



**Australian Government**  
**Productivity Commission**

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**PRODUCTIVITY COMMISSION**

**INQUIRY INTO HORIZONTAL FISCAL EQUALISATION**

**MR J COPPEL, Commissioner**  
**MS K CHESTER, Commissioner**

**TRANSCRIPT OF PROCEEDINGS**

**AT BROLGA ROOM, NOVOTEL CBD, 100 THE ESPLANADE,  
DARWIN, NORTHERN TERRITORY  
ON WEDNESDAY, 29 NOVEMBER 2017 AT 8.00 AM**

# INDEX

	<u>Page</u>
<b>NORTHERN TERRITORY GOVERNMENT</b>	
<b>MS NICOLE MANISON</b>	<b>371-387</b>
<b>MR CRAIG GRAHAM</b>	
<b>NORTHERN TERRITORY OPPOSITION</b>	
<b>MR GARY HIGGINS</b>	<b>388-399</b>
<b>MR SEAN CONWAY</b>	
<b>NORTHERN TERRITORY GOVERNMENT</b>	
<b>MR CRAIG GRAHAM</b>	<b>399-411</b>
<b>MS JODIE RYAN</b>	
<b>MR ROD APPELEGATE</b>	
<b>MR KEN DAVIES</b>	
<b>NORTHERN TERRITORY AIRPORTS</b>	
<b>MR TOM GANLEY</b>	<b>411-417</b>
<b>AUSTRALIAN HOTELS ASSOCIATION</b>	
<b>MR DES CROWE</b>	<b>417-424</b>
<b>MASTER BUILDERS, NT</b>	
<b>MR DAVID MALONE</b>	<b>425-426</b>
<b>MR LUKE GOSLING</b>	<b>427-428</b>

5       **MR COPPEL:** Good morning and welcome to the public hearing for the  
Productivity Commission Inquiry into Horizontal Fiscal Equalisation. My  
name is Jonathan Coppel, I'm one of the commissioners on the inquiry,  
and I'm joined by fellow commissioner and Deputy Chair of the  
10       Productivity Commission Karen Chester. I would like to begin by  
acknowledging the traditional custodians of the land on which we meet  
today, the Larrakia People. I would also like to pay my respects to elders  
past and present.

15       A little bit on the inquiry process and the conduct of the hearings  
today. This is the second day of two days of public hearings in Darwin  
and it is very well attended public hearings, we've had all told by the end  
of this morning I think 14 participants. And I think that's a record for the  
Productivity Commission on any inquiry for public hearings held in  
20       Darwin, so obviously a topic of great interest to Northern Territorians.

25       We've also held hearings in Perth, Melbourne and Adelaide for this  
inquiry and we will follow through with hearings on Friday this week in  
Hobart. We will then be working towards finalisation of the report which  
will be submitted to the Australian Government next year and participants  
and those who have registered with their interest in the inquiry will be alerted  
when the final report is released by the government, which may be up to 25  
Parliamentary sitting days after the report has been submitted.

30       In terms of the conduct of the hearing, the purpose is to enable us to get  
feedback and allow public scrutiny of the Commission's work to tell us  
where you think we've got it right and where you think we've got it wrong,  
and where we may have had gaps that we haven't addressed that are relevant  
to the terms of the inquiry. We also draw on the public submissions that  
we've received, both pre draft and post draft, and I thank in advance many of  
35       the submissions that have been submitted by stakeholders in the Northern  
Territory post draft.

40       We do like to conduct the hearings in a relatively informal manner but I  
do remind participants that a full transcript is being taken and for this reason  
comments from the floor cannot be taken. However at the end of the  
participants speaking this morning we will have an opportunity for anyone  
who would like to make some brief comments before we close the hearings  
today.

45       A few words on how we conduct the hearings. Participants are invited to  
make a short opening statement. We'd like you to keep those brief, five to

seven minutes, and this will allow us time to raise matters in submissions and on the points in your opening statement in greater detail. We don't require participants to take an oath but participants are required under the Productivity Commission Act to be truthful in their remarks.

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The transcript of today's hearings and other hearings will be available from the Commission's website following the hearings. It takes usually just a couple of days. And also the participants' submissions to the inquiry are also available on the website. We have a number of media representatives here today and they have been briefed by PC staff on the ground rules so they'll be here for the opening statement and when the hearings start the media will - at least the TV media, will no longer be filming. Another requirement that I'm obliged to keep you informed about is the event of an evacuation under our Occupational Health and Safety Legislation. You are advised to leave the room, exit the hotel and follow the instructions of the fire wardens. We're on the ground floor so obviously don't take any lifts to elsewhere in the building.

Now that is the formalities and bit about the process of the inquiry. I would like to invite the first participant, the Treasurer of the Northern Territory, the Honourable Nicole Manison, to first give your name for the record and then if you would like to give a brief opening statement, thank you.

**MS MANISON:** Thank you. Nicole Manison, Treasurer of the Northern Territory. So good morning, Commissioner and Deputy Chair, and welcome to Darwin and the Northern Territory. I would also like to acknowledge we are on Larrakia Country and pay my respects to their elders past, present and emerging. I am joined today at the table by the Under Treasurer, Craig Graham, for the Northern Territory. And I would like to thank you again for travelling to the Territory to hear the views of the Northern Territory Government, business, industry, and community representatives, on the importance of maintaining HFE, horizontal fiscal equalisation, in its current form.

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As you have read in the Northern Territory Government submission into the inquiry, we are, and we will always be, staunch defenders of the current HFE which provides each state and territory with the capacity to provide the same standard to services. HFE ensures equitable capacity for all governments to provide services to their constituents no matter where they live in Australia.

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The Commission's draft recommendations to change the measure of HFE from equal to reasonable seems small enough but it would have far reaching and long term repercussions for every Territorian. If adopted, these changes could permanently reduce the standard of services and infrastructure in the Territory and Territorians would be worse off. This means worse

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roads, fewer teachers, fewer nurses, poorer quality infrastructure to support Territorians, fewer health services, fewer police on the beat. If adopted, these changes will simply make the rich states richer and the poorer jurisdictions like the Territory poorer.

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The policy rationale underpinning the Commission's recommendations are not clear to the Territory. The Commission has made recommendations that look set to benefit one state, or the fiscally stronger states, without any evidence that this will deliver any net gains in terms of economic productivity or efficiency, or social wellbeing of all Australians. We believe the Commission's recommendation around equal to reasonable is at odds with equity and treating all Australians equally, which is the fundamental core of HFE and Australia's Federal system.

10  
15 As the Territory has stated in its submissions, as have many other jurisdictions and contributors to this inquiry, HFE puts all states and territories on a level playing field in service delivery to Australians. The Commission's rationale that HFE has gone too far and that the level of redistribution has exceeded some unstated benchmarks goes against the  
20 fundamental purpose of HFE. HFE was never intended to be a budget balancing item for Western Australia, it is not meant to help states balance their budgets, it is a fiscal mechanism to achieve a social objective.

25 HFE has always been about access to services and equity of services. The current system of HFE has performed well and delivered fiscal equalisation outcomes as intended, particularly over the past 10 years, which has seen a divergence in states' economic circumstances. As you can see from the range of Territory participants at this hearing, the Territory stands united against any move away from full equalisation. All Territorians share  
30 our concerns about the impact of the Commission's draft recommendations will have on the Territory's economic future, and particularly the ability to reduce the gap on Indigenous disadvantage and to develop the north.

35 As I said at the outset, the recommendation to change the measure of HFE from equal to reasonable may seem small enough but would have far reaching long term repercussions for every Territorian. We believe partial equalisation would further entrench Indigenous disadvantage in the Territory and remove the ability of the Territory Government to provide services at standards comparable with other states. It would reduce the Territory's  
40 competitiveness and ability to support economic development and improve much needed infrastructure.

45 The Commission's recommendations would affect the Territory more than other jurisdictions because Commonwealth funding is a pivotal part of the Territory's finances. Total Commonwealth funding accounts for 70 per cent of the Territory's budget, and 50 per cent of that is GST, 20 per cent tied payments, compared to about 45 per cent for other jurisdictions. The funding

requirement for the Territory is higher than most because it costs more to deliver the same level of critical government services in the Territory than in other jurisdictions. That's just a fact.

5           Thirty per cent of the Territory's population is Aboriginal. Of this population 80 per cent live in remote and very remote areas. The Territory population is spread across a vast geographic area, one sixth of Australia's land mass. The Territory's small population leads to a lack of economies to scale on service delivery with a higher per capita service delivery costs across  
10 all government services. The Territory's higher share of the GST revenue is a reflection of these unavoidable factors affecting the cost of necessary service delivery which should be at a basic expectation of Territory residents.

15           In the Territory the majority users of government services are Indigenous people. For example, while Indigenous Territorians make up 30 per cent of the Territory's population they represent about 70 per cent of the Territory's hospital separations and about 85 per cent of Public Housing tenants. As mentioned, 80 per cent of Indigenous Territorians live in the most remote and very remote areas and they are some of the most disadvantaged people in this  
20 country. They also have a very strong connection to their country, which is deeply important.

          That's why even a small change on how we receive Commonwealth funding can have such a large impact in the Territory. For example, we've  
25 already seen through the 2017 update of the Commonwealth Grants Commission, or the CGC, led to a \$2 billion downward revision of the estimated GST revenue to the Territory over forward years. This was largely due to a drop in our GST relativity which saw our share of the GST fall from 5.4 in '16/'17 to an expected share of 4.7 in '17/'18. Worryingly, it was the  
30 factors outside of the Northern Territory's control which led to a decline in this relativity.

          In particular, a decline in the delivery costs of remote services in some other larger states led to a lower national average cost as calculated by the  
35 CGC. Because funding need is assessed against the national average the flow-on effect of this was a lower assessed funding need for the Territory. This is particularly concerning to me as services such as remote health and education are critical areas of disadvantage in the Territory. These are critical areas of need and the national effort in closing the gap on Indigenous  
40 disadvantage.

          It is these issues that we will continually work with the CGC to refine. It is not, however, a reason to throw the principles that underpin HFE out the  
45 window. HFE in its current form is the best mechanism for achieving equity of access to services and for promoting national wellbeing and HFE does not impede states from pursuing economic growth, productivity, or tax reform. Because these draft recommendations made by the Commission will only

widen the gap, exacerbate the extreme levels of disadvantage the Territory faces, and this will impede economic development of the north.

5 I understand the Commission has indicated at hearings in Adelaide that it was investigating ways to transition state's negatively affected by its proposals, it is not clear still what that could mean. The draft recommendations would leave the Territory permanently worse off. As I said, it would stand to widen the gap on Indigenous disadvantage, a point that is important not only to Territorians but to all Australians.

10 As the Commission itself has found, assessing indigeneity in the CGC processes is valid and important. The Commission's draft report discusses various methodological issues that have been raised by the states and correctly notes that the CGC will be considering these as part of its 2020 review. Consideration by the CGC is the appropriate process for dealing with these issues. A total overhaul of the form of HFE is not the appropriate way to deal with this.

20 The Territory is an emerging economy which has held self government for less than 40 years. At the time of self government the Territory inherited an undeveloped poorly maintained infrastructure stock with huge investment required to bring roads, schools, hospitals and social housing, to standards up to those expected in other states across Australia. For example, even today 75 per cent of our road network is unsealed. We are still trying to meet the infrastructure shortfall which as you know is not taken into account under the current form of HFE.

30 In order to have any impact on increasing the standard of infrastructure in the Territory the significant additional investment required in the Territory needs to be funded outside of HFE such as quarantined Commonwealth payments. Changing the current form of HFE would make this task even harder and will set the Territory back years in terms of both addressing our infrastructure gap and our gap of outcomes that we have there for our Indigenous population.

35 My final point to the Commission is to highlight the inconsistency between the recommendations to water down HFE and the Commonwealth and the Territory's priorities in these areas of Closing the Gap and developing the north. The north of Australia is home to the majority of Australia's Indigenous population. The north of Australia is rich in natural resources and is strategically located in the region but is challenged by infrastructure deficits compared to the densely populated eastern states.

45 Population concentration and industry investment targeted at the larger and southern states does not serve the nation well and comes at a cost. National productivity will be best served through greater regional economic development. To reach Australia's full potential we must reach Northern

Australia and the Northern Territory's full potential economically, culturally, and socially. This task is made more difficult if the Commission's recommendations in their current forms are accepted by the Commonwealth Treasurer.

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I hope these points are understood by the Commission as you go about your task of finalising the report for this inquiry. And I also hope that these points are well understood, certainly by the Federal Treasurer, before making decisions based on the Commission's recommendations and what they decide to do going forward. As I have stated in my covering letter in our submission to the Commission's draft report, it is in the interests of all Australians to close the gap on Indigenous disadvantage and to develop the north. Otherwise to do otherwise it would be a national shame.

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15 I again want to thank you for travelling to Darwin to hear the views of Territorians on this important topic and for hearing them today. I really do appreciate it because as you can see this is an issue that's very important to the Northern Territory, so thank you.

20 **MR COPPEL:** Thank you. There's a lot to cover there and I thought I'd start by just focusing a little bit on the current system. You made the point that it's working well, it's working as intended, and I would like to get a sense from you as to how well it's actually achieving the objective that it sets itself, which is to provide the same average level of services for the same level of effort for the jurisdiction of the Northern Territory?

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30 **MS MANISON:** Well, clearly what our concern was with the draft recommendations it was if we were to change the process of equalisation we would stand to lose more money through the GST distribution here in this country. We do know that we have some very large gaps in the Northern Territory around the areas of health, education, certainly when it comes into our justice system, and often we see the large deficits and disadvantage with our Indigenous population here in the Northern Territory. We do everything we can as a government to service that need and we are always very conscious that you need to have the capacity to go and respond where you see a priority for funding and where it is needed to improve those services and to be able to drive policies to make improvements for the Territorians.

35  
40 This task will be made all the much harder if we have less capacity to do so with less money coming in to the Northern Territory. So we absolutely endeavour to improve service delivery for Territorians, we acknowledge there is a very large gap in disadvantage when it comes to particularly our Indigenous Territorians but this task will be made all the harder if we had less funding coming in.

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**MR COPPEL:** The reason I asked the question is that in yesterday's public hearings there was a lot of focus on the actual approach that the CGC takes to



assessing remoteness and with the specific factors that are particularly acute for the Northern Territory, and I think you touched on some of those.

**MS MANISON:** Yes.

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**MR COPPEL:** We've also heard that a lot of the part of the assessment on the revenue side starts on the basis of people per capita, and that proportion shifts from one jurisdiction to another. But there's a gap between the actual aspiration of the goal as set by the CGC and the realisation of that and I'm just trying to get a sense of the materiality of that for a jurisdiction like the Northern Territory.

