produces 2.5 FTE subordinate managers per branch head, and at least four staff to each subordinate manager (at least 180 staff compared to the Commission estimate of 104 staff).
- This estimate does not account for additional staff relating to NT adjustments. ICT minimum requirements also require further consideration and both of these matters are discussed later in the chapter.

Schools division

- 24.9 As shown in Figure 24.2, the Northern Territory believes the number of branches in the Schools Division needs to be increased from four to seven. Alternatively, this could be achieved by retaining the proposed branch structure and increasing the number of staff to a level equivalent to that of a seven-branch structure, however, the latter would be less transparent.
- 24.10 The first additional branch is Early Childhood Education and Care. Staffing needs associated with this function have grown as the critical importance of the early years to a child’s long-term education, health, wellbeing and social outcomes have been recognised. Minimum functions include leading and guiding development and planning of early childhood education and care services and new programs and resources; and providing strategic monitoring of the market for early childhood education and care. The functions of this group are particularly important in the Northern Territory with Indigenous children a key target group due to their risk of learning and preparedness deficits upon entering school.
- 24.11 This branch has carriage of two National Partnership Agreements – the National Quality Agenda and the Universal Access to Early Childhood Education. It also undertakes policy, program and major reporting for the Australian Early Development Census.
- 24.12 Commission staff have aggregated functions relating to wellbeing, disability, community and Indigeneity into a single branch. The Northern Territory considers these functions to be quite different and proposes a split into three separate branches – Indigenous Education, Disability and Engagement, and Student Wellbeing.
- The Indigenous Education branch is consistent with the Commission’s view that all states have an elevated focus on the Indigenous population.

- The Disability and Engagement branch is responsible for policy, guidelines and planning of services to work with students and their families to maximise access and maintain engagement across the schooling continuum (starting school, moving between schools and exiting schools to post-school pathways).
- Student Wellbeing branch is responsible for the planning, policies, strategies and curriculum development to teach healthy, resilient and protective behaviours. This function has grown in importance in recent years, partially as a result of growth in social media and cyber bullying.

24.13 In addition to the branches and associated staffing proposed above, the Northern Territory has a further need for additional staff in the Schools Division. The additional staff are required due to the concentration of Indigenous students, particularly in remote communities, and their complex and multidimensional needs, and ensure that the education environment is culturally-safe and appropriate for children who have been raised in a traditional environment.

24.14 Specific programs such as the Northern Territory's Families as First Teachers and place-based models aim to address these issues and location specific needs. These models are relevant to the NT adjustment, which is discussed later in this chapter.

Corporate services division

24.15 The Northern Territory believes legal and corporate communications functions are not currently captured in the proposed minimum structure for the Corporate Services Division and should be added as separate branches. Legal Services provide legal support and advice to schools and regional and head office staff on matters arising from departmental operations. They represent or arrange for the representation of the department before a range of courts and tribunals and prepare or assist in the preparation of legal documents.

24.16 Corporate communication services provide support, advice and coordination to the department for media management, internal and external communications, website management, branding and strategic marketing and document production. This area has grown in importance in line with society's increased expectation for electronic interaction.

24.17 The Corporate Services Division includes an ICT branch. The Northern Territory considers this to reflect functions associated with education specific ICT, not corporate ICT. This issue is discussed further in the section on ICT infrastructure along with comments on the adequacy of staffing estimates for ICT functions.

Strategy and planning division

24.18 The Northern Territory believes that an Education Partnerships and Support Services branch should be added to the Strategy and Planning Division to recognise functions associated with international education, non-government schools education and

higher education partnerships. These functions include assistance with and co-ordination of regulatory, statutory and policy functions, funding and the development of agreements. This head office function is distinct and does not appear to be incorporated elsewhere in the minimum structure.

