

2025 Commonwealth Grants Commission Methodology Review

Northern Territory Department of Treasury and Finance
supplementary housing submission



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1. Introduction

The Northern Territory Department of Treasury and Finance makes a supplementary submission responding to housing assessment matters raised in other states' responses to the Draft Report.

The Department reiterates that it strongly supports the Draft Report housing paper. The Department's support was to the Draft Report as a whole, recognising that it is important to make balanced overall assessments of state funding requirements on a range of competing issues, so that if outcomes are broadly agreeable across the assessment methods, it is beneficial to agree as much as possible, particularly given the limited timeframes in the 2025 Review. However, the corollary is that Territory support is conditional on there not being large unexpected changes from the Draft Report.

The population-based housing assessment approach proposed in the Draft Report is fundamentally robust. Population is a conceptually sound assessment method as states provide houses to persons, and the purpose of fiscal equalisation is to provide states with fiscal capacity to deliver an average standard of services to persons. The household approach does not account for persons per house, which is materially impacted by severe overcrowding in the Territory and the non-state sector, as set out in the Department's Tranche 2 submission. This results in an inequitable assessment because the Territory is highly dissimilar to average states.

One simplified and illustrative way of describing "what states do" is to provide an adequate overall mix of total housing, comprising state and non-state houses, until a state-average rate of overcrowding is achieved. A households approach would only be reasonable where overcrowding and non-state stock per capita rates are equivalent between states and regions in states. However, when there are extremely large differences in overcrowding and the non-state stock, as is the case with the Territory and demonstrated in the Department's Tranche 2 submission, the households approach does not provide regions or states with a similar per capita service level, and therefore, does not provide Australians with a similar standard of services, as is required to achieve fiscal equalisation.

As such, any measure of the actual (total or social) household stocks, without an adjustment to equalise each state's non-state sector, will be an inaccurate assessment of "what states do" and imply highly variable rates of houses per person. This was set out in the Department's Tranche 2 submission.

The population approach does not solve all issues in the housing assessment, as set out in further detail below in this response to other state submissions, however, is preferred to the households approach as it at least maintains an equitable ratio of social houses per capita so is a better reflection of "what states do".

1.1. Purpose of housing method change

The main proposed method change in the housing assessment is to depart from a households assessment to an individuals assessment. The Department provides additional comments on the purpose of this change in response to state submissions to the Draft Report, as some states have mischaracterised the intention or effect of the method change.

Several states view the change as intending to recognise higher marginal costs of delivering social housing for overcrowded houses. This is incorrect. The change resolves a large inequity under the households approach which results in lower assessments for states with fewer houses per capita, and particularly, above-average overcrowding.

The below stylised example re-illustrates this issue. The example does not use actual data, but is illustrative of the Territory's remote indigenous circumstances. The relevant actual supporting data and evidence was provided in the Territory's Tranche 2 submission and supported in the Draft Report.

Housing methods illustrative example

	Cohort State A	Cohort State B	Total
A Number of houses	100	85	185
B Number of Social Houses	50	65	115
C Number of non-social houses (A - B)	50	20	70
D Number of people	200	200	400
E Number of people in social houses	100	160	260
F Number of people in non-social houses (D - E)	100	40	140
<i>Current Method (Households approach)</i>			
G Proportion of households that are social houses (B/A)			62%
H Assessed social houses (G * A)	62	53	
I Share of assessed social housing (H/Total B)	54%	46%	
<i>Proposed Method (Population approach)</i>			
J Proportion of persons in social houses (E/D)			65.00%
K Assessed social housing demand (D*I)	130	130	
L Share of assessed social housing (J/Total E)	50%	50%	
M Persons per house (D/A)	2	2.4	
O Persons per social house (E/B)	2	2.5	
P Persons per non-social house (E/B)	2	2.0	

In this example, State B is assessed in the household approach (row I) as requiring 15% fewer social houses than State A, despite having a higher number of persons in social houses and a greater number of social houses. That is, the higher rate of overcrowding and smaller non-state sector disadvantages State B.

This is not conceptually reasonable. There is no case that State B’s social housing costs should decrease as overcrowding increases and the size of the non-state sector decreases. As such, the households approach does not provide capacity for an equivalent standard of services, and must not be allowed to persist beyond the 2025 Review.

The population approach is not subject to the same flaw, and assesses A and B as requiring the same expenses.

The population approach also does not reflect any marginal cost of overcrowding. It does not provide a greater rate of funding for State B, and overcrowding still persists in the population approach, just to a lesser extent than the households approach. As such, the population approach is better described as reversing an under-assessment in the households approach due to overcrowding. Importantly and contrary to various state views it does not:

- positively recognise overcrowding costs
- adjust for impacts of non-state circumstances affecting the proportion of social housing required in the Territory.

The increase in Territory assessed housing expenses in the Draft Report simply corrects the households assessment approach, which penalises the Territory for lower levels of established housing per capita.

For completeness, it is noted that some other states have referenced the Territory's Tranche 2 submission that the above issues could alternatively be resolved by including an overcrowding adjustment. This would be equivalent to uplifting the assessed social stock in State B to offset its lower non-social stock (noting the smaller non-state sector could only be addressed through the state sector, not through a mix of state and non-state housing). This would have an impact in the same direction as the population approach, but a larger increase as it would also equalise total houses per person. The Department did not pursue this further after the Draft Report on pragmatic grounds, noting such an exercise would increase complexity and there is limited time in the 2025 Review to develop appropriate methods and data, and instead considers that the population change in the Draft Report is a sufficient first step for the 2025 Review.

1.2. Non-linear relationship with persons and household sizes

Several jurisdictions have submitted that the population approach is not suitable as there is a non-linear relationship between persons and housing costs. Particularly, some states submit that there are diminishing marginal costs of bedrooms as house size (bedrooms per house) increases, making per capita inappropriate.

The Department submits this is not relevant or material. Differential costs between large and small houses do not impact state assessments unless there is also a difference in the rate of large and small houses between states. The Commission's discussion on gender drivers illustrates this, as while differential gender expense drivers exist, they are not relevant to assessments as all states have similar gender ratios.

In a housing context, populations and houses are disaggregated into geographic and socio-demographic cohorts. For bedrooms per house to be relevant, the rate of large and small houses per person per state would need to be significantly different at this cohort level, and controlling for state policy. For example, the Northern Territory's low-income remote indigenous households would need to be assessed as requiring a different rate of bedrooms per house than the same remote low-income indigenous household living in New South Wales, given equal state policies.

There is no apparent conceptual or evidential basis to expect this should be the case, or be material.

Put another way, the population approach assesses each cohort as requiring the same proportion of households in small and large houses in each state, which is reasonable.

In contrast, the households approach implicitly makes the same assumption, but has the much more serious issue of not controlling for the number of persons per house. It therefore currently assesses that persons in the Territory require far fewer bedrooms per person under average social housing policies than equivalent cohorts interstate, because there are more persons per house in the Territory.

In any event, if this issue requires further consideration, the Department refers to the actual data as set out in its Tranche 2 submission, including:

- Most states, other than the Territory, have similar persons per household.
- The Territory's much larger persons per household in remote indigenous areas is due to overcrowding. It is not due to a larger number of bedrooms. The Territory overcrowding data previously submitted was bedroom-adjusted.
- It is not in any event possible to estimate costs per bedroom, as expenses are not available at a household level.
- If states had materially different household sizes due to some driver, and this impacts costs, the appropriate response is to include that driver, rather than prevent the population approach.