**MS MANISON:** So we're continuing discussions with the Commonwealth. I think a great issue where we have that further exacerbates those gaps and the challenges of the service delivery is the fact that we do have the infrastructure deficits. And one issue that I've been working with with the Commonwealth, and I will be working with the boards and treasurers, is the fact that HFE doesn't address those gaps. That's not the intended purpose of HFE as we know. So HFE does not help us address those gaps and disadvantage.

I get very frustrated where we do see money coming in to the Northern Territory from the Commonwealth that is to assist in targeting some of those gaps and then that is used to assess the Territory share of the GST. For example, remote housing is now utilised and assessed against our distribution of the GST, and that is an area where we have huge deficits and huge infrastructure gaps. And then the flow-on effect to the social outcomes of poor housing affects our ability in our service delivery here in the Northern Territory because we know that the flow-on effects from poor housing is health, education issues, a bit more likely to end up in the justice system and so forth. That's just one example.

Another infrastructure gap where we've got, which would enhance productivity as a nation because we'd have better access for business development, economic development, as well as the social need to be able to travel around the Northern Territory, is roads. So another point of frustration I've had recently is where we got this wonderful funding in for the Northern Australian Roads and the Beef Roads, so we got around a bit over \$200 million in one hand to fund those roads, which is great, you got and you seal more roads, but then on the other hand, and that's an area of disadvantage with 75 per cent of the road network unsealed, on the other hand that got assessed with our distribution of the GST and then we pretty much so lost 200 million on the other.

So, great, we got \$200 million worth of extra sealed roads but then on the other hand we lost another \$200 million to go service Northern Territorians in areas of need and disadvantage. So we're working through

that issue of how we better target those areas of disadvantage to make sure that we're not given on one hand and losing on the other. But if we are to change HFE so the Northern Territory starts getting less money from the start then that's not helping us.

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**MR COPPEL:** Well maybe I will come back to the points you made about the equity of the systems and that the changes would be a departure from the equity principle that's embodied in HFE. And we pointed out in the draft report that the equity concept is a concept between individuals and what the equality that underlies HFE is to provide a jurisdiction capacity with the same effort to provide government services but to meet the equity objective you need to be able to follow through on that in the delivery of those government services.

15           And it's been pointed out in some work, including by academics, that the high level of assessed expenditure for the Northern Territory particularly reflecting remoteness and the factors to a high Indigenous population has led to high expenditure assessment but the actual expenditures are not following through in those particular areas, are going into other areas of government  
20           spending. So the point has been made that achieving that equity goal requires more. And I would be interested in getting your reaction to that sort of work, it's not just an individual, that gap between the assessed expenditure and the actual expenditure on particular areas like dealing with remote communities.

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**MS MANISON:** Yes. So I think it would be fair to say that to access a lot of those specialist services, for example, those hospital services, that Territorians in remote areas often have to come into town, into our main urban centres of Darwin, Katherine, Tennant Creek and Alice Springs. So  
30           when you look at some of the reports that even the Productivity Commission produces, whether that be the report on government services, the Indigenous Expenditure Report, you will see that here in the Northern Territory we do have 30 per cent of our population again being Indigenous and we know that around 50 per cent of government expenditure goes towards Indigenous  
35           Territorians.

          There is a lot of reporting that goes against service delivery here. And I think it's fair to say also, though, that a lot of those critical services that people from remote communities and remote areas do access do end up  
40           coming in to some of the mainstream services such as RDH, the Alice Springs Hospital, as well. But there's a lot of reporting that goes against how that money flows through out to the bush and out to the remote communities. But I again come back to the point that we are starting from so far behind when it comes to infrastructure deficits, and they are critical to closing the  
45           gap on some of those social issues, that there is still a lot more work that needs to be done.

But as a government we are very focused on making sure that we provide the services to people in remote areas that are needed but some of those infrastructure gaps are very wide and so the costs are very high, but nonetheless we continue to make every effort to do so. And I think our commitment to education, in particular to increasing education resources that we've been doing, but also our commitment to housing, has been very critical to our work that we're doing to try to close that gap.

**MS CHESTER:** And indeed when you look at the metrics of the CGC, "Prepare treasurer over six years", and I think that might have been the table that has been popped in front of you there by your own treasurer, on the whole you are spending your assessed expenses, it's just when you look through to some of the categories there's some where there's big overspends, like post secondary education, and you're punching above weight on housing, and partly that might reflect what you're talking about with the infrastructure deficit?

**MS MANISON:** Yes.

**MS CHESTER:** And that's become a priority.

**MS MANISON:** Yes.

**MS CHESTER:** But what's been sort of pointed out to us by some of the Indigenous groups that we've had submissions and heard from, and other academics that have done some work in the areas, the welfare one, which is quite an under spend compared to your assessed expenses. So it sort of comes back to this point of the equity objective, equality is kind of a bit of an aspiration for HFE but for it to be an equitable outcome you'd see it being flowing through to where those assessed expenses are seen as the greatest. So you can see that there's a bit of a tension there and partly it's because the way the GST is allocated, as you pointed out earlier, it's you have autonomy in terms of how it's spent. But then it might also bring into question whether or not you're really delivering on that equity objective.

**MS MANISON:** But again I come back to the point with the draft recommendations around equalisation and changing it, with what is proposed at the moment the Northern Territory would receive less GST coming in to the Northern Territory. It is going to make that job all the harder if we as a government have less capacity to go fund the areas of service delivery that we see are needed. And for us targeting service delivery to improve outcomes for Indigenous Territorians is very, very important to us and if we have less capacity to do that through less money, through the GST distribution, that just makes it all the harder.

**MS CHESTER:** And I think yesterday we got a sense that maybe how people understood in the NT, the participants that have been interested, what

the impact of our report might be. Albeit they're draft recommendations, and we did note that we did quite a lot of work around any transition path given at the starting point, there's been a bit of a conflating between other changes that you mentioned that you've experienced in your relativities because of the CGC versus what we're doing and people were talking about very large numbers, which aren't really - could in no way, shape or form be attributed to our draft recommendations.

But it will be helpful, and maybe your own treasurer might be able to help us here, just unbundling what were the key drivers or the factors behind that quite significant reduction in the NT's relativity, how much of it was sort of population versus costs, versus, you know, the factors of the CGC, and to what extent they might be addressed as part of the methodology review?

**MS MANISON:** I will come back to, though, and I'm sorry to keep harping on on this, Deputy Chair, but with regards to the draft report of what you have got here, and in place at the moment in the draft report the Territory would stand, if you were to change the distribution as proposed in the draft recommendations, we would stand to lose funding. We're not going to end up better off there, we will lose funding coming into the Northern Territory, so that makes our job all the harder.

The work that we're doing with the CGC and the discussions that we've had with the CGC, and certainly I've raised it with the Commonwealth Treasurer as well, with regards to the last assessment because that was an unprecedented situation, we've never seen such a steep drop in the assessment, it's had a deep impact on our finances going forward. But effectively there was an element of population in there but really, for us, where we found some real difficulties was the fact around those assessment areas around roads, around remote health and remote education, that really impacted us in that assessment.

And, of course, as we've been discussing these areas, and as you would have heard yesterday from some of our peak Aboriginal organisations where we do have some very extreme disadvantage, but I will let - Mr Graham, do you have anything else to add to that?

**MR GRAHAM:** Yes, we can give you the detailed breakdown of the components of the reduction or the components that attributed to that reduction of relativity. And it is, you know, things like population, changes in Commonwealth funding. And also a significant contributor was changes in expenditure patterns and things like remote health, remote education in other jurisdictions. So, yes, as part of the methodology review we need to understand what's driving those expenditure patterns and whether that is, you know, whether it's a measurement issue or whether it's a policy issue, or what's actually driving that and - - -

**MS CHESTER:** Just, because I'm conscious that we've got media and stuff here, so how much of it was kind of population and other government transfers coming your way versus those assessed costs?

5     **MR GRAHAM:** From memory, I think it was they were roughly equal, I think it was about 40 or 50 million. But I'd need to get that break down to you.

10     **MS CHESTER:** And taken collectively over your forward estimate period, what's the impact of that to the revenue that you would have otherwise got from GST, I'm just trying to - again, we've got some issues being conflated here and it's good to unbundle it a bit.

15     **MR GRAHAM:** Yes, it's at, you know, four, five hundred million dollars a year over the forward estimates.

20     **MS MANISON:** And in a place where our budget is \$6.7 billion this year, like that is a huge amount of money. A huge amount of money, \$500 million a year, and, you know, like I said, every cent counts here in the Northern Territory of being able to target that disadvantage. But again, I come back to the point where if we are to target that disadvantage and overcome some of those issues we only stand to enhance the productivity in the Northern Territory and overall for this country. Because really, our main game here that we want to focus on is economic development here in the Northern Territory, of developing the north.

25     Our Indigenous population are a very important part of that and making sure they're part of that journey too as well as it's just the right thing to ensure that they get a fair go as well and that we can target those areas where they are severely disadvantaged too. But ultimately if we get it right for all Territorians I think the whole country stands to benefit because ultimately we'll be able to drive more productivity here that will benefit everyone.

30     **MR COPPEL:** On the question of indigeneity and the HFE, it is an area which is the responsibility of state and territory jurisdictions but also it's an area which is the responsibility of the Commonwealth. So there are joint responsibilities or fuzzy responsibilities, and there are a lot of issues within the CGC process that make it extremely difficult to make those sorts of calculations that they do to take into account different costs of providing those services. And it has been suggested, and we sort of raised it in the report, we didn't take it very far, in the context of a broader Commonwealth Territory, State, financial relations to take indigeneity out of the HFE process and provide separate grants for addressing the services in those communities. And I would be interested in getting your views about this idea of removing from the HFE process indigeneity as a factor.

5 **MS MANISON:** I would be interested in how practically you would make that happen, I think that would be quite challenging. But effectively I think you're suggesting there that you have services for Indigenous people and non Indigenous people, and I just think principally the Northern Territory should be funded for its needs and recognising the fact that we have a high Indigenous population. But I don't think separating that service delivery is going to be easy or nor the best thing for the Northern Territory.

10 **MS CHESTER:** It isn't separating the service delivery, so some have suggested, and it's very good sort of public sector economists like Ross Garnaut and Vince FitzGerald previously, taking indigeneity out of HFE, getting the lines of accountability between Commonwealth, state, territory, better understood, greater principles of accountability, and not allowing it to be - you having full autonomy on how the money is spent. We didn't  
15 recommend that, and indeed, we said that our inquiry - because of those broader issues of responsibilities and accountability we're looking at HFE and we can't resolve them.

20 So we didn't come to a landing of taking indigeneity out but we did say longer term, indeed, part of our five year productivity review recommendations as well, is Commonwealth, State, Territory Governments need to go back to looking at where we do have these areas of overlap and what can be done to make better accountability and then decide how much  
25 autonomy should be afforded states and territories in particular areas, and indigeneity I think has been called out more so because of, as you referred to before, we're not making progress in closing the gap.

**MS MANISON:** Well I take the word autonomy on board. And where I would be deeply worried would be seeing that we have more decisions made  
30 on service delivery made in Canberra for the Territory than by Territorians making decisions about where the service delivery should be. So I'd be deeply worried about any changes that meant that we saw an increase of decision making for what's best for Territorians made in Canberra as opposed to decisions for Territorians being made here locally by a place  
35 where ultimately we have a government, here in the Northern Territory Government, and we're accountable to our constituents.

And if our constituents are not satisfied with our decision making they ultimately tell us at the ballot box. I'd be very concerned to see any  
40 autonomy stripped out of the Northern Territory with regards to how we spend money and contribute it towards service delivery. Where I am however again willing and want to have more conversation with my counterparts in Canberra, is around infrastructure delivery because, again, it's decisions that the Territory needs to make about those, where those priorities  
45 are, and to engage with the Commonwealth on it.

5        You know, that's where I'm willing to have more open discussions, but I would push back as hard as I could on anything that would see, you know, less autonomy for the Northern Territory where it comes to decision making, because we know from experience that when decisions are made in Canberra for Territorians it doesn't tend to deliver the best outcomes.

10       **MS CHESTER:** And indeed, that's not the direction where our findings in our draft recommendation are in that regard, it's to have greater accountability and to have more autonomy for states and territories in how that many is spent, place based. You can't really do it in the context of HFE. Indeed, we know from the good work of the CGC that no state or territory gets to their assessed expenses following the equalisation, you need a further overlay of EPC because of vertical fiscal imbalance.

15       So for us it's all wound up in the context of BFI reform of revenue raising powers for the states and territories, greater accountability for areas where you do want to have that autonomy. So that's kind of the direction that we thought longer term and thus we didn't feel that we could grapple with indigeneity in or out of HFE at the moment in the terms of our inquiry, so that's where we kind of wanted to get your thoughts.

20       **MR GRAHAM:** Yes, I mean, I think what you're talking about there goes beyond HFE, and it's not - they're not issues that are confined to indigeneity, they relate to federalism broadly, I think, you know, in areas, there are similar areas in health, education. But I guess the issue with indigeneity for the Northern Territory is because Aboriginal people represent such a large area of population they are also significant users of mainstream services. So how you deal with those sorts of issues by taking indigeneity out of HFE, I guess they're the sorts of issues you'd need to give a lot of thought to.

30       **MS CHESTER:** Yes, and that's where we came to as well, so we didn't. So what area of agreement - - -

35       **MR COPPEL:** Another area in the draft report there I think there is agreement, or some agreement, from the Northern Territory, relates to recommendations that improve transparency and accountability and understanding of the HFE system. And I note that you agree with the recommendation that the CGC should play a greater role in explaining the outcomes of their process to the broader public and how decisions are achieved, that's in the submission post draft. We had also recommended that the data that the CGC uses to make those calculations should be in the public domain. Now that's something that has a different effect on accountability and transparency, it's the sort of thing that sometimes academics will use to look at how assessed expenditures relate to actual expenditures. And that part of the recommendation you disagree with and I'm wondering why you would disagree with that sort of information being in the public domain?

5 **MS MANISON:** Well, I think it's important that there certainly is transparency out there around data. I actually would be more than comfortable with more information sharing than less, so that's something I'm certainly more than happy to look at again. But today's world, people do expect transparency and they do expect to be able to understand how decisions are made, so I'm actually quite comfortable with it.

**MR COPPEL:** Okay, good.

10 **MS CHESTER:** So just going back to I think a lot of people have taken an understanding of HFE to be all about equality/equity, and I think we can agree that there's a bit of a distinction between the two. The way the CGC does it, so firstly history tells us quite a lot here, no State, Territory, or Commonwealth, Government has ever put in place the same standard as the  
15 objective of HFE. Indeed, it's not in the CGC Act, and indeed, even though the CGC have been doing it that way, equalising to the highest plus an overlay of EPC since 1981, they only articulated it about 14 years later.