Costing of preliminary estimates - education

- 24.19 Commission staff cost the Education minimum staffing structure (133 FTE) at \$16.7 million. Staffing costs are estimated to be 60 per cent of total administrative scale expenses (non-staffing costs of 40 per cent). Accordingly, total administrative scale expenses are estimated at \$27.8 million⁴⁹ plus a further \$1 million for the teacher registration board (\$28.8 million total). The staff draft assessment paper shows this is an increase of 6 per cent on administrative scale costs in the 2018 Update for Education of \$27.1 million.
- 24.20 The Northern Territory questions the validity of this comparison. In the 2018 Update, wages costs are applied to 80 per cent of administrative scale expenses (non-staffing costs of 20 per cent) rather than the 60 per cent used in the revised estimate (the reasons for this change are discussed further in the next section). It means that the underlying staffing cost from the 2018 Update is \$21.7 million⁵⁰. This amount is well above the \$17.7 million preliminary estimate (including teacher registration board expenses) by Commission staff for the 2020 Review. The preliminary estimate of minimum staffing is in fact a decrease of nearly 20 per cent on the 2018 Update costs. This result is inconsistent with developments in the average machinery of government for Education over the last 15 years.
- 24.21 Commission staff appear to have captured some change in the administrative structure for Health, however, it is not as extensive as portrayed in the staff draft assessment paper. Analysing the preliminary estimates for Health in the same manner shows that the preliminary estimate by Commission staff is 10 per cent higher than the estimate in the 2018 Update (\$21.2 million compared with \$19.2 million)⁵¹, substantially less than the 47 per cent increase if total expenses including non-staffing costs are compared (\$35.2 million compared with \$24 million).
- 24.22 This analysis provides further evidence that the approach used by Commission staff is underestimating the minimum staffing structures for the administrative scale disability. The Northern Territory has provided the Commission with detail on head office organisational structures, staffing and pay rates for its key agencies. These should assist Commission staff in revising the preliminary estimates to ensure all

⁴⁹ Calculated by dividing \$16.7 million by 0.6.

⁵⁰ Calculated by multiplying \$27.1 million by 0.8.

⁵¹ Preliminary estimate of staffing costs - \$21.2 million (\$23.5 million less 10%). 2018 Update total expense of \$24 million – staffing cost proportion: \$19.2 million (24*0.8).

relevant functions are appropriately accounted for and that a sufficient level of minimum staffing has been determined.

Staff and non-staff costs

- 24.23 The Northern Territory notes that Commission staff will be further investigating the proportion of non-staff costs. As noted above, staffing costs currently comprise 80 per cent of administrative scale expenses. This aligns with marginal costs based on the Commonwealth template used in preliminary estimates, however, Commission staff are concerned that marginal costs may understate costs. Based on the average costs of the Productivity Commission's data on out-of-school staff expenses and data from Commonwealth departments of health and education, Commission staff suggest the split should be about 60:40 rather than 80:20. The 60:40 split of staff and non-staff costs were used for the preliminary estimates of administrative scale expenses.
- 24.24 The Commonwealth templates make explicit the nature of non-staff costs. There is less clarity with the average cost approach and these costs may capture influences beyond those related to the stylised minimum structure. The Commission's stylised structures are also dominated by management positions and the higher salaries associated with these positions may mean that the staff to non-staff ratio is higher even when based on average costs. These issues suggest that the ratio is likely to fall between the two estimates, which aligns with evidence from New South Wales (ratio of 75-77:25-23) presented in the staff draft assessment paper.
- 24.25 Regardless, the Northern Territory's principle concern is the adequacy of staffing numbers in the minimum structure. These are currently insufficient and the Northern Territory is concerned that this deficiency has been masked by an increase in the staff to non-staff cost split.

Indexation and presentation of expenses

- 24.26 As noted in the staff draft assessment paper, estimating scale expenses is resource intensive and not feasible on an annual basis for Updates. The Northern Territory supports indexing the final estimates from the 2020 Review using the ABS state and local government final consumption expenditure deflator as a practical solution for ensuring the estimates are adjusted at least for inflation.
- 24.27 Commission staff are seeking views on whether administrative expenses should be included in a component of the Other Expenses category, as is currently the case, or separately identified in each expense category. Inclusion in the Other Expenses category as a single assessment is simpler and aligns with the nature of the disability, namely, minimum functions as a whole are important not the individual parts.
- 24.28 While inclusion in the Other Expenses category results in a misalignment between category expenses and ABS government finance statistics publications, the difference

could be addressed by inclusion of a footnote to relevant tables rather than through a separate, small component in each expense category. Alignment with ABS figures is less critical than recognition of the disability, which is important by the nature of the entirety of expenses. This would be lost by splitting expenses among categories.

ICT infrastructure

24.29 The scope of administrative scale expenses should be broadened to capture the following ICT infrastructure functions:

- Client management and other agency specific ICT in key service agencies – Education; Health; Police and Justice/Attorney-General.
- Whole of government ICT strategy and policy.
- Whole of government ICT infrastructure.

ICT Specific to an agency

24.30 Since the last time administrative scale was fully examined there has been a significant change in agencies' reliance on ICT to manage clients and business performance. Client expectations have also driven requirements for more accessible information on service provider performance (e.g., MySchool and MyHospitals websites) and for providers to have electronic access to personal records across service locations. Key agencies – Education, Health, Police and Justice – have specialised client management and other specialised ICT systems to support these requirements.