20 Indeed, even in the context of this inquiry we had state and territory officials not themselves realising how the same standard has been implemented with equalising to the highest with an EPC overlay, and I know that's a bit of a heuristic device but it is kind of interesting that no government in Australia has ever put in place that in a piece of legislation or an agreement, it's just in the CGC documents. So a statutory agency has  
25 effectively made that the policy whereas if you look back historically it was not substantially below or not substantially different, and indeed, that's still in the CGC Act.

30 So to some extent equalisation has evolved but it has evolved at the behest of an agency as opposed to a government of any day. And I just say that in terms of context because then when you look at the way the CGC actually tries to implement HFE they do have as the paramount and primary objective of equalising fiscal capacity, and we agree with that in our draft report, it should be the primary principle. But it also has four subsidiary  
35 principles and one of those subsidiary principles, one that we were kind of focusing on in terms of what's the impact of HFE on the economy, was the one of policy and neutrality.

40 So it would be good to get your sense as to how well you think HFE today is currently doing that balancing act between equalisation of fiscal capacity and policy neutrality, because that's where you would want to see a bit of a modicum of trade off between effectively equity and efficiency, and indeed, in some of that trade off there could be an overlap between equity and efficiency if it is having an impact on economies and economic growth?  
45

**MS MANISON:** One thing I will say is that our distribution of the GST does not stop us from pursuing economic growth and development. Or



productivity increases here in the Northern Territory. In a small place like this where you do want to see your economy grow and you would like to see more development, the impacts on the GST are not a factor in that. We want to grow our economy. We want more jobs. So for us it's not something that I believe stops productivity. Ultimately if we do have more jobs and we grow our economy it's going to mean better outcomes for all Territorians and less reliance on the GST, and that's what we would like to see.

So I think what's very important out of this, and I just come back to the point you raised about the CGC and more transparency, I don't think other states would probably - and I just think given the amount of people that put their hand up to appear at these hearings, GST distribution, HFE is such a hot topic but in a place like the Northern Territory where it has such a huge impact on our budget and on our incomes and - outcomes here every day, my apologies, on our outcomes is what I meant to say, it's really important that people understand the processes around the CGC and that extra level of transparency.

But also I've really got to stress that we look for opportunities to develop and grow our economy. GST does not stop us from pursuing those avenues of growth and we make the decisions that we feel are in the best interests of the Territory. But what will make it harder to be able to pursue some of those opportunities will be if we ultimately have less capacity to do so and less money coming in through HFE.

**MR GRAHAM:** Just getting back to that policy neutrality issue, and, you know, your point that the CGC has had a fair bit of flexibility in how it interprets its goal, and that can be a good thing or a bad thing depending on your perspective, I assume what you're getting at is the impact of Western Australia more recently on distribution and, you know, this view that Western Australia's policy is - or, you know, Western Australia is having a significant policy effect on the distribution of GST through mining royalties. And the CGC is grappling with that as part of the current methodology review but I think the challenge for them will be to ensure that they come up with an assessment or, you know, treatment of policy neutrality which doesn't, I guess, diminish to a great extent that objective of fiscal equalisation.

**MS CHESTER:** Yes, and with the CGC it then kind of becomes ad hoc fixes or ad hoc changes to try to take the pressure of the system. So when we sort of stepped back and looked at it, and our objective here is not about WA fiscal management, we had a frank exposition of that in our draft report, our issue is because you have WA being such an outlie and so much of the redistribution at the moment is for such a large equalisation task because of the fiscal outlay, that trade off between policy neutrality and equity is kind of swamped, it's not going to happen.

5 So there's two strings here, one is you can try to reduce the pressure and allow a little bit of that trade off to occur so states do have incentives to dare greatly on development and do have incentives to do tax reform, or you can go down the route of carving out elements of mining royalties. Now we heard yesterday from the NT Minerals Council, so that maybe one or two of your constituents that may not agree fully with the government's position, Treasurer, but who are very supportive of 50 per cent discount on mining royalties.

10 Now, we rejected that in our draft report because we think that's highly inequitable. And then you've got the CGC as part of their methodology review recommending that for any increase in royalty rates the potential for a state or territory jurisdiction to keep 50 per cent of that. So 50 per cent is not taken into account in looking and assessing fiscal capacity. So we've got these two tensions here, we've got there's ad hoc ways of doing it and taking some pressure off the system, or we were looking at it sort of a more holistic fix so it just doesn't deal with one symptom at a time. It would be good to get your views on that?

20 **MR GRAHAM:** Yes, well, I mean, again it comes back to the point of where do you think HFE works, or doesn't. And it could be an argument that, you know, Western Australia's relativity is actually a sign that HFE does work because of the unusual situation, you know, it's just gone through a once in a hundred years sort of mining boom and, you know, eventually the system will adjust to that over time just as it has adjusted to the existing mining boom. But I think having the CGC is a degree of judgment as to how it incorporates or reflects that change in its assessments. It's done through a consultative way. And having the CGC, which are the subject matter experts, form a view as to how that should be incorporated is in, you know, in our mind is not a bad thing, rather than having some decision imposed on them from outside of the system. I mean, working within the existing institutional arrangements is a reasonable way to deal with it.

35 **MR COPPEL:** So is it that aspect which is the critical difference, because if you look at a mining discount or equalisation to the average, for example, they both amount to less than full equalisation or partial equalisation?

**MR GRAHAM:** Yes.

40 **MR COPPEL:** So really the point of contention is the process that would lead to such a different outcome from the current practices?

45 **MR GRAHAM:** We, just for the record, we wouldn't support the discount to the mining assessment. As I said, we think that Western Australia's relativity is a symptom that the system actually works.

5 **MS CHESTER:** So there's two discounts, less make sure we don't confuse  
them for the transcript, so there's what the Minerals Councils have called for,  
and we addressed that in our draft report and said, no, that's not the smart  
thing to do from equity perspective, but then there's the CGC  
recommendation. So if you were to rewind the clock and do a royalty rate  
increase pre WA boom it would be interesting to see, and maybe you've  
crunched these numbers, what the impact would have been on the NT's  
relativity of a change that you're happy to go through a process with the CGC  
and for them to do some of these ad hoc fixes. It would be interesting to ask  
10 and answer the question what impact would that have had on the NT  
relativities, and it could have actually been worse than what we're  
recommending?

15 **MR GRAHAM:** Yes, we haven't done that work. But it's work we would  
need to do as part of the next major review.

20 **MS CHESTER:** Yes. Just so we understand your submission, which is the  
great advantage of having the public hearings after we've got them and so  
thank you for getting it in to us in time. One other point in your post draft  
report submission to us was around the use of external benchmarks. Now we  
made a call that - one of our objectives was to try to get greater simplicity  
into the system. One way of doing that, and it's indeed something that  
Jonathan and I looked at in the context of natural disaster funding  
arrangements, was greater simplicity by using external benchmarks for costs.  
25 It would still be, of course, adjusted according to disabilities around  
remoteness and indigeneity but there was a comment that you said that that  
would violate state sovereignty and I'm not exactly sure how, I couldn't  
connect the dots, so if you could explain that to me that would be great?

30 **MR GRAHAM:** Yes. So I mean the equalising to a benchmark or an  
outcome or an output has been looked at before. But it introduces a  
significant element of complexity in terms of determining what that  
benchmark should be. And then, you know, does that impede state autonomy  
relative to the existing arrangements where, you know, it is input or capacity  
35 based?

40 **MS CHESTER:** But isn't that kind of the direction that fiscal policy for  
large areas of expenditure is going in? Like, for example, in health where  
we're looking at sort of efficient cost benchmarks to make sure that states  
and territories have the right incentives in place, albeit it's still adjusted for  
disabilities like remoteness and indigeneity?

45 **MR GRAHAM:** But that's on the tied funding side, the whole concept of  
GST is that it's untied.

**MS CHESTER:** No, but this is just working out assessed expenses. So  
instead of doing it on the average of what states do, it adds an extra incentive

in terms of the average of what's kind of considered to be an efficient benchmark, similar to what we've been doing. I think Victoria led the way and other states and territories are doing it now around health expenditure.

5       **MR GRAHAM:** Do you mean for state budgeting purposes?

**MS CHESTER:** Well for actually doing the calculations within the CGC as to what assessed expenses would be.

10       **MR GRAHAM:** Okay. I wasn't - - -

**MS CHESTER:** And maybe we're at counter purposes here and it might have been something else.

15       **MR GRAHAM:** Yes.

**MS CHESTER:** But that's where we were heading with efficient benchmarks, so.

20       **MR GRAHAM:** Okay.

25       **MS MANISON:** So again on behalf of the Territory Government we really do thank you for coming up here and listening to ourselves, I think it's great we've got the Opposition here, we've also got our main industry groups, some people that are just absolutely key to delivering better outcomes for the Territory. I can't stress enough, with regards to our views on equalisation and those potential changes, as I said, I think the Territory is a place of just amazing opportunity for national economic growth, for productivity, and for contributing so much more to this country. But the task is made all the much  
30       harder if we have less capacity to deliver critical services to Territorians. So we thank you for listening to us today and for coming here to give everybody an opportunity to contribute to your final report to the Treasurer. So thank you.

35       **MS CHESTER:** Thank you, Treasurer and Under Treasurer, we do appreciate the states and territories that have dared greatly by allowing ministers to appear.

40       **MS MANISON:** Thank you, very much.

**MR COPPEL:** Thank you. Our next participant is Gary Higgins. Sir, welcome.

45       **MR HIGGINS:** Thank you.

**MR COPPEL:** Make yourself comfortable. When you're ready if you can give your name, each of you give your name for the purpose of the transcript and then a brief opening statement.

5     **MR HIGGINS:** Yes. I'm Gary Higgins, and I'm the Leader of the Opposition up here. With me is Sean Conway, and he's one of my senior advisers in the financial area.

10    **MR COPPEL:** If I can just ask Sean if you can give your name so that the voice recognition picks it up?

**MR CONWAY:** Yes, sure. Sean Conway.

15    **MR COPPEL:** Thank you.

**MR HIGGINS:** If I can do an opening statement?

**MR COPPEL:** Sure, yes.

20    **MR HIGGINS:** Commissioners, often in life using big words to confuse or obscure the true intent of what is being proposed. What we're all talking about today with the Horizontal Fiscal Equalisation Inquiry is about the levels of service and the simple questions, are all Australians equal? Should it make a difference if you were born in Brisbane or Batchelor, Pine Creek, or  
25    Perth, Wollongong or Wadeye? Should you get better opportunities for health and education just because of where you were born or live? The NT Opposition says that location shouldn't matter when it comes to health, education and opportunity. Clearly and simply, there should be no change to the way GST revenue is redistributed back to states and territories. Any  
30    change to the way GST revenue is distributed will be the end of the Northern Territory as we know it.

Commissioners, I hope you enjoy your time in Darwin, the capital of the Northern Territory, the capital of North Australia, and the gateway to Asia.  
35    The NT Opposition asked you to be here and I thank you for being here this week to allow Territorians their say on horizontal fiscal equalisation.

Let me now outline why the NT is such a special and unique place. We know from the ABS Census 2016 that there are at least 58,248 Aboriginal and Torres Strait Islander people in the Northern Territory. This is nine per cent of the total Aboriginal and Torres Strait Islander population in the nation. Importantly, Census 2016 states that 25.5 per cent of the Northern Territory population identified as being of Aboriginal and Torres Strait Islander descent. However the percentage of Aboriginal and Torres Strait  
40    Islanders in the Northern Territory is higher given the significant undercount of Aboriginal people.  
45

5 The Northern Territory Government coordinates essential services to 72 remote Indigenous communities. There are about 500 homelands in the Northern Territory with a total of 2400 homes. Around 10,000 people live in homelands while others have a small family group. And this represents its own challenges, none less than the provision of food and water. The cost of fuel, freight and refrigeration, all add up. And by the time food reaches a remote community it's far more expensive and far less fresh than it would be in an urban region.

10 It's no surprise that some Aboriginal people in homelands turn to cheaper, poor quality foods lacking nutritional value. This has caused significant poor health outcomes in the long term. It's very important to note that the cost to access communities it's significant. The cost of providing access is also a very heavy burden on the NT Government. The Commission should be aware of the seasonality considerations regarding providing services to communities. There are communities in the Northern Territory where the NT Government isn't able to provide services continually for 52 weeks of the year so the figure that we attribute for the cost of providing services is not a true reflection of the need. In fact it could be argued that the average cost of provision of services should be increased, indeed, even doubled, to be a true reflection of costs and need.

25 In short, the NT Government can't get to many of these remote communities to provide services due to the weather, distance, or lack of reliable road, or air transport infrastructure, and this should be taken on board by the Productivity Commission and reflected in the next Commonwealth Grants Commission update report. Research conducted by the Menzies School of Health Research found that 80 per cent of the health gap between Indigenous and non Indigenous Australians is due to chronic disease.

30 In remote areas 90 per cent of Indigenous children have some form of ear infection. One in three Indigenous people living in remote communities run out of food and have no money to buy more. Aboriginal people have Hepatitis B infection rates three times higher than non Indigenous Australians. At present there is a 10 year gap in the average life expectancy between Indigenous and non Indigenous Australians.

40 If I can just speak to you about a few Aboriginal communities in my own electorate of Daly, Wadeye is located approximately 420 kilometres south west of Darwin, it's accessed along the Daly River Road, which is not sealed, from the Daly River crossing and can only be accessed during the dry season, May to October. And it's worth noting that the town of Wadeye is 200 kilometres from Daly River, so 200 kilometres of dirt road. Along that Port Keats Road from Daly River to Wadeye there are many communities and outstations. Many of these communities are tens of kilometres off the main dirt road. One of the most telling indicators from 2016 is that median total

family income for Wadeye was \$584 versus 2105 for the rest of the Northern Territory.

5       Remoteness and the vastness of the Territory makes everything much  
more difficult and expensive. And the point I would like to make about  
remoteness it is in relation to how it limits the availability of service. While  
there may be many Indigenous people in southern states in absolute terms,  
for example in New South Wales and Victoria, Indigenous people in New  
South Wales and Victoria are unlikely to be hundreds of kilometres from  
10       basic services. In the NT 80 per cent of Indigenous people live in remote  
areas. And this is approximately 40 per cent in Western Australia.

15       So the question for the people living at Wadeye is how do they get to the  
services? The town gets cut off during the wet season. The only way to get  
in and out is to fly. And to illustrate the difficulty, the cost of a flight on  
Murin Air in and out of Wadeye is \$330 each way. No hospital, think of  
what this means for an expectant mother or her partner. And this is just one  
town. There are a number of commonalities between all Aboriginal towns  
20       and communities across the Northern Territory, they are geographically  
dispersed, isolated and subject to seasonal conditions, lack basic  
infrastructure and services, they have high comparative levels of  
socioeconomic disadvantage.

25       We know that just over half of all remote communities in the NT don't  
have a local health clinic. The scale of the task to address this infrastructure  
deficit and close the Indigenous disadvantage gap is immense. Census data  
shows that Wadeye has one of the fastest growing rates, growing population  
rates, in the country. In 2006 the population at Wadeye was 2207. In 2016 it  
was 2858, an increase of 651, or 29.5 per cent growth, over the decade. The  
30       NT with a population of approximately 244,000 represents just one per cent  
of the national population. And despite our large area, over 1.3 million  
square kilometres, we're sparsely populated.

35       The structure of the NT economy is markedly different to the national  
economy and the Territory is a relatively small open economy that is  
significantly influenced by major projects with abundant natural resources, a  
public sector, and a Defence presence. The Territory economy has grown  
considerably over the last decade. The total gross state product has grown  
from 16.9 billion in 2006/'7, to 23.6 billion on 2015/'16 with population  
40       increases during this period by approximately 31,000 to over 240,000. And  
all of this has been built on the bedrock of certainty provided by HFE and the  
attendant GST revenue streams.

45       The certainty provided by HFE has enabled the NT Government to look  
outwards to Asia to put in place pro business policy settings. Looking north  
for trade we can grow our economy and population. The unintended  
consequences of removing that certainty are unclear. Commissioners, for 16

years I was a mango farmer at the Daly River Mango Farm. I saw first hand a phenomenon I called intentional ignorance. And this is the injustice of inaction and the injustice of indifference. A head in the sand approach will not allow us to close the gap. Change in the current system of GST funding is exactly opposite of what is required to achieve the Closing the Gap initiatives.

The United Nations has described Australia's lack of progress on Closing the Gap as woefully inadequate, saying the over incarceration rate of Indigenous people is a major human rights concern. Indigenous Australians don't live as long as other Australians, their children are more likely to die as infants and their health, education, employment outcomes, are worse than non Indigenous people. Australia has promised to close this gap on the health, education and employment. Let us remind, Commissioners, that Prime Minister Malcolm Turnbull's words in relation to the 2017 Closing the Gap Report: "It is clear that Closing the Gap is a national responsibility that belongs to every Australian."

Changing the objectives of the HFE from full equalisation to reasonable equalisation, or from funding to provide equal level of service to a reasonable level of service, will not assist in any way the goals of the Federal Government in the Closing the Gap initiatives. In fact I put it to the Commissioners what message does changing the goal posts send to regional Australians and Aboriginal Australians, either we are all Australian, all equal, or we are not.

Commissioners, in any business or economy there will be good times and there will surely be bad. There are swings and roundabouts. It is inappropriate and frankly wrong to base irrevocable change of a good system, HFE, on the current economic conditions of one state, Western Australia, just because at one point in time they mount a good political campaign. To put it another way, as Saul Eslake does in his submission on the draft report, the alternative approach as canvassed in chapter 8 are all different ways of determining who loses so that Western Australia can win.

The observed effect of HFE in practice over its nearly two decades of operation in its current form has been to entrench pro-cyclical fiscal policy. In simple terms, it puts fuel on the fire when an economy is growing and due to the backward looking nature of the assessment makes slower economies slower. However, the weakness inherent in the system rights itself in the long term. To rewrite the objectives of HFE is to rewrite the principals of Federation. This is unfair and short sighted. The Productivity Commission must consider how any change to the GST revenue distribution framework would impact on the delivery of the Defence White Paper, the White Paper on developing North Australia or



the bipartisan commitment to Closing the Gap.

5 In the Northern Territory maintaining equal as opposed to reasonable  
services in the NT will help attract more people. For the NT to grow and  
achieve sustainable population growth will require a level of service  
provisions comparable to competing Australian jurisdictions. It's  
important to note that the NT, while having one of the largest social  
provision obligation challenges, has the smallest taxable base of any  
jurisdiction. Over 50 per cent of the Territory's land mass and 80 per cent  
10 of the coastal waters have been given over to traditional owners under the  
Aboriginal Land Rights Act. The NT Opposition always puts the  
Territory first.

15 This issue of changing the GST distribution is a major issue for the  
NT Opposition because GST revenue makes up over 50 per cent of the  
NT's annual income. With the NT receiving 4.6 dollars for every one  
dollar raised the NT has the most to lose from any change to the current  
system of HFE. To reiterate, it is the Territory's highest expenditure  
needs rather than the lack of its major revenue raising efforts which  
20 derives the Territory's highest need for GST revenue. The Northern  
Territory uses this GST to provide critical government services in the  
Territory such as health, education, police and roads.

25 Vast distances push up the costs of service delivery. The cost of  
attracting and retaining staff and constructing and maintaining the  
necessary infrastructure in remote areas is far more expensive than in  
urban areas, which contribute to higher service delivery costs. The  
Commonwealth Grants Commission in its 2017 Update Report calculated  
that the Northern Territory is having an assessed expenditure of \$19,072  
30 per capita. Commissioner, it's of the utmost importance that the  
Productivity Commission record that the NT Opposition have consulted  
widely, rejected any move away from the current distribution model of  
HFE.

35 Prima facie, many of the partial equalisation distribution approaches  
would entrench disadvantage. The NT Opposition believes that HFE is a  
requirement for the sustainability of self government over the medium  
term. HFE has served the Commonwealth, the states and the territories  
well for many decades and the case for change is yet to be demonstrated  
40 or proven. Ensuring the long run viability and sustainability of the NT is  
very dependent on the ability of the jurisdiction to attract and maintain  
population numbers.

45 Given that geostrategic importance of Darwin and the Northern  
Territory more generally, how would any such move from full to

reasonable equalisation affect, if at all, the rollout of the Defence White Paper of 2016? In the context of a small developing jurisdiction with an annual income of approximately six to seven billion dollars such a massive reduction in income would severely impact the ability of the NT to deliver essential services and functions.

In conclusion, the NT Opposition rejects any move away from the current distribution model for HFE. Indeed, any change to the current method of distributing GST would mean the end of the Northern Territory as we know it. The NT Opposition note that while jurisdictions can go from being GST winners to losers, these differences are equalised in the long term. There are also alternative approaches that may be considered to relieve interstate tensions. Those seeking to move away from the current model have yet to demonstrate clear evidence of a more certain, efficient, effective, or equitable, model.

Commissioners, the draft report into HFE fails to meet the standard expectation of its inquiry reports in two crucial and fundamental ways; it makes recommendations to fundamentally alter the objectives of the HFE without any supporting evidence; and the recommendations are inconsistent with the objectives of achieving higher living standards for all members of the Australian community. Long term less GST will have a snowball effect on our economy, decrease Territorians health and well being, and ultimately cost Australians more down the track to address the long term effects of systemic underfunding.

On behalf of all Territorians I would like to thank you for the opportunity here today and look forward to reading the final report when it's delivered to the Treasurer in late January 2018. This issue will impact the life of every Territorian and will influence the quality of life for generations of Territorians to come. And whilst we're only one per cent of Australia's population we have the right to equal services that the 99 other per cent have and I urge you don't change the current funding methodology that's based on the premise of provision of an equal level of service to one based on a reasonable level of service. That would not be a reasonable outcome for Territorians. And I thank you for listening to that statement.

**MR COPPEL:** Thank you, Gary. Let me start, I think your position is very firmly keep the system as it is. I think you identified one area of weakness, which is the pro-cyclical, and I'll come back to that later. You made the point that the system is fair in the sense that it doesn't discriminate on the level of services provided regardless of where you live. And one of the points that had been made in a number of submissions, it's not made in our report, we don't endorse it, is that the

fairest distribution would be on an equal per capita basis. That doesn't distinguish where you live. It provides the same amount of GST revenue per capita. I'd be interested in how you would interpret that view of a fair distribution in view of the current practice?

5

**MR HIGGINS:** Look, I think the whole basis of Federation is that everyone should have equal access to a service irrespective of where they live. And the cost of providing those services to Territorians of course is a lot higher than providing it anywhere else in, you know, southern states. So I completely, you know, sort of reject it, that the thing is that, you know, that would mean if you're getting a dollar for every person we'd get \$244,000. So how you could provide service to people that are on, you know, unemployment benefits at Wadeye, I just can't see you providing that service.

15

The uniqueness about the Territory is also that one of the overriding things that we have here is the Aboriginal land. And I spoke about that. And 50 per cent of the land in the Territory is Indigenous and 80 per cent of the coastline. And that is a unique requirement here in the Territory.

20

**MR COPPEL:** Where that view has been most often expressed is Western Australia, not by the government of Western Australia, in similar issues of remoteness, a relatively large state, Indigenous population, nothing like the Northern Territory, but it does illustrate that the notion of fairness is one which can span a vast range of potential GST distribution rules. But you think then that the system that we have delivers on that notion of fairness that you think is the appropriate one for the Australian Federation. I don't know if you were here in the room when we were questioning the previous participant, that we made a point about a number of mechanisms that are used by the CGC where they may not have the right information, or the full information, they use discounts and they have materiality thresholds.

25

30

And all of these can act to result in a part of a distribution on an equal per capita basis so it in itself is a step below sort of equalisation so that the jurisdictions can provide the same level of services for the same level of effort. I'm wondering what your assessment is of how well the current system then meets that goal of providing the same level of services and the same level of - the average level of services for the same level of effort? Or are there particular features of the Northern Territory where you think the process isn't delivering against its objectives?

35

40

**MR HIGGINS:** Well, I think when you mention Western Australia I think one of the big differences again comes down to the Aboriginal land. And I raise the point the Western Australian Government closed a lot of

45

the Aboriginal communities and said we're just not going to fund them. That's not a choice that the Territory Government would have because we have the uniqueness of the Aboriginal land. And the thing is in providing a service to some of those remote areas where a lot of it is that Aboriginal land, it's not a choice of people being able to move closer to where the services are provided, so the cost of providing a service to a place like Wadeye will always remain there irrespective of, you know, what changes you might get in Western Australia. If that sort of answers it?

**MR COPPEL:** I think it does. You are very much a supporter of the current system. You mentioned one of the issues associated with the averaging of the relativities over years and you make the point in your submission that it can complicate fiscal management, I'm interested in getting your views on whether you see a way in which that issue could be addressed within the current framework or whether there's another solution to that problem that you've identified?

**MR HIGGINS:** Look, I think the Grants Commission, which I know is separate, and the sort of the levers that they use, there's 30 different indicators that they're using, I mean, you can manipulate those to achieve or address some of the disadvantage that, you know, exists here in the Territory. And, you know, the issue about if you look at people that claim to be of Aboriginal descent, there's a higher increase in those and that higher increase is more in the southern states. And as I said before, those people then are a lot closer to services. That dilutes the effect of, you know, trying to address the gap in the Closing the Gap. So from that point of view there's been a dilution of the Aboriginality side of it. But the thing that - - -

**MR COPPEL:** Well the way interpreted it, at least in your post draft submission, is that the system amplifies the pro-cyclicality of fiscal policy so then you get greater booms and bigger downturns, is that linked to what you're saying or is it the way in which the process is actually calculated that is contravening to that outcome?

**MR HIGGINS:** I think if I interpret it right, and just bear with me, is that you're talking about the process actually looking backwards, so we've actually got a cycle that the GST revenue that you're getting today is based on the last sort of four years, I think, from memory. Is that what you're implying?

**MR COPPEL:** Yes, that's right, three years plus then there are data lags, yes.

**MR HIGGINS:** Yes.

**MR COPPEL:** So what, you're saying that's an issue for the Northern Territory and its project management and - - -

5 **MR HIGGINS:** I think it means - - -

**MR COPPEL:** What do you see as a solution to that?

10 **MR HIGGINS:** Look, I don't know what the solution is. I think the point I made was that it averages itself out over time. It becomes a complex issue for the Territory in that while our economy may run level, if I gave that as an example, you've got to be aware of what is happening in the other states, that where these are going up or down because they're up and down will actually have an impact on our GST in years to come.  
15 So you'd have to be keeping track of that.

**MS CHESTER:** Gary, I think we can all sort of agree that the primary or the paramount objective of HFE is around equity through giving - well, having the aspiration of having equal fiscal capacity across states and  
20 territory jurisdictions. The HFE also has some subsidiary principles that they try to balance with the objective of equity, and one of those, and indeed, much of the focus of the work that we were asked to do for this inquiry, is around the one called policy neutrality, so the incentives that state and territory jurisdictions face with respect to decisions around  
25 development activities or tax reform and taxing revenue bases in jurisdictions. How well do you see the CGC getting that trade-off between equity and policy neutrality at the moment?

**MR HIGGINS:** I sympathise with them, I know I had a lot to do with the Grants Commission about 15 years ago, prior to becoming a mango  
30 farmer, but the issue around different governments having different policies and the impact of that on their own revenue raising I think is significant. And I think the Grants Commission take a lot of that into account when they do their calculations. In other words I will quite often refer to it as revenue foregone, which is revenue that you've lost. It's  
35 probably the wrong term but the thing is if a state has got the ability to raise some of its own revenue it should be raising that revenue where it can. Is that sort of the answer that you're looking for, along those lines?

40 **MS CHESTER:** Well I think the CGC tries to do it but it does it sort of in a reactive ad hoc way, and indeed, their recent review suggests - has one proposed change which is to discount royalties from a rate increase for the mining royalties, which could have significant implications for GST relativities if WA were to change their royalty rates on, say, iron ore.  
45 So that's one way of dealing with it.

5 The other way that we've looked at dealing at it is more holistically in terms of because you've got WA being such an outlie the equalisation task within the GST pool has become so large there's no wriggle room for the trade off between equity and policy neutrality, or efficiency. So do you have a view on what would be the best way of addressing that, an holistic approach or the CGC attempting to, I guess, alleviate pressure on the system through its methodology review and turning their formula on and off?

10 **MR HIGGINS:** Look, my personal view is for the CGC to be doing it. I think the overall - it's a lot easier, from my point of view, it would be a lot easier for the states to monitor what's happening as opposed to the overall formula being changed.

15 **MS CHESTER:** I take it from your submission and your comments this morning that what's driving your concerns would be what impact it would have fiscally on the Northern Territory Government. What's your understanding of what would be the fiscal impact of our draft recommendations on the Northern Territory Government?

20 **MR HIGGINS:** Look I haven't done the exact figures but I mean the issue of decreasing from sort of equal to average I think is going to have a dramatic impact, especially in the Indigenous area, and that's the area that I've got the greatest concern with. And I think there's other issues involved around the Indigenous area that aren't - and it's not an issue for you people at the moment but it is an issue for the Grants Commission, and that is that while we look at the costs of providing a lot of these services I made the point in here that a lot of those costs are not being picked up, or it's the lack of costs.