24.31 In the minimum administrative structure, there should be a specific ICT branch for these key agencies. Branch functions relate to the operation of hardware (e.g., mainframes, servers) that agency specific systems run on; management and support for the applications (software) running on the hardware; and input, cleaning, processing and managing of data to ensure it is in a form suitable for users. Data users are located elsewhere in the administrative scale minimum structure including policy and planning branches and corporate service divisions.

24.32 For Education and Health, the Commission's preliminary estimates allow for 9.5 FTE in the ICT branch (one branch head, 0.5 FTE personal assistant, and two managers with three staff each). For Justice/Attorney-General's, the minimum structure suggests only four FTE for ICT functions. The Northern Territory considers these are an underestimation of the actual minimum requirement.

24.33 Northern Territory data indicates minimum estimates for Education ICT staffing of at least 14.5 FTE may be more appropriate. Further, it is reasonable to expect that the minimum requirement in Health would be even greater given the more complex service environment (e.g., hospital and primary health care systems) and the extra overlay of clinical costing systems.

- 24.34 ICT functions in the Department of Justice/Attorney-General relate to offender management systems for courts, corrections and prisons. These systems interface with the police client management system, but are separate systems in their own right. It is not clear why Commission staff have estimated a substantially smaller ICT function for Justice/Attorney-General than for Education. These ICT functions should be reviewed using data returns from the smaller jurisdictions on head office staffing.
- 24.35 Policing services have separate ICT needs to those in Justice/Attorney-General departments. This need has not been recognised in the Commission's proposed Police minimum structure. The Police Real-time Online Management System (PROMIS) is a case management system containing information on crime incidents and victimisation. Additionally, there are specialised ICT needs, for example, firearm licensing and registration systems; speed camera and traffic infringement technology; CCTV; interview recording; body-worn cameras; and analogue and digital radio networks. Given the specialised nature of this ICT and associated support functions, the Northern Territory is of the view that recognition of a separate ICT branch is required in the Police minimum structure.

Whole of Government ICT strategy and policy

- 24.36 The second aspect of ICT infrastructure minimum functions relates to whole of government ICT strategy and policy. In the Northern Territory, this function is delivered by the Office of Digital Government (ODG) in the Department of Corporate and Information Services (DCIS) and includes:
- Development of digital policies and standards related to ICT and oversight, assurance and coordination of the government's investment in improving remote telecommunications with suppliers and major ICT projects.
 - Website development and management, including enhancement of the government's web presence (internet and intranet).
 - Cyber strategy advice and analysis as well as coordination of cyber security actions and development and management of the cyber security framework.
 - Leading the move to open data and cross-government sharing of data.
- 24.37 Commission staff have included this function in the Department of Treasury/Finance minimum structure, allocating seven staff positions. This is about a quarter of the number of staff in the Northern Territory's structure (27 staff). Further, staff in ODG tend to have higher classifications/pay scales. Out of the 27 staff, only seven (26 per cent) have a pay scale equivalent of APS6 or lower compared with four out of seven (57 per cent) in the preliminary minimum structure. This likely reflects the technical expertise required for the associated ICT roles, which mean staffing costs are higher than allowed for under the Commission's generic costing approach.

24.38 The Northern Territory recommends that Commission staff reassess the adequacy of initial estimates of the minimum structure for whole of government ICT strategy and policy functions.

Whole of Government ICT infrastructure

24.39 The Northern Territory believes that the current minimum structure does not allow for the ICT infrastructure that underpins corporate services across government. Being a small jurisdiction, the whole of government ICT infrastructure is a single data centre and an associated corporate systems support function.

24.40 The Northern Territory Government Data Centre facility operates the hardware (e.g., mainframe computing, servers, data storage network) that support daily electronic transactions across whole of government applications or systems. These include the government accounting system; payroll, identity management and other HR systems; web systems and management systems for assets, electronic records, fleet systems (vehicle booking system and fleet business system) and other corporate functions.

24.41 The Data Centre operates 24 hours a day, seven days a week in a highly secure facility. While a single facility is the 'minimum' structure, it is a risk given the dependency on electronic transactions. Accordingly, a separate new centre is being established in the Northern Territory to provide improved resilience and disaster recovery capability for critical government ICT services. The cost of the Data Centre operations was \$24.7 million in 2016-17 reflecting both employee and operational costs. Staffing numbers for the Data Centre are 61 FTE.

24.42 ICT Corporate Systems Support is a division that supports all of the whole of government applications or systems hosted by the Data Centre. Its functions include updates, fixes and improvements, developing and implementing system changes, system error management and help desk functions. The cost of Corporate Systems Support was \$25.4 million in 2016-17 (employee and operational costs). Staffing numbers were 95 FTE.

24.43 The Northern Territory argues for the separate recognition of these costs in the Administrative Scale disability. DCIS advise that these represent the minimum whole of government requirement and are an efficient structure. The efficiency in part stems from having the Data Centre and ICT Corporate Systems Support servicing the entire Northern Territory Government's needs (i.e., providing a whole of government service) rather than an array of separate agency-based units.

24.44 A further issue is how the Commission's assessments account for the cost of the ICT hardware and software assets. The Northern Territory has scheduled replacement ICT systems for three key agencies – Police, Health and Territory Families. The replacement cost for PROMIS (police) is budgeted at \$45 million. The Core Clinical Systems Renew Program will replace the Department of Health's four existing clinical IT systems with a single solution, at a cost of \$259 million. The Northern Territory

Government has also budgeted \$66.9 million for Territory Families' Client Management System Alignment project, which will deliver a new client information system, which will help staff make informed decisions to keep children safe from abuse and harm as well as link with health and police databases to allow for coordinated action by agencies.

- 24.45 It is not clear how these costs are captured in the Infrastructure assessment. Further, the driver of change is not population growth. Rather, the need for change reflects factors such as the age of existing systems, evolution in technology and changing expectations for the availability of data, electronic interactions and the timeliness of information and equipment (slow system response times are no longer well tolerated). The cost of ICT renewal may not directly link to the size of the population, but the cost is still spread over a smaller number of residents in jurisdictions such as the Northern Territory.

NT adjustment

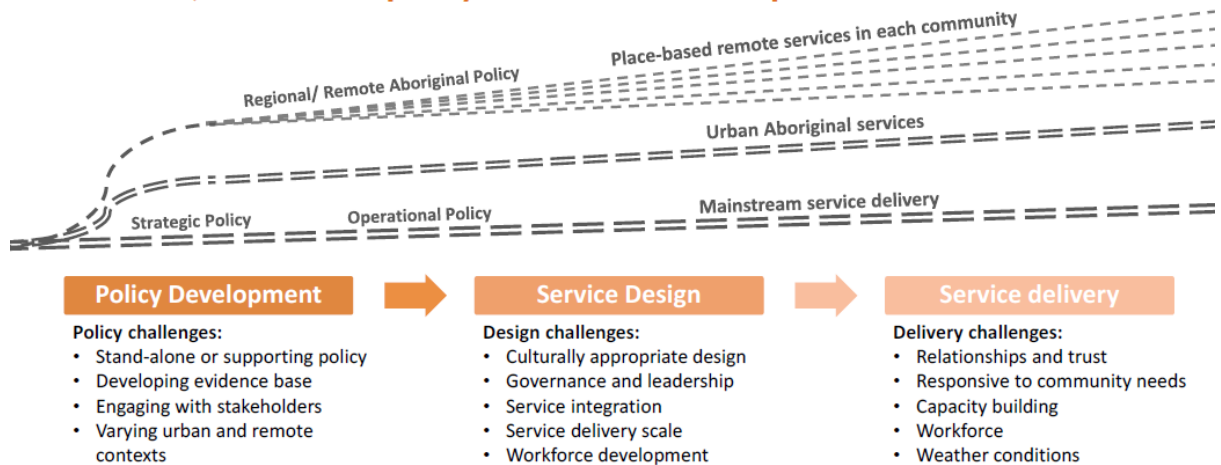
- 24.46 The Northern Territory is deeply concerned by the suggestion in the staff draft assessment paper that the NT adjustment be discontinued because other jurisdictions now have an elevated focus on Indigenous populations.
- 24.47 The Northern Territory does not disagree that there has been a marked increase in governments' focus on the Indigenous population since the last review of administrative scale expenses, driven by initiatives aimed at Closing the Gap and dramatic growth in Indigenous identification in southern states. While attention has always focussed on the needs of the Indigenous population in the Northern Territory, even its efforts have been influenced by national initiatives. However, the Northern Territory still has greater Administrative Scale needs compared to other jurisdictions, which are not simply due to the size of its Indigenous population, as a proportion of the total Australian Indigenous population.
- 24.48 Although Indigenous Territorians comprise nine per cent of the national Indigenous population, it is the extent of the Indigenous population in proportionate terms within the Northern Territory that is important. The NT adjustment is also about more than just the Indigenous population – remoteness also matters. The NT adjustment reflects the need to provide services differently (termed 'dual' service delivery models by the Commission) due to the Northern Territory's unique demographic profile:
- 30 per cent of Territorians are Indigenous; the next highest population proportion is Tasmania at six per cent.
 - 40 per cent of Territorians live in remote or very remote locations; the next highest population proportion is Western Australia at six per cent.