30 The point is when you try and service an area like Wadeye and Wudikapildiyerr, and Emu Point, and Peppi, and all of these, on that one road, the thing is that they're cut off for nearly six months of the year. And for probably half that time you can't even fly in because they haven't even got proper airstrips. So there's no cost associated to delivering a service there, so they're missing out. So they're not actually getting the basics as opposed to being told that, you know, you're entitled to equal, they're just not even getting that basic. And I know that is an issue for the Grants Commission but it is - I think to alter the formula at the moment would have an even greater impact on that into the future.

40 **MS CHESTER:** Okay, because you do sort of paint a picture of Armageddon based on our draft report but if you actually have a look at what the flow through would be, so the worst case scenario, so say if we

went to equalisation to the average and we did it cold turkey overnight and no transition path, the relativity for the NT the next year would go from 4.66 to 4.55, which is no more than I think about 2.4 percentage points of your revenue base. So I'm not sure what fiscal impact you're envisaging for the story of Armageddon that you're presenting? We're happy for your colleague to speak as well if that's helpful.

**MR HIGGINS:** Yes. No. I think our concern was - the thing is that the base - my argument is that the basis for our Federation and the basis of HFE is that everyone is entitled to the same service irrespective of what the small percentage decrease might be. And the thing is that to add a small percentage decrease, even a 2 per cent decrease, on the provision of those services on top of the issues that we already have is simply compounding the problem and it's not addressing the problem. And it's not addressing Closing the Gap, it's not providing better services to these people, it's simply adding to it.

It might only be two per cent today but is it five per cent tomorrow and 10 per cent the next day? That is my fear, and that is that at the moment we're not progressing and we need to progress. And to cut the amount of money that's available, irrespective of how small, would have an impact into the future. It's a compounded impact out into the future. If you look at how the population of Wadeye has grown, you know, you decrease the amount of money that's available to those people there and the thing is that will have a compounding effect, not only is it a two per cent decrease but it's also then an impact on the increasing population there.

The thing is that these people are people that, when you look at dealing with Indigenous people, to go out and try and explain a lot of these things, English is a second language, if I go out there most of the time I have to have someone with me that can understand the language. If I know what they're talking about I can pick up what they're talking about but I cannot speak the language. And that is even more difficult. And the thing is that if we look at education and all of those things, any decrease will have a dramatic impact on them.

**MS CHESTER:** So just looking at it then from the perspective of fiscal capacity of NT, does the NT Opposition have views on reform to the way the NT Government raises its own revenues to help improve that fiscal capacity?

**MR HIGGINS:** Look I think the NT Government at the moment has a document out on tax reform. I've been very vocal in my, you know, objection to that document at the moment, and it's around the timing of

the document. The thing is that you don't, you will never, ever increase or get out of an economic hole by imposing taxes on your constituents. The thing is when you're in a good time that is the time to look at your taxes and to increase them and build up a pool, it is not the time to do it when  
5 you're in a bad economic time.

**MR COPPEL:** Okay, I think that we've run out of time. We're on a pretty - - -

10 **MR HIGGINS:** Thank you very much, and we look forward to the report.

**MR COPPEL:** Thank you, Gary.

15 **MS CHESTER:** Yes, thank you.

**MR COPPEL:** Our next participant is the Northern Territory Government. Welcome all, I think you know the process so when you're comfortable if you can give your name and if you have a brief opening  
20 statement if I could ask you to keep it brief because we really are pressed for time.

**MR GRAHAM:** Yes. So just to reiterate the thanks that the Treasurer offered up, thanks for making the time available to come and hold these  
25 hearings in Darwin. This is obviously a very important inquiry for the Northern Territory. With me I have; Jodie Ryan, the CEO of the Department of the Chief Minister; Mr Rod Applegate, Deputy CEO of the Departments of Primary Industry and Resources; and Ken Davies, CEO of the Department for Families.

30 **MR COPPEL:** Thank you. If you could briefly each give your name so that the voice recognition picks up your voice for the transcript?

**MR GRAHAM:** Yes, I'll just make an opening statement, brief, and then  
35 open - - -

**MR COPPEL:** Okay, thank you.

**MR GRAHAM:** As the Treasurer indicated the Northern Territory is  
40 comparatively more reliant on Commonwealth funding than the other states. And that is largely due to our expenditure needs. The Commonwealth Grants Commission assesses us across all of its expenditure categories as requiring to spend about two and a half times the national average to achieve national level of services. So changes in the  
45 distribution of GST revenue, even relatively small changes, have a



disproportionate impact on the Northern Territory. A 10 per cent reduction in the Northern Territory's relativity results in about a \$1100 per capita reduction in GST revenue compared to about \$85 per capita for Western Australia.

5

The most recent update of relativities saw a \$1100 per capita reduction of the Territory's GST revenue, that compares that the next most affected state was New South Wales, which experienced a \$35 per capita increase. And just your query earlier about the breakdown of the components of that reduction in relativity, I've got the numbers now. So the total change resulted in a \$269 million reduction in GST revenue, based on MYEFO estimates. And \$77 million of that was attributed to population growth and the impact on infrastructure needs, \$53 million of that was community health, \$44 million Commonwealth payments, \$31 million schools and \$28 million for roads. And that was largely due to changes in expenditure in other jurisdictions and the impact on national averages, so factors outside the Northern Territory's control.

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So any change in the, I guess, distribution of GST and the current system of HFE represents fiscal risk for the Northern Territory, particularly any diminution of the current approach to applying HFE. And that would happen at a time of significant economic transition for the Northern Territory, and again, with associated impact on budget certainty and investment certainty. I guess from a treasury and service perspective of a fundamental concern we have is the proposition that reducing the amount of GST that is distributed away from the larger states towards the smaller states would result in national efficiency gains.

30

I guess with similar inquiries and reviews in the past have not found any compelling evidence to support that assertion. You know, at best there's been a view that any efficiency gains would be at the margin and I guess our view is that any marginal increase in national efficiency would be offset by reduced or diminished fiscal capacity of the smaller states to deliver services. So that would need to be factored into any assessment. And I understand the Commission's draft report makes recommendations around transition and how transitional arrangements would need to be implemented to ensure the smaller states are not disadvantaged.

40

So I guess we're just not sure how that would work in practice because any reduction in HFE or the amount of GST revenue that flows from the largest to the smallest states would mean that the Territory's relativity would be lower than what it would under the current system, and so therefore would be worse off by effect. But I guess so they're issues that we would also be focused on in any future submissions. So that was just my brief opening statement, I'm not sure if anyone else wanted to say

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anything, but otherwise we're open to questions and discussion.

**MS RYAN:** Yes. No, I'm just happy for questions.

5       **MR DAVIES:** Could I, Commissioners, my name is Ken Davies, the  
Chief Executive of Territory Families, so I just wanted to give you my  
context just to bring a bit of an on the ground check to the discussions  
around the Grants Commission processes and equalisation process that  
10       flows. I did want to say I've been in the Northern Territory for 40 years,  
in my experience of self government, and this is during 1978, there is an  
assumption there that when the Australian Government handed over the  
management of the Territory to the Territory Government of 1978 there  
was a standard basic level of services that were existing.

15               I started off as a young teacher in 1978 in a place called Papunya and  
at that time there were around 1000 people in that community. There was  
some housing there but a large number of those people were in camps and  
in locations around the town itself. The schooling system was working  
but was very resourced to a minimum level and the standard of services  
20       out there that you would expect in a normal regional centre just didn't  
exist to the same level. So the context there around infrastructure,  
housing, Aboriginal people at that stage - the ALRA applied of course, but  
the outstations moved and the distribution of population hadn't started in  
earnest in Central Australia at that point in time so people were aggregated  
25       into those big regional communities at that time.

              The complex layer now and the complexity is that we have many,  
many people living in a vast number of remote locations that weren't in  
those places at that particular point in time. And in the context of the  
30       service delivery that I have to provide to families and to children,  
particularly in a statutory sense, it's a very, very complex service delivery  
matrix to deliver right across the Territory in very remote locations. So I  
just wanted to just put that on the table.

35               In the context of the Northern Territory and the Royal Commission  
that's flowed out of that the Commission has made it pretty clear that  
additional resources will be required to do that. So they're both for the  
Territory to consider and for the Commonwealth to consider but this is not  
an environment where you have existing services in the primary,  
40       secondary or tertiary area in a vast number of the communities in very  
remote locations. So that's all I just wanted to say just in prefacing the  
context.

45       **MR COPPEL:** Thank you, Ken.

**MR APPLGATE:** I might make an opening statement. Rod Applegate, I'm Deputy Chief Executive of Department of Primary Industries and Resources, primarily looking after the resources sector. There's been some commentary about the resources sector in the Northern Territory so I thought I'd like to put some statements on record. The mining sector as a whole including minerals and petroleum accounts for about 12 per cent of the Northern Territory's economy, and that's the largest sector after construction.

It's grown consistently in the last 20 years along with the growth of the Northern Territory economy. The value of mining and energy and resource manufacturing sector in the Northern Territory is last year was valued at \$4.7 billion. Minerals with the total value of 3.63 billion were produced in the NT in '16/'17. And I guess the royalties that flow from that, I think from Territory's figures, around \$192 million, representative of about 9.3 per cent of our Territory's own source revenue. I'd like to make the point that there's been some comparisons about the Northern Territory and our resource rich neighbours in Queensland and Western Australia. There are some distinctive differences between getting resources developed and out of the ground in the Northern Territory compared with Western Australia and Queensland.

WA and Queensland both have resources sectors that are underpinned by very large resources of bulk commodities, which is largely iron ore in the Pilbara and coal in the Bowen Basin. This allows the economy as a scale to develop high quality rail and port infrastructures to support such multiple high volume mining projects in a very small area. For example, Port Hedland I think it supports about one million tons per tide in iron ore. In comparison the Northern Territory has a diversity of resources such as precious metals, gold, base metals, copper, lead zinc, manganese, phosphate, lithium, uranium, rare earth, bauxite, vanadium.

Unfortunately these deposits are located in very diverse and isolated geographical settings and geological settings across the Northern Territory. That presents very large challenges in that it makes it more difficult to economically develop those resources, develop common user infrastructures, support them, and making it an inherently higher costing for those projects to come to fruition than has been endured by major producers of coal and iron ore in our adjacent states.

I would just like to put on record there are some severe challenges to attracting investment in the Northern Territory. Despite that, we do have nine operating mines. But in no particular order obviously the infrastructure issues across the Northern Territory present a significant barrier to the development of our resources. We have one spine road

going north/south, we have one road going left and one road going right. We have a central gas pipeline and we have a central rail. And in anyone's book that's not a lot of infrastructure to support the development of isolated resources across one sixth of Australia's land mass.

5

The other issues besides infrastructure is that we do, I think unlike much of Western Australia, Queensland, and some of the other states, our landscape is largely covered. Meaning that we don't have a lot of outcropping and therefore it's a lot higher risk for junior explorers to actually pinpoint where they should be putting their investment dollar, given the amount of cover over where our rocks and geology actually lies. Obviously attracting capital investment in greenfield developments or explorations is fairly high risk and we've seen some aversion to investors putting their money into that sort of risky investment exploration ventures.

15

I guess the other issue is that we do have a different arrangement, tenure arrangements across the Northern Territory which further adds to the risk profile for investors and junior explorers. And I suppose there are some more other things in the regulatory space which are a little different but that also presents some challenges. Thank you.

20

**MR COPPEL:** Thank you. And we'll come back to some of those specific challenges but I'd like to begin by asking Craig the reduction in the CGC relativity that you've outlined and the factors, was that something that was forecast or predicted by the Department of Finance?

25

**MR GRAHAM:** We had predicted a reduction in our relativity for '17/'18 compared to the previous year, but not to the magnitude that we experienced. As you would appreciate forecasting and predicting relativities is not simple.

30

**MR COPPEL:** Yes.

**MR GRAHAM:** But, yes, just so based on what was happening in other jurisdictions we formed the view, and in terms of where we were at with the averaging of relativities, we did think that it was more than likely that our relativity would decline. What we didn't anticipate were those external effects on our relativity, they were completely unforeseen.

35

**MR COPPEL:** And that exercise that you do to get an idea of what those relativities will be, do you extend that out for the forward years?

40

**MR GRAHAM:** For this year we basically gave up trying to predict what was going to happen with our relativities across the forward years. It's just too difficult to be able to forecast with any degree of reliability

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what our relativity is going to look like into the medium term.

5 **MR COPPEL:** So is that linked to the fact that the NT is a very small jurisdiction and so much of it is dependent on what happens in the other jurisdictions?

10 **MR GRAHAM:** Yes. That's the main reason in that it's just too difficult for us to anticipate what effects changes in other jurisdictions are going to have on the Northern Territory, because we have very little influence on averages, or disability factors, you know, cost and usage, weights, are just factors that we can't really control or influence. Or have any degree of certainty over what effect they're going to have.

15 **MS CHESTER:** Because one of the things we'd like to do in this post draft report stage, because we will be looking at the transition path issues for our final report, we've got some projections that the WA Government has provided us, and their ideas around a transition path, we'd like to actually do our own work there and we'd like to work with you to - and other state and territory jurisdictions, to try to at least have a little more confidence around what some of those projected relativities might be so they sort of pass the reasonable test and can sort of inform our final report. So if you'd be happy to - - -

25 **MR GRAHAM:** Yes, for sure, we're happy to work with you on those.

**MR COPPEL:** And a related question is whether you've done any work sort of in your department looking at the impact of some of the proposals that we have in the draft report on the Northern Territory, the fiscal impact and other impacts, if you have if you can talk us through that?

30 **MR GRAHAM:** Look, we haven't done a lot of work. Most of the work is focussing on our submissions and preparing, I guess, our argument for responding to the Commission's issues in the draft report. But that is work that is going to need to be done and certainly once we've got a bit more certainty as to where the Commission's report is going to head, and the other complicating factor is we've got the CGC's 2020 Methodology Review going on in parallel with this process so we're also needing to dedicate resources to preparing submissions for that process as well. We only have a small team of people in our Treasury that actually work in this area.

35 **MR COPPEL:** So on that last point, earlier you mentioned that you were opposed to the CGC proposal for its 2020 review of discounting 50 per cent the increase of a change in the royalty - - -

45

**MR GRAHAM:** Yes, so just to clarify. We opposed discounting in principle but are not opposed to the issue of policy neutrality and a mining revenue being dealt with through the CGC process.

5 **MR COPPEL:** So that specific idea of the CGC through the CGC process is something that you see has merit or not?

**MR GRAHAM:** Do you mean the process?

10 **MR COPPEL:** Well the process we've talked about, but the specific idea that the CGC has put on the table to address the issue of policy neutrality with respect of the mining royalty assessment because that's one of the areas that we've identified as a source of inefficiency.