- 24.49 These characteristics and the interaction between Indigeneity and remoteness (80 per cent of Indigenous Territorians live in remote areas) mean that service delivery models must be designed to meet the specific needs of these populations as mainstream users in order to be effective. Mainstream models supplemented by additional services will not achieve outcomes comparable to those for non-Indigenous, non-remote populations.
- 24.50 While it might be easy to classify needs in terms of 'Indigenous specific' functions in the minimum administrative scale structure, the Northern Territory has moved beyond that point. Considering how strategies, policies, plans and service delivery approaches need to be tailored to suit the needs of Indigenous clients and delivery in the remote context is "everyone's business". As a result, the level of additional resources required to develop service delivery models for these populations are not always easily identified within head office structures, as Indigenous and remote people are often the predominant client base.
- 24.51 It is hoped that discussions with agencies during the June visit will have evidenced the specific nature of service delivery models for remote and Indigenous populations, but also the compounding impact of the proportionate size of these populations. The implications for service provision and supporting head office functions are very different when, for example, two thirds of government schools have half or more of their students who are Indigenous or Indigenous patients comprise more than half of patients in all hospitals. These circumstances are mirrored across the Northern Territory's service agencies and are unparalleled in any other jurisdiction.
- 24.52 NT adjustments in the administrative scale disability for Education, Health, Welfare, Housing and Services to Communities should be retained. The Northern Territory also argues that the NT adjustment should be extended to the Department of the Chief Minister (DCM) and to Northern Territory Police in recognition of additional functions, particularly in relation to regional coordination and engagement with remote Indigenous communities.
- 24.53 For remote Indigenous communities, service delivery models must be tailored to the needs of the community. There is not a one size fits all (dual) model; rather, a place-based approach (Figure 24.3) is important for the success of policies and programs across government agencies, and in the case of policing, for crime and harm minimisation. The place-based approach recognises that remote Indigenous community needs are not homogeneous, instead they differ due to the influence of language, culture, community cohesion, governance and leadership capability, locational and other factors.
- 24.54 Building relationships and trust and engaging with individuals, particularly traditional owners and elders, the broader community and service providers is critical to

informing policy, developing service models and delivering outcomes. For example, building a preschool will require extensive consultation about the proposed site, operation of the facility, workforce and community informed decisions about services. Similarly, working with community elders and other stakeholders is important to maintain law and order in communities such as Wadeye where factional differences (over 20 regional clans) contribute to tension and unrest.

Figure 24.3 – Place based service delivery model

Meeting Aboriginal needs in urban and remote contexts requires tailored, multi-track policy and service development



Source: DCM

24.55 DCM supports all levels of government, regional stakeholders and Indigenous communities through its Office of Aboriginal Affairs, Aboriginal Land Strategic Policy and Regional Network functions (combined staffing of over 50 FTE). These work units provide policy leadership; policy and service delivery coordination; local decision-making support; stakeholder engagement and relationship management; economic development facilitation and crisis management. The extent of these functions in the Northern Territory is a reflection of the diversity and complexity of remote Indigenous communities and the challenge this presents in implementing services, programs and initiatives. These functions should be recognised through inclusion of an NT adjustment in the average Parliamentary and Premier’s Department administrative scale structure.

24.56 The Northern Territory also argues for inclusion of an NT adjustment in the average Police Department structure. Policing in the Northern Territory’s Indigenous communities shares characteristics with policing in similar locations in other jurisdictions in terms of core policing activities of protecting life and property, preventing and detecting crime, upholding the law and maintaining social order. However, heterogeneity among remote Indigenous communities, their extent (in proportionate terms) and the issues of distance and isolation means that solutions to

problems and policing models are different in the Northern Territory and also differ between communities within the Northern Territory.

- 24.57 Aboriginal Community Police Officers (ACPO) based in Indigenous communities are significant to the success of police service delivery in remote communities providing local language skills and cultural knowledge, facilitating engagement with community leaders and providing continuity between rotations of police staff. In addition to the ACPO role, there are centrally based officers⁵² with specific community engagement skills who work with communities to resolve issues, develop strategies and supporting processes that allow community elders to take control and develop solutions to resolve issues. Similarly, highly specialised resources such as the Northern Territory's Tactical Response Group also have additional functions (compared to like resources in other jurisdictions) including a community liaison role.
- 24.58 Northern Territory Police have also been at the forefront of developing and implementing initiatives to address the impact of alcohol misuse. Alcohol misuse is a significant driver of crime associated with more than half of domestic violence incidents, a high proportion of assaults and it is a substantial contributor to child abuse and neglect. It has particularly devastating impacts on the Indigenous population with harms concentrated in that population.
- 24.59 The Northern Territory Government has a long history of efforts (e.g., supply restrictions, pricing mechanisms, mandatory treatments, health promotion activities) to tackle alcohol misuse. As part of this, Northern Territory Police initiated Point of Sale Interventions (POSIs) in 2012 as a harm minimisation tool. POSIs reduce alcohol-related harm by restricting the supply of alcohol, promoting compliance with alcohol protection orders, domestic violence orders, bail conditions and the *Liquor Act*, particularly in relation to the unlawful consumption of alcohol in liquor restricted areas. POSIs work by restricting the supply of alcohol with police officers placed outside takeaway liquor outlets to question customers and, where they are unable to provide a satisfactory answer about where they plan to consume the alcohol, prevent the sale.
- 24.60 POSIs have been successful in reducing harm in regional centres, for example, achieving a reduction of about 60 per cent in assaults in Tennant Creek in 2014. The number of assaults has risen since that time, but levels still remain well below historical averages. This reflects the fact that while successful, supply restrictions such as POSIs lead to avoidance measures including movement of problem drinkers to places where alcohol is more accessible, 'grog' running and other illegal activity. Implementing POSIs also comes at the expense of other specialised policing work.
- 24.61 In 2017, the Northern Territory Government commissioned the Alcohol Policies and Legislation Review, led by Hon Justice Trevor Riley, to deliver a cohesive approach to

⁵² I.e., they are based in regional centres, attending communities on a needs basis.

alcohol harm reduction. The Review Report provides 220 recommendations on reforms to alcohol policy and legislation covering whole of Government, regulatory, harm minimisation and harm management reforms. All but one recommendation has been accepted, giving rise to a significant program of legislative, policy and planning work. Outcomes to date include:

- A \$12 million initiative in the 2018-19 Budget for a 97 member strong unit within Northern Territory Police including new Police Auxiliary Liquor Inspectors to undertake the POSI role. This will free up police officers to attend other work in remote areas.
- Re-establishment of the Banned Drinker Register program, which identifies people who are banned from purchasing takeaway alcohol and prevents them from buying it.
- Introduction of a minimum unit price for alcohol (minimum floor price) aimed at minimising the harms associated with excessive consumption of cheap alcoholic beverages.

24.62 Work associated with implementation of the Riley Review recommendations and monitoring and review of outcomes of initiatives is an on-going work program. Work associated with alcohol related legislation, policy and planning requires across government effort, and is a further example of the distinctive service delivery models implemented in the Northern Territory. It is argued that this function should be recognised, along with the need for place-based policing models through an NT adjustment in the Police Department minimum structure.

Research functions and support

24.63 The focus for the NT adjustment has primarily been on additional policy, planning, engagement and coordination functions arising as a result of the Northern Territory's unique demographic and geographic profile. The Northern Territory also has an above average need to invest in research, particularly in relation to health.

24.64 The Northern Territory Department of Health's (DoH's) Health Gains Planning Unit (10.4 FTE) is a centralised service for statistical analysis, research and reporting. It prepares health/wellbeing, epidemiology and economic information to inform policy, funding and service planning, particularly in relation to Indigenous health. DoH also supports research through funding for Menzies (\$9.9 million in 2016-17), which is a national leader in remote Indigenous and tropical health research. Menzies' research and evaluation programs provide evidence and guidance for improving service delivery and health outcomes for Indigenous Territorians.⁵³

⁵³ For further information on the Menzies' research program, see <https://www.menzies.edu.au/page/Research/>.