15 **MR GRAHAM:** Yes.

**MR COPPEL:** And I will get on to the other soon, what's being - - -

20 **MR GRAHAM:** So no, we don't support that proposal in principal but at the end of the day it's going to - we're going to have to come down to what, you know, a pragmatic approach. And if working with the CGC on that issue and what the possible alternatives are means that we're going to be able to live within or maintain the current system are the sorts of considerations we're going to weigh up.

25 **MS CHESTER:** Do you agree that there is a policy neutrality issue that the CGC needs to grapple with?

30 **MR GRAHAM:** Yes. I mean, you can't go through the period we've just gone through without having some sort of response because, you know, as I said initially, you could argue that it is just demonstrating that HFE works, it's the dynamic system, it's designed to reflect changes in states' fiscal circumstances. And the changes that Western Australia has just been through are unprecedented. And the relativity falling to the level  
35 that it has essentially just reflects the gains they've experienced through global market cycles and commodity price cycles. But again, it's going to come down to a practical approach in terms of do we attempt to deal with that within the existing framework or move away from the existing framework all together, and for us, the former option is probably a  
40 palatable one.

**MS CHESTER:** Does your view around that depend on whether or not you see the circumstances in WA being such an extraordinary outlier being a blip from the mining boom or being here to stay for the  
45 foreseeable future?

5 **MR GRAHAM:** I think that it has been driven by the mining boom, how long it takes to wash out is, you know, is an issue that you can take an opposing view about but I think it is cyclical and that eventually it will wash out of the system. It could take quite a bit of time.

10 **MS CHESTER:** Yes, because based on - I mean, we really tried to get a better understanding of that when we were over in the west from, you know, the Chamber of Commerce over there and from the WA Government, and the sense that we got is that the production levels now are going to stay at that level and it will just be price movements that will drive it.

15 **MR GRAHAM:** Yes.

**MS CHESTER:** So it looks like it is here to stay and that then kind of flows through to what policy solution might be needed if we're trying to deal with those policy neutrality issues.

20 **MR GRAHAM:** Yes. I mean, whether it's transitional or permanent the fact is that Western Australia's own source revenues have exceeded or have risen to the point where their assessed need for GST funding has dropped, fallen right away. Now whether that is a national efficiency issue, you know, whether that having Western Australia's relativity as low as it is, whether it's transitional or permanent, whether that is impeding national economic growth, is one that we're not so certain about.

30 **MR COPPEL:** I just want to continue on the policy neutrality with respect to royalty revenues, which you recognise is an issue in the jurisdiction of WA, do you see this as an issue that may be in the Northern Territory or emerging in the Northern Territory with some of the development, particularly of natural gas?

35 **MR GRAHAM:** It could. It could be an issue in the future. But again, yes, whether it's to the same extent that's been experienced in Western Australia is another matter. And to the extent even if it does, again, it is a feature of HFE, you know, that we would live with. I mean, we would be happy to reduce our reliance on Commonwealth funding, if we can generate more revenue from our own sources to meet our expenditure needs, that that is not an adverse outcome for the Northern Territory. In fact over time into the future we would prefer to see that. Having us an outlier with relativity at four and a half is not an ideal situation.

45 **MS CHESTER:** So does that kind of then lead us to when you even look at some of the work the CGC has done, even WA as the stronger state,

equalising to that stronger state even they can't meet their assessed expenses, you still need an EPC overlay. And that sort of gets you to the issue of vertical fiscal imbalance. And I guess there's only so much we can do within the confines of HFE on its own.

5

**MR GRAHAM:** Yes.

**MS CHESTER:** Is that what you're getting to, Craig, in terms of down the track NT being able to better deal with these issues directly?

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**MR GRAHAM:** Yes, I mean, there is only so much HFE can do and so some of those future development issues need to be dealt with through other forums. But in terms of, I guess, just at this stage of development providing the Territory with the capacity to fund services to its citizens and to fund infrastructure, you know, the current model we have, is we can't think of any alternative that works more effectively.

15

**MR COPPEL:** You've initiated in the Northern Territory a process of tax reform and you've put out a discussion paper, is that framed from a revenue neutrality perspective or are you also looking at additional capacity to increase your own sources of revenue?

20

**MR GRAHAM:** It is more about the fact that I can't recall a similar review of our tax system as a whole being done. Most of the changes to our tax system have just been incremental and ad hoc over time. This is more just an opportunity to sit back and take a look at our taxes, our own source tax system as a whole, whether we've got the mix right, whether our tax system is acting to impede growth and development is more the purpose of the exercise.

25

30

**MR COPPEL:** Are you looking at how different tax bases, changes to those tax bases, may impact on HFE distribution for the Northern Territory?

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**MR GRAHAM:** It's more in terms of the economic effects that the tax system has. It's not so much around what the impact it would have on our GST share but, you know, we couldn't do that work without informing government on what the likely whole of government funding or revenue implications are going to be.

40

**MR COPPEL:** And in the discussion paper you've got a number of examples of how changes in tax bases or tax rates would impact on revenue, can you sort of talk us through some of the assumptions you make in terms of needing elasticity for that work, I think is relevant to some of the criticisms that have been made on our cameos in the draft

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report in relation to elasticity, so I would be interested in whether the work that you've done for that discussion paper builds in some form of assumptions relating to elasticity?

5       **MR GRAHAM:** No, it doesn't, because trying to, I guess, assess the impact of elasticity is fraught. I mean, the CGC itself no longer factors in elasticity effects in its revenue assessments simply because of difficulties associated with it. But, I mean, we'd be happy to look at those in more detail if you think, you know, there's more work we could do or more work you think we could assist with in terms of helping you with your - or  
10       informing your recommendations.

**MS CHESTER:** And is that because it's hard to do, which we know, because even the CGC wants to do it because they know in principle that  
15       it does exist and to be able to understand the impacts of for them to grapple well with policy neutrality they do need to deal with the elasticity. It is difficult, indeed, I think they've got some major consultancy piece of work under the way on the whole area. So is it because it's just too difficult or you don't think the elasticity effect is there?

20       **MR GRAHAM:** I think it's both. It's difficult and, yes, there's some questions as to whether those effects are material.

**MS CHESTER:** So with the numbers that you've done in terms of revenue impact have you looked at trying to build in some impact on GST  
25       relativities or put that in the too hard basket as well?

**MR GRAHAM:** Yes, we haven't done that work. It's really just we haven't really had, you know, the time or the opportunity to go into that  
30       level of analysis. As you know, the timeframe for the inquiry is quite compressed and so I guess the work we've done was really to show, demonstrate the interrelationships, more so than trying to precisely quantify those effects.

35       **MS CHESTER:** What's the next milestone for that piece of work, the discussion paper?

**MR GRAHAM:** Yes, so submissions are due by the end of February and then that will form budget proposals to go into next year's budget.  
40

**MR COPPEL:** A question we've asked a number of jurisdictions is the dichotomy between the Commonwealth Grants Commission process and jurisdictions that have state based Grants Commissions and how they allocate resources to local government areas, which is typically at least a  
45       sizeable portion on an equal per capita basis, and I'm wondering whether

you see any sort of inconsistency in that treatment or issues in relation to sort of equity within a jurisdiction in terms of providing services, if you want to comment on that?

5       **MR GRAHAM:** Look, I can't profess to be an expert in the distribution of local government, the local government FAGs. But in terms of distribution of funding within the Northern Territory, you know, we don't attempt to mirror the Commonwealth Grants Commission's sort of, you know, use or cost weights or anything like that, but we do have funding  
10       formulas which account for issues like remoteness and indigeneity, school funding formulas, formulas for funding allocation of police and health resources, so there is I guess attempts made to ensure that the factors that influence costs and demand of services within the Northern Territory are taken into account in the funding, allocation of funding and resources.

15       **MS CHESTER:** Just in terms of one of the key things, so I think there were sort of two areas where we need to do a lot more work, it's around how much of a case is made about what's the impact on real economies and economic growth of HFE, and we're going to do some further work  
20       there, but also around the transition part. And when you kind of sit back for a minute, so we only sort of articulated one principal in guiding the transition path and that was that the fiscally weaker states and territories would not be materially disadvantaged.

25       So there's different ways of looking at that in terms of what are the levers. So pacing and over what period, what relativity you might want to see WA get to before you - so the band is a bit narrower before you started to implement a transition path. And then also around the GST funding mechanism as well, what's the growth rate on that pool. So are there any  
30       other sort of principles or levers in a transition path that you can think of that could help us do that work?

**MR GRAHAM:** To be honest we're not really sure what was meant by, you know, that no smaller - or a less fiscally - stronger states would not be  
35       materially worse off. Because as I said if there's a reduction in our relativity compared to what it would have been under the existing system then by design you'd be worse off. But in terms of any sort of transition, I think you've identified the two main levers as is relativity and a pool, there's no other levers, so to speak, that leap to mind. I mean, we will  
40       think about it more but I guess they're the two obvious ones, phasing in that relativity through some averaging process seems to be the obvious one.

**MS RYAN:** Jodie Ryan, from the Department of Chief Minister. Just on  
45       that, any transition, saying that we're not going to be worse off, the CGC

would still have to do the work under the current system to determine what that worse off is. If presumably if we transition a way to a lower relativity we would then be reliant on the good graces of the Commonwealth to fund us and historically that's something that you can't actually rely on UTE. So they could suddenly have a budget issue and just cut the smaller states additional top up transition funding by 10 per cent, to them it's not much but for a jurisdiction our size that's a substantial amount.

10 We have a large proportion of our budget is ongoing funding. So you can't suddenly decide to close a school one year and then open it the next if you get the funding from the Commonwealth. We have schools that are remote, we have health clinics, we have hospitals, we have police stations, the large majority of our budget is taken on ongoing service delivery to Territorians. So to be at the whim of a Commonwealth budget annually would severely harm our ability to plan, predict, and actually try and deliver the services we have to deliver.

20 So we'd be constantly at the whim - and you might think that a couple of hundred million isn't much, in the Territory's budget's context it's an incredible amount. So our total budget is six and a half billion at the moment. One or two hundred million is a substantial amount, it's five to 10 schools. It's a hospital and a couple of health clinics.

25 **MS CHESTER:** So one other thing would be some of the larger states effectively co-funding that transition path, which is something that we put rather robustly to the WA Government when we were over there. You can enjoy reading the transcripts. But it would be good to get your feedback on their thinking, not just the projections but how they're approaching the transition path because we'll be looking at a transition path and we do want to be able to consult with you on that. And in terms of materially disadvantaged, the sorts of issues you just talked about now, Jodie, in terms of impact, in terms of percentage, say, of revenue capacity of the NT, is the sort of thing that would be another guiding principle in terms of impact on fiscally weaker states. Because when you kind of just look at the headline metrics at the moment superficially you'd see we're taking you - if we were to do it cold turkey the next day, we take you from 4.66 to 4.55, and superficially that doesn't look huge.

40 **MS RYAN:** But in practical terms it is.

**MS CHESTER:** Exactly, so that's where we need to - - -

45 **MR COPPEL:** We're calculating the authenticities of it, translates, do you think we'll need it in 2016/17, 79 million for Northern Territory - - -

5                   **MS CHESTER:** Or equalising to the second highest, 33 million. So and we still have to come to a landing on, if we end up landing in that area, on what is a reasonable standard. And we do have a spectrum from when we've raised if you're equalising to the second highest, which indeed, through the period 2000 to 2010/'11, I think, the outcomes of the current system overlap with equalising to the second highest. And that's only when you go equalising to the average that there would still be some disparity, so.

10                   **MR GRAHAM:** I guess we'd be keen to understand the relative impact as well, you know, 79 million for us is significantly more than say 79 million for a larger - - -

15                   **MS CHESTER:** No, and that's before I mentioned the 2.4 percentage points of your revenue, because that to me makes more - is a more meaningful metric than - yes.

20                   **MR GRAHAM:** Yes.

**MR COPPEL:** Thank you, very much.

25                   **MS CHESTER:** Look, I think you guys have said it first in terms of having four very senior officials joining us, I don't think I've had a public hearing where we've had so many senior folk from one jurisdiction attend, so we do thank you very much.

**MR COPPEL:** Our next participant is Tom Ganley. Northern Territory Airports.

30                   **MS CHESTER:** And the man who knows where to find good coffee.

**MR COPPEL:** Welcome, Tom. We ask you to give your name for the purpose of the transcript and if you have an opening statement to keep it brief and then we can ask you a few questions. Thank you.

35                   **MR GANLEY:** Thank you, and good morning, Commissioners. My name is Tom Ganley and I represent Northern Territory Airports. Northern Territory Airports is the private operator of Darwin, Alice Springs, and Tennant Creek Airports. And Darwin Airport itself has some 1800 people employed on that airport and represents about 1.2 per cent of the NT GSP. So it is a significant or a major business in the Northern Territory. We ourselves employ about 90 people. And I suppose just talking about the fiscal equalisation and the impact, our earnings are about 40                   \$79 million. So the number we are talking about is very real to us. So we 45

are a major investor also in the Northern Territory and have invested some \$500 million across the Territory since 1998 when we were privatised.

5 I suppose just to get to some concise points on the horizontal fiscal  
equalisation, I suppose we did have some concern about the draft findings  
in that we see the system as it is providing some stability to government  
here and I suppose any adverse consequences to state funding is of  
concern to our business, and indeed many businesses in the Northern  
Territory. And it has a detrimental impact on potential investment in the  
10 Northern Territory and also just our competitiveness in the Northern  
Territory. We are a unique jurisdiction, as many of the other presenters  
have spoken about, in terms of our isolation, our Indigenous population,  
and the remoteness of that Indigenous population across one sixth of  
Australia's land mass.

15 So certainly we need funding stability and certainty to encourage  
investment, and indeed, I suppose the White Papers that are currently  
looking and focusing on North Australia are really about encouraging  
investment in the north and diversifying the economy. I suppose we are  
20 very much a small taxation base so if the Northern Territory Government  
does potentially lose up to the \$79 million in GST funding and need to  
source it from own source revenue I suppose they've got very few levers  
to pull and that does concern business in the Northern Territory,  
particularly ours.

25 There are about 2000 businesses in the Northern Territory that pay  
payroll tax and I suppose the payroll tax harmonisation with the threshold  
at \$1.5 million has been good in terms of allowing competitiveness across  
the Territory. I think the discussion paper that the government has sent  
30 out, if we were to recover that amount from payroll tax it would mean  
increasing the rate, say, from 5.5 to somewhere in the order of nearly  
seven. So that would be a concern to our competitive nature, and indeed  
businesses operating in the Northern Territory and not going elsewhere.