- 24.65 Internally, DoH sponsors smaller scale projects through its Aboriginal Health Innovation Sponsorship Fund. Projects involve DoH staff working in partnership with stakeholders on initiatives aimed at improving health outcomes for Indigenous Territorians. For example, the Fund sponsored a collaboration between speech pathologists and Aboriginal Liaison officers at Alice Springs Hospital, the Poche Centre for Indigenous Health and the NPY Women’s council to develop a culturally appropriate health education tool to address dysphagia (difficulty swallowing). The project developed a video, which was produced in five Central Australian Indigenous languages, and supporting materials including posters and flyers.⁵⁴ Speech pathology staff use these resources on iPads for patient education and health staff can download supporting materials from the DoH intranet for patients.
- 24.66 The Northern Territory argues for recognition of these additional costs as part of the NT adjustment. The need for an above average investment in health research reflects both the specific Indigenous and geographic characteristics of the Northern Territory, but also the diversity within its Indigenous population and their significantly poorer health outcomes compared with the Australian Indigenous and non-Indigenous populations.⁵⁵

⁵⁴ Northern Territory Government. *New culturally appropriate video supports safe eating and drinking*. Media Release, 22 August 2017. Accessed on 24 August 2018 at <http://mediareleases.nt.gov.au/mediaRelease/23576>.

⁵⁵ Refer interstate comparisons of life expectancy, diabetes and renal disease evidenced at Alice Springs visit.

Other Disabilities

The Northern Territory:

- Considers the Commission should continue to assess the native title component on an APC basis as states' have limited influence on these expenses.
- Considers a policy neutral assessment based on native title factors appropriate for assessing land rights expenditure needs, noting its views on the native title assessment, should expenditure in other states be material.

25.1 *Staff Draft Assessment Paper CGC 2018-01/25-2 – Other Disabilities* makes proposals under three separate disabilities:

- cross-border disabilities
- national capital allowances
- native title and land rights.

25.2 The Northern Territory notes the cross-border disabilities and capital allowances proposals are applicable to the Australian Capital Territory and New South Wales. The following discussion focuses only on issues in relation to native title and land rights.

Native title and land rights

25.3 The native title and land rights assessment currently recognises costs incurred under two distinct pieces of legislation, the Commonwealth's *Native Title Act 1993* (NTA) and the Commonwealth's *Aboriginal Land Rights (Northern Territory) Act 1976* (ALRA). Assessments for these two components are made on an APC basis given there is no policy influence as states need to spend is determined by Commonwealth legislation and they have little influence on their expenses.

Native title assessment

25.4 The Northern Territory does not support the view presented by the Australian Capital Territory that an APC assessment is no longer appropriate given states' shifts towards negotiation and away from litigation of native title issues, enabling state policy influences to permeate. The Northern Territory concurs with the view of Commission staff that this move is the result of states endeavouring to reduce costs through negotiation and more efficient claims processes, with the underlying policy intent remaining unchanged, and is therefore not problematic for the assessment.

- 25.5 Commission staff have, however, suggested that the annual collection of states' native title expenses is complex and that alternative assessment options could be investigated that do not involve an annual data collection. These options include:
- retaining the APC assessment, updating states expenses annually by applying an appropriate deflator
 - assessing states expenditure needs using a broad indicator, such as Indigenous population shares, and updating annually by applying an appropriate deflator
 - allocating states native title expenses to the Indigenous community development component of the Service to Communities category, assessing expenses in the same way as the component's other expenses and updating data annually by applying an appropriate deflator.
- 25.6 States have provided native title expenditure data since the introduction of the assessment in the 1999 Review and the data is subject to the Commission's quality assurance protocol. The case for using alternative options with a deflator has not been well formed and in the Northern Territory's view, an APC assessment of native title expenditure is best achieved through the use of states actual data, as it is in other assessments where policy neutrality warrants an APC approach i.e. the assessment of natural disaster expenditure.
- 25.7 While Commission staff specify that a broad indicator of needs, such as Indigenous population shares, could be used to assess expenses, Table 11 of the staff draft assessment paper demonstrates that there is not a strong correlation between actual expenses and Indigenous population shares. For example, in 2016-17 New South Wales had a 7.1 per cent share of native title expenses and 33.4 per cent of the Indigenous population share. This substantial disparity, which fails to show a strong correlation, is also evident for the Northern Territory, Tasmania, Western Australia and Queensland. The reasons for this disparity are not clear, however it may be due to differences within and between states Indigenous populations, with native title having an inherent link to traditional laws and customs and strong connections to the land and water.
- 25.8 It is also unclear whether the alternative options could reliably and appropriately measure native title costs over time. Native title expenses primarily arise from claimants making claims and reflect the complexity of claims. These expenses are dependent on the number and type of claims made and level of compensation awarded. As such, they can be quite volatile and unpredictable in nature. This can be demonstrated by Figure A-1 of the staff draft assessment paper which shows that in 2001-02 the Northern Territory had spent around \$47 per capita on native title, while only \$8 per capita in 2009-10. In the Northern Territory's 2017-18 annual native title data return, volatility is particularly evident in the justice services component. This is

due to the fluctuation of legal costs associated with the number of native title claims and therefore activity, that arises in any one year.

- 25.9 At this stage, the Northern Territory considers the current APC approach to be the most accurate, reliable and therefore appropriate method to assess native title expenditure needs.

Land rights

- 25.10 The land rights expenses component is assessed on an APC basis and consists of costs arising from the negotiation of claims, preparing submissions and challenging claims in the Federal and High Courts. The Northern Territory is the only jurisdiction currently recognised in this component of the assessment.
- 25.11 Since ALRA came into effect, all other states have implemented legislation and/or policies to acknowledge Indigenous land rights. Commission staff identify that recognising Indigenous land rights is therefore average policy, regardless of Commonwealth influence.
- 25.12 The Northern Territory supports the proposal to collect state expense data to confirm whether other states have expenditure needs in this area that should be recognised.
- 25.13 If it is determined that other state land rights expenditure needs should be assessed, and an APC assessment is no longer appropriate given states have different legislative instruments and policies, then the Northern Territory supports the view that a policy neutral assessment based on native title factors would be appropriate. This is because these expenses similarly reflect the Indigenous populations' strong connection to the land, noting the Northern Territory's views on the native title assessment outlined above.

Draft 2020 Review Quality Assurance Strategic Plan

The Northern Territory:

- Supports the Quality Assurance Strategic Plan (Plan) developed by Commission staff for the 2020 Review and is of the view the Plan will ensure robust quality assurance (QA) processes, as required by the 2020 Review ToR.
- Supports the three objectives developed by Commission staff to assist with the implementation of the Plan.

26.1 The *Staff Discussion Paper CGC 2018-3-S Draft 2020 Review Quality Assurance Strategic Plan* contains the Plan developed by Commission staff for the 2020 Review. The Plan sets out the steps Commission staff intend to put in place to quality assure the Commissions' work and to demonstrate appropriate processes have been followed. Commission staff have sought state views on whether the Plan will satisfy the requirement of the 2020 Review ToR for the Commission 'to ensure robust quality assurance processes'.

26.2 The Northern Territory supports the three objectives developed by Commission staff to achieve the implementation of the Plan, specifically:

- Objective one - assure stakeholders of the conceptual validity, reliability and accuracy of the relativities that will be used to distribute the GST to states.
- Objective two - ensure the reporting of methods, decisions and results are transparent and in appropriate detail for their purposes.
- Objective three - monitor and report on the effectiveness of the QA processes implemented.

Objective one

26.3 The Northern Territory agrees with Commission staff's proposed approach to ensure its assessment methods are conceptually sound and accurate, in accordance with the ToRs and use the best quality evidence and data. In particular, the Northern Territory strongly supports ensuring all states are properly consulted on the Commission's work program and the development of assessments. It is noted that ensuring ongoing consultation with states and other relevant stakeholders is also a key aspect of objective two.

26.4 Undertaking internal and external audits of calculations is also supported as a necessary means of ensuring accuracy in what is a complex and substantial assessment process.

Objective two

26.5 In the Northern Territory's view, the Commission's strategies to achieving transparent and appropriate reporting of decisions and results, under objective two, are appropriate and are supported.

26.6 Ongoing consultation by the Commission throughout the 2020 Review process is essential to ensuring all states are kept informed and updated on key issues. The provision of adequate supporting documentation and Commission data enable states to properly consider and comment on potential changes to the Commission's assessment methods. It also assists in the development of an accurate and fit for purpose assessment methodology which properly reflects state circumstances and ensures clarity and transparency in the Commission's decision making processes.

26.7 In the Northern Territory's view, it is essential for the Commission to communicate detailed information on its chosen methods and reasoning, including thoroughly stepping out its assessment processes. This will be particularly important when the Draft Report of the 2020 Review is published in 2019 for consideration by states. The provision of comprehensive detail and supporting documentation is vital to ensuring states have an optimal level of understanding of the Commission's proposed methods to enable comprehensive and informed discussion.

Objective three

26.8 The Northern Territory supports objective three of the Plan. Monitoring and reporting on the effectiveness of the QA process at the completion of the 2020 Review is an essential part of ensuring compliance with the Plan and improving the effectiveness of future updates and reviews.