35 I suppose we have seen even in the Commonwealth context, I think  
some of the speakers yesterday spoke about some of the Commonwealth  
agencies that are no longer here, it is a real threat that business does leave  
the Northern Territory. The Taxation Office, ASIC, and others, have left.  
And indeed, that spreads across to private business here as well. As an  
40 airport it's a bit hard for us to lift our assets so we do need to work in the  
environment that we are here. We do use building block pricing so any  
cost increase to our base we will need to recover from our customers.

45 Some of those customers are major airlines but in the Northern  
Territory we have some 60,000 general aviation movements at Darwin

Airport. And those light aircraft are servicing remote communities. And particular at this time of the year as we come into the wet those light aircraft are used essentially like taxis because we have very limited road to infrastructure in the Territory to those places, but indeed, two to three metres of rain a year impacts the serviceability of those roads, if indeed they do exist.

So certainly at our Tennant Creek Airport and our Alice Springs and Darwin Airports we see aircraft being used in that capacity. But supplying medical needs, postal needs, you know, we have flying vets, we have just some of those most basic necessities communities need are serviced from those airports. And of course light aircraft are quite expensive to operate, you've got to single pilot covering three or four passengers there so we do certainly need a competitive base here. We have a limited manufacturing base in the Northern Territory so we need to encourage investment, and we need that competitive business environment.

Indeed, when we expanded the Darwin terminal some two years ago we had to bring much of the product in from interstate, there was nowhere in Darwin that can provide curved steel so we had to bring that infrastructure in from Western Australia. We're about to overlay the runway at Alice Springs Airport, a \$17 million investment. We have to truck a bitumen plant into Alice Springs and then also truck all of the bitumen in to allow that to occur. So these are unique problems we have in the Northern Territory but I even feel, you know, more so for places like Alyangula Airport trying to get a bitumen plant over to Alyangula, I'm glad I'm not operating that airport.

So I suppose, you know, we're seeing we need further funding here to create an investment portfolio here for the Northern Territory to expand. And I suppose we're keen to see some stability in the funding arrangements for the Northern Territory. The current methodology should hopefully continue and I suppose, you know, we're concerned if we do go to some sort of partial equalisation that it will severely impact the Northern Territory. But I certainly note in your report that you have taken care of that fact as well in terms of saying that reducing payments to the poorer jurisdictions is certainly undesirable. So I suppose those are just my key points.

**MR COPPEL:** Thank you, Tom. Can I just ask you are Northern Territory Airports a privately run or a state owned enterprise?

**MR GANLEY:** So we're actually a privatised airport regime, so we were privatised in June 1998, so we're essentially owned by the mums and dads

of the Northern Territory. We have some 70,000 superannuation investors getting a return from the airports and some of those shareholders are also across other airports across Australia. But Australian Super, and indeed the NT Government Super Scheme, are major investors in our airports in the Northern Territory.

**MR COPPEL:** When you say changes to the HFE system would affect the cost base of NT Airports, how does that happen, what's the mechanism that - - -

**MR GANLEY:** Well I suppose it's just taking it to the next level, that the NT Government would then seek to recover that money to continue to provide the essential public services we need by obtaining that shortfall from its own source revenue, it's got very few levers to pull. So payroll tax, if we're one of the 2000 entities, we'd go up to potentially at 6.9, I think if they increase motor vehicle registration, fees, you know, I think the discussion paper says they'd go up by something like 240 per cent. And, you know, that is a severe impact here in the Northern Territory, we're competing to get employees from interstate if our registration fees are uncompetitive.

Yes, Darwin and Alice Springs have some public transport systems. We're not blessed such as Melbourne with a brilliant tram system, bus system and train system. You know, in Papunya and Yuendumu and others, you know, there is no public transport system, it's a motor vehicle or a pair of thongs. You know, that's all you've got to access the communities so those blunt levers that we have, you know, increasing gambling taxes, we need infrastructure here at casinos and others to be world competitive or to attract international investors and not rely on the local population. So we need those taxes to be competitive and for that investment not to go elsewhere and interstate, or overseas.

**MS CHESTER:** So I guess, Tom, from your perspective you're viewing it through the lens of your shareholders which is investor confidence and impact on costs?

**MR GANLEY:** Yes.

**MS CHESTER:** To the airports that you run. And in that context the NT Government have looked at some tax reform options including around payroll tax. From your perspective for investor confidence what would you want to see in terms of tax reform by the NT Government?

**MR GANLEY:** I'm glad they're actually undertaking the review and, you know, it is good for that to occur. I suppose we're looking at all of

the elements there, we do need some stability though in what we've got so I suppose there is some sovereign risk there. You know, we look at South Australia proposing a bank tax and what that did to their funding sources for the government with, you know, the major banks looking to withdraw and do other bits there. So, you know, any of those types of taxes need to be viewed with caution. Similarly looking at insurance, you know, potential levies on insurance, you know, we're above the 26th parallel here so our insurances have a premium on them because we do have wind and cyclone, water and other risks there.

So we need to compete - we need to look through the lens that the government has got there to ensure that we remain competitive against interstate jurisdictions. So any changes to our system needs to be viewed in the context of what others are doing so that we don't outprice ourselves and certainly that's been one of the beauties of payroll tax harmonisation, is that, you know, it did reduce red tape and create some harmony across the environment. So I suppose we need to look at them all in context against interstate jurisdictions.

**MS CHESTER:** Because I think the Business Council when it looks at state based tax reform would in terms of payroll tax look at broadening the base and lowering the rate, which I imagine would be an advantage in a commercial sense for the NT Airport. And I haven't read the full detail of the discussion paper, I think Jonathan is probably a little bit ahead of me on that. Is that something that has been contemplated by the NT Government?

**MR GANLEY:** It certainly is in the discussion paper they have sent out. I suppose they have done a scenario there potentially lowering the threshold to 600,000 from the 1.5 million. I think we have some 13,000 business in the Northern Territory so it would certainly increase the taxable base. I suppose the concern there is also that many of these businesses are mum and dad type businesses, some of them are in rural communities, so it is increasing that cost base to those jurisdictions as well. So, you know, there is negative impacts there.

I suppose it creates a vicious cycle, if we increase taxation we reduce our competitiveness, we potentially reduce our population base and then potentially we reduce GST revenues going forward. So we can see it commences a downward spiral which is of concern, but it certainly is an option that is being looked at and, you know, the Chamber of Commerce, I believe, are even in the paper today saying they have some concerns from their 1200 or so members if they did broaden the tax base to say that 600,000 threshold.



5 **MR COPPEL:** In the charges that you apply to airlines, you noted you've got many services providing access to remote parts of the Territory, in setting your charges do you try and take into account the costs of those services or do you also try and provide sort of access to remote communities by providing less than the cost, charging less than the costs of providing those services, or do you get any grants from the NT Government to enable that to address some of those remoteness - - -

10 **MR GANLEY:** No, so we get no state or federal funding in that respect. And indeed, the NT is probably a unique jurisdiction in that it operates probably 70 to 80 airports of its own or on behalf of the many outreach communities. So it's probably got its own - well, indeed, it does have its own funding constraints there, it seeks Federal Government funding to try and seal some of those strips or maintain them or even have lighting at night so the medical services can attend. But certainly in terms of our pricing, we allocate the assets that those aircraft utilise so that they're not subsidising or having to contribute to assets at our airports.

20 We are a joint user airfield so we have significant assets there that a light aircraft would not need. So the secondary runway at Darwin is sufficient for them, they do not need the 60 metre wide runway we have at Darwin which enables the A380 and Galaxy and others to use it. So we try and keep the cost base to what is needed so that those prices are what they need to be. But certainly our \$25 or so a ton for maximum takeoff weight of an aircraft is small in the equation if it's sort of \$800 one way to fly to, say, Tennant Creek. It's just the operating costs of those aircraft, they're very old aircraft.

30 The general aviation for aircraft is, you know, some 20 to 30 years old so we're having to maintain in Australia a large and old fleet. And then you've got the costs of labour. And fuel is, you know, about 30 per cent of the operating costs of those aircraft again. In Alice Springs and Tennant Creek the fuel needs to be trucked there so we've got expenses there. And then in our communities the Northern Territory Government also has issues in terms of having to secure aircraft on communities. We have certain security requirements, some of those aircraft need to be flown back because we have petrol sniffing and other social issues at some of those communities that require additional infrastructure to be put in at those ports.

40 **MR COPPEL:** They are the questions that I have for you, so again thank you very much for participating in the public hearings. It's good to get a perspective also from some of the potential stakeholders that may be impacted by changes to the HFE system.

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**MR GANLEY:** Thank you both very much, and thank you for extending your visit to the Northern Territory.

**MS CHESTER:** Okay, thanks, Tom.

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**MR COPPEL:** The next participant is Des Crowe from the Australian Hotels Association. Thank you, now can you provide your name for the transcript and a brief opening statement?

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**MR CROWE:** Des Crowe from the Australian Hotels Association NT Branch. We have 160 members across the Territory. The nature of our organisation is that we have different divisions. We have an accommodation division, we have what we call wayside inns, which are the remote area of businesses that are on all the arterial roads throughout the regions of the Territory. We have licensed clubs, we have the hotels and taverns. And accommodation division and restaurants is probably doubled up there, but - and overall in the hospitality in the Territory there's about 16,000 employed in the Northern Territory, of roughly just under 10,000 of that would be equivalent to full time, full time employment. So this is just a brief introduction.

20

There was only a couple of things I sort of wanted to mention today and I've obviously had the benefit of listening to what went on yesterday and this morning so I've got a lot better idea of what your focussed on as such. But certainly workforce development as it relates particularly to some of the work that we've been doing, Indigenous tourism opportunities. And then just a bit of a feedback to you in relation to the consequences of the change in relativities from the previous years to the impact that that's had on a sector of our industry as an immediate result of taxes being increased. So they're the three areas that I particularly want to address.

25

30

You were talking yesterday about some positive stories so if I just tell one positive story overall would be what's gone on at Yulara in relation to the Indigenous Academy, the training there of Indigenous students, preparing them for the hospitality workforce. They've got specific targets where they're trying to attain up to 50 per cent of the workforce there, which I think is roughly about 1000 would be the workforce there. At one stage there they were up to about 300 Indigenous employees involved in that, so that sends a very good message in relation to, (1), the Indigenous workforce, and (2), for us, being able to work in the hospitality industry in the Territory where we obviously place a heavy reliance on labour shortages, obviously coming from interstate or coming from overseas.

35

40

45

You've been given the numbers in relation to locals that are

potentially not participating in the workforce, particularly there is obviously a high number in terms of Indigenous communities that aren't participating in the workforce. So one of the interesting things about that Indigenous involvement there, and it also sort of reflects about what's been said yesterday and today, is that that involvement has come mainly from interstate Indigenous students. So they've benefited through other services being interstate in relation to what level they are up to in terms of numeracy, literacy and their ability to be able to move to a location, to a remote location, and work there.

There are fundamental differences between that cohort and so the cohort of any other Indigenous, potential Indigenous people, that could work in just our sector for example. So we've been, the AHA, has been doing some work on workforce development, and Tennant Creek has been an interesting area there. We would see that if you could replicate what's gone on in Yulara, even to a smaller degree in places like Tennant Creek, it would have dramatic consequences on improving economic activity for tourism generally and that the major drivers of that tourism would be probably either Indigenous owned businesses or certainly businesses where there is a fair involvement from the Indigenous workforce.

So from a positive point, so we're quite optimistic that over a period of time that will occur. You can see with the Northern Territory Government what their approach in relation to the Arts and Museums, trails, these townships like Tennant Creek, like Katherine, like Nhulunbuy, are going to get the benefit of some capital investment. But our concern will be at this point in time is making sure that they've got an appropriate Indigenous workforce which is what the tourists will want, that Indigenous experience. And so from future wise tourism will depend on how we're able to engage with the communities and how they participate in our workforce.

But I note your comment yesterday about inside the gate and outside the gate, a lot of the work obviously has been dealt with inside the gate but we notice in a place like Tennant Creek that those that are progressing past year 9 and coming off community to move to Tennant Creek they can have substantial pastoral care issues, et cetera, about whether or not they can withstand living within Tennant Creek to participate to go through the school system, which might offer them VET opportunities. We know from your data that you presented in other reports that Cert III qualifications for Indigenous are well down on average. And I would go further than that, Cert III Indigenous in the Northern Territory would be well down on the Indigenous averages.

They're the sort of impediments that come through because of

whether it's housing, education and health. But on the brighter side we sort of see where they've had the opportunity where other Indigenous communities have had the opportunities, we've seen this great interest to participate in the workforce and a benefit for us effectively from the hospitality point of view about participating in the hospitality and tourism workforce. That's a comment I sort of wanted to make and the next part was in just in relation to the impact in terms of business.

So as I said, I was probably coming to vent a bit of anger towards you guys previously in relation to the way that things have happened with the drop in the GST pooling for the Territory. But as I've been here the last of couple days you've sort of given me a good lesson on how the Commonwealth Grants Commission works and I've had the opportunity to read some of that material and obviously it is of concern that our budget relies so heavily on it. But as a consequence of that that's certainly one of the kneejerk reactions from the Territory Government when it came out earlier in the year, was to increase gaming taxes, particularly in relation to electronic gaming machines, which would affect about 80 businesses in the Territory. So a very small business compared to what you might be used to in the eastern states.

But the immediate effect of increasing the tax rates as such was obviously to devalue of the businesses and also to put pressure in relation to how the loan is assessed. So our experience in relation to just the impact of the gambling taxes in relation to electronic gaming machines going up has been a bitter experience for quite a few operators who only a couple of years ago, this is a fairly immature market in the community gaming where effectively they were invited to participate and buy entitlements, roughly 12 or 13 million dollars worth of entitlements were purchased. And then that was obviously based off a previous tax rate but as a consequence of the change in the GST pool the change of the tax rates meant that that's dramatically affected their ability to actually repay some of the loans that were made in relation to purchasing the entitlements to participate in that area to start with.

Now, you know, in terms of devaluations, et cetera, you're talking potentially, you know, the ranges depends on what your reliance is in relation to that income but 10 to 30 per cent of the value of your business is effectively taken away overnight. So those consequences when you look at other, when you look at the Territory revenue issue, in terms of payroll tax, land tax, would be a significant issue based on the nature of nearly all of our businesses are leasehold businesses. And, you know, unless there's some prohibition about passing that land tax on then you can expect the owner of the land will pass it under the lease terms to the tenant. So land tax will effectively be passed on to the leasehold

businesses.

5 Payroll tax, again, there would be, you know, some of the nature of  
our smaller businesses wouldn't be caught by the payroll tax at this point  
in time, obviously a drop of threshold would involve them to be caught.  
And they're all obviously involved. Motor vehicle. But it's also the  
general effect of the increased taxes about what that would do to consumer  
sentiment and consumer discretionary spend. The overall effect in  
relation to it is that it undermines some of the services that are provided.  
10 We also have with the economy at the moment from our accommodation  
tourism point of view. I think Yulara is obviously doing exceptionally  
well, bursting at the seams, but really can't expand, from a productivity  
point of view.

15 Alice Springs' return is getting a lot stronger but it went down  
considerably from what it was 25 years ago, but it's on a rebuild. The  
Greater Darwin region is one that suffered heavily as a result of the drop  
off of the top of tourism, and also the drop off in relation to the revenues  
being raised through accommodation. That's probably not going to  
20 change in the immediate future as such and the tourism, the rebuilding of  
the tourism industry up here is probably going to be a bit of a slow burn.  
And sort of the airlines are the critical factor in relation to that, the cost of  
airfares here is enormous, as you might have noticed if you look at your  
tickets, about what it costs to actually fly to Darwin and to fly to Alice  
25 from Darwin, fly to Katherine and Tennant Creek. I mean, they're all  
enormous costs which are impediments for certainly for tourists as such.

I know you've only given me a couple of minutes but the only other  
thing, I will just make some comment. I would have concerns about a  
30 reduction in the GST pooling where effectively the autonomy was taken,  
you know, where there might be an opportunity to quarantine moneys, and  
that was given - that was done by the Commonwealth. The dealing with  
the Commonwealth has been quite difficult in certain areas here in the  
Territory over the last 20 years. Employment services has been a major  
35 one where we've lost a lot of the flexibilities as a result of the privatisation  
of those employment services as such, and then the outcomes and  
deliverables that are sought from Canberra are different to the outcomes  
and deliverables required in the Territory and the flexibility that's needed.

40 We've seen as a result of all that a loss of involvement with  
community as a result of the Commonwealth being involved and, you  
know, changing those programs. Now they were obviously CS were  
involved but you can see the way that they deal with things is to reduce  
the number of the people on the ground and outsource things. And then  
45 those that are left are left with some tied funding, which they don't have

the flexibility to actually do the job properly or to change and have a different approach, which is what's needed in some of our - you know, for example, Tennant Creek or Katherine might need a slightly different approach to how what you might need in Darwin. Or certainly a different approach to what might be required in terms of Melbourne.

We've also sort of seen in relation to things like immigration, et cetera, about the application of strict black and white approach of a federal scheme that hasn't quite worked for us in terms of things like the 457 visas and interestingly the development of the Designated Area Migration Agreement, which has been managed by the Northern Territory Government but still controlled by the Department of Immigration. It's something that's been quite successful because the local knowledge and understanding of what actually happens on the ground has been very important.

So I always get concerned – well, I support the Northern Territory Government about them losing autonomy and those sort of things and when you look at the big ticks under the big ticket items obviously, you know, people tend to focus on the education and - education and health obviously are the major ones, et cetera, but in terms of employment services and training for workforce development, you know, from the Territory, we need to be able to increase participation in workforce at a Territory level. And that is going to be our major solution because I don't believe politically we're going to get much help in relation to overseas migration.

Your report, you know, gives a quick summary in relation to the impediments in relation to - well not the impediments but the reasons why people don't migrate from their own state as such. So it was actually quite interesting to read that part of your report when we consider about population, and our major thing is we don't have enough skilled people here to do the jobs that are on offer as such. Short term we need to seek migration. Interstate migration is pretty poor. We have to then rely on overseas migration as such. But the end result would be higher workforce participation from locals.

**MR COPPEL:** Great, thank you. If I can summarise, is the key point you were making that a change in the GST distribution would lead to implications for other tax bases that would then have consequences, flow-on consequences, for the businesses that you represent?

**MR CROWE:** Certainly, and just, you know, a snapshot would be - the one thing I didn't mention is that the proposed investment that was coming as a result of that and certainly for those businesses that were

involved in purchasing gaming entitlements, hasn't been achieved as a consequence of the new tax rate. Because some of them has commenced it but when they'd realised that their return on investment has been greatly reduced, a combination of their ability to source finance and then just  
5 general planning on any return on investment, it's just they can't proceed with it.

So where you start, and you've got to get a balance in terms of what revenue you can get out of businesses, but where you go too far you won't  
10 get private investment. And the private investment, you know, like, so we're talking about associated construction. So the smaller tradies around the place aren't getting those constructions. So I don't know what the multiplier is these days, about two and a half, in relation to generally in relation to where some construction businesses would go and where that  
15 would flow through to the community.

So those decisions aren't being made and my concern would be whether it's our sector or another sector where we're basically talking about small business, where you suddenly increase - or, sorry, reduce  
20 profitability as a consequence of increasing the taxation, or the revenue collect, then you can stymie investment. And you also start pressuring whether or not they can sustain their business. And that's got to flow on to the workforce because if you can't - you know, the services need to go, and there might be entertainment options, it might be as simple as we're  
25 not going to get a muso in tonight in relation to we can't afford to be paying for these.

So then our live music industry starts getting reduced in the Territory. So you have all these indirect consequences as a result of decisions that  
30 need to be made and so going back to some very core things of just trying to provide food and accommodation and beverages.

**MR COPPEL:** You may have heard earlier when the Northern Territory Government was at the table the discussion on tax reform in the Northern  
35 Territory and we were asking about what they considered to be the impact of, for example, the change in payroll tax on the number of people employed. And they were essentially for that exercise saying that there's zero impact, that's what we call an elasticity in economics. Listening to you, you would suggest that certainly there is an impact and the way you  
40 characterise it would be those impacts on the level of activity, level of employment, could be quite substantial even from quite small changes in tax rates?

**MR CROWE:** Yes, because of the other boot, and I mean it's the  
45 accumulative effect of what's gone on as such, so, yes. And to be honest,

we haven't gone through sort of like in relation to examining the land tax but obviously the land tax scenario, you know, there's that transitional arrangement potentially where they go into land tax and they reduce the conveyance rate, well that doesn't help us, you know, we've already  
5 acquired the businesses as such and then we're going to get the land in terms of a leasehold. And those costs, you know, are being passed on.

I mean, you heard the airports talk about their costs, well what would they do? Well they're effectively the landlord, they're going to pass it on  
10 to their tenants so it's no different, you know? And when you look at it, you know, and I think the problem we had in relation to dealing with Treasury, Treasury looked at basic figures and then made a decision in relation to a tax rate. Well, they didn't actually consult with us and then they didn't actually understand how that might affect how our loan ratio,  
15 your loan valuation ratios, would be impacted. And what margin of businesses would be impacted as a consequence of those tax rates.

They didn't do any economic modelling in relation to it, they sort of tend to say well that's a big picture, big amount there, and that's a big  
20 amount there, let's work that out. And we obviously we are meeting with Treasury to provide them with the further information to give them that actually that economic modelling about how it impacts businesses because when you're talking about Territory we're not talking a huge number of businesses. So it doesn't actually take that long to sit down and work out  
25 what impact it's going to have.

I think you learn a lot from - the accommodation one is, you know, another important one in relation to payroll tax, et cetera. They're in a situation at the moment where we hadn't seen a huge reinvestment in  
30 capital or, you know, refurbishments that are probably required to maintain the standards that all the tourism bodies would be asking for because there's some great uncertainty because of our economy at the moment. There's also to a certain degree there's an unknown about in terms of disruption in relation to as INPEX comes off line here in Darwin here in particular the  
35 number of units that are vacated which then compete in the same market as the accommodation for tourists.

So owners and managers of the accommodation are uncertain as to, you know, like they're seeing things reduce and they're obviously seeing  
40 their revenue reduce, and so they're not in a position to reinvest. So again, things like payroll come along or land taxes, et cetera, come along, that affects all their bottom line. And they then also compare it to interstate or internationally how they are trading. And you know, the high costs of freight, et cetera, the air fares, et cetera, make it very, very  
45 difficult to compare from like Darwin and I feel sorry for some of the



managers that take over accommodation places here that are in the chains because they're on a hiding to nothing on comparisons to other parts of Australia and as well as internationally. We're at a disadvantage in terms of what the cost is to actually provide the type of accommodation that they're used to providing uniformly across the chain.

**MS CHESTER:** Des, I'm conscious of time, I've just got one super quick question for you. It goes back to the point that you made about the increase in the gambling or the gaming revenue on gaming machines, what was the revenue raised from that change, what sort of - - -

**MR CROWE:** Well that's where we're still trying to get some figures out of Treasury as to the effect of that because we've only got figures prior to the revenue coming in, but it was within the hotel sector, it's my understanding it's somewhere five, six million as such and then probably put in on an annual - it's an annual increase, and the revenue, I think roughly the revenue from hotels is roughly about - so turnover, is about 30 million.

**MS CHESTER:** Yes. Now the only reason I ask is that the way the CGC deals with one issue of policy neutrality around gambling revenues is to actually take it out of the equation. So it's off the table, it's not taken into account when they work out the relativities. So to some extent by dealing with the policy neutrality issue that way it actually creates an incentive for states then to tax that base more because it doesn't impact their relativities in a negative sense.

**MR CROWE:** We've now got the highest tax rate in the country in relation to the EGMs as such. And there are other gambling access that they would have but the difference there is a lot of them are tied up into agreements, long term agreements, whereas those of you that aren't tied up to an agreement are subject to, you know, potentially a decision that can - with no notice, well a couple of months' notice, which isn't the sort of conversation that you want to have with banks. And probably the only other thing I can mention in relation to that from a productivity point of view, it means that the multinationals are in the best positions to be able to come in and buy up on some of these businesses because of the nature of they don't need to go and source lending.

So in terms of their ability to those larger corporations, they've got the ability to have their own self funded. And in the Territory it becomes quite obvious their ability to do that. And that would be of a concern, as those tax revenues go up and the profit drops down a few of our businesses are going to be certainly under the pump. We know a few of them that are already boots up. But it does open the door for those that

don't have to worry about lenders or banks, their ability to come in. And that's probably a consequence of raising the tax rates.

5       **MR COPPEL:** I'm going to have to draw it to a close because we've got only about 15 minutes left and we've got one other participant and potentially those at the end that may want to speak. So again, thank you very much for participating in the hearings and giving your views on the possible implications of changes.

10       **MR CROWE:** Thank you very much for attending, coming to Darwin, I appreciate it because it was very informative, and from a transparency point of view I think it's been great.

15       **MR COPPEL:** Thank you. Our final participant is David Malone. We are pressed for time, so if you can keep your opening statement very brief and then we'll only have a couple of minutes to actually ask you questions.

20       **MR MALONE:** All right, I will keep it very brief. Dave Malone from Master Builders NT. Our industry looks at things in a very, very simple way and we look at the fact that the only sustainable way to actually reduce relativities for the Northern Territory in the long run is to grow this economy. That anything else just creates a vicious cycle of decline and, you know, governments will cut back on both infrastructure and services as a result. The alternative is try and grow this economy as quickly as we can. And you know, it's sometimes lost in terms of context, and Ken Davies talked about this today, the fact of the matter is that we only started this journey for the Northern Territory in many ways, you know, some 40-odd years ago in terms of trying to build a sustainable economy over one sixth of Australia's land mass.

35       We think that infrastructure is the key. That in actual fact even in 2017 there's an enormous deficit in terms of infrastructure in the Northern Territory. Today if you look at the Northern Territory Government's budget perhaps 25 per cent of the total budget is being spent on infrastructure right now. And it's infrastructure in terms of putting bridges across rivers just so people can get close to all weather access. In many ways all weather access is still a luxury good in the Northern Territory where people get that for short periods of the dry season and that adds to the cost for business to do business and it certainly adds to the cost for government to deliver services to the community.

40       So we would argue that when you're looking at relativities for the Northern Territory you need to take into account this context that unlike some other states which have 200 years plus at some cost infrastructure

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that's gone in and that business community investors are able to leverage that, service providers are able to leverage that. The Northern Territory has been given the challenge of trying to deliver those services post 1978. I've been generally speaking, the Northern Territory has done a great job so far. There's always questions about where priorities might go, but the number one challenge for the Northern Territory going forward is to put infrastructure in place that allows the private sector to invest to grow the size of this economy so that we actually get to the point where we're closer to parity with the other states in Australia. How is that?

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**MR COPPEL:** Thank you, excellent. I have one question which does relate to infrastructure, and among the Commonwealth payments to state and territory jurisdiction, it's obviously the distribution of the GST pool, there are also special grants, including for infrastructure, and I'm wondering what perspective you have on how those grants may interact with the distribution of the GST pool and go some way to tackling some of the issues that you just mentioned in your opening statement?

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**MR MALONE:** I get the point. I look around the country and I see the Federal Government talking about a new airport for New South Wales, or new freeways. The fact of the matter is the Federal Government is making contributions in every state and territory to infrastructure. When we see large cities get to the point where there's diseconomies the government continues to invest to try and break down those diseconomies. When you look at the Northern Territory the reality is the Commonwealth makes a substantial contribution to the NT, there is no doubt about it whatsoever, but the deficit is significantly larger than that.

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It is also the major beneficiary of almost all the economic development work that the Northern Territory Government is doing. If we look at the LNG plant being built across Darwin Harbour, that's a \$9 billion plant there and part of a \$40 billion project. The company tax of 30 per cent will go to the Federal Government. The 40 per cent for the PRRT, the tax on the resource, will go to the Federal Government. The remainder will be held by the company. The Northern Territory Government gets to get payroll tax from a highly capital intensive facility. But it has to provide the services that made that project go forward.

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Now, I know that's exactly the same for all the other states but the Commonwealth is a major beneficiary of the work that's being done by the Northern Territory in trying to grow the economy over this time. It is only reasonable that it makes a contribution. The other thing is it does have special responsibilities considering the fact that it was actually responsible for this jurisdiction through to 1978. That was an easy one.

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**MR COPPEL:** We'll keep it very brief and thank you for participating.

**MR MALONE:** Thank you.

5 **MR COPPEL:** So we've completed the people that have registered to participate. Now is an opportunity, and I can see in the front row, for any brief comments that you want to make either on what you've heard this morning or other observations that you'd like to make. So if you could come to the table and like others give your name for the record?

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**MS CHESTER:** And you said two minutes.

**MR GOSLING:** Yes.

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**MS CHESTER:** Really? I've got the debaters' bell ready.

**MR GOSLING:** Can you give me a wrap up at one? Just give me a - - -

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**MS CHESTER:** Yes, you're on.

**MR GOSLING:** Thanks very much. Luke Gosling, the Federal Member for Solomon. I don't want to go over a lot of the ground. I have a prepared statement that I can email in. But a lot of the points have been covered this morning. It's great that the NT Government and the  
25 Opposition Leader were able to speak as well as the NT Government bureaucrats to flesh those out. And Karen, I know you've got plenty of previous experience in the Indigenous area. There is a lot of extreme disadvantage, if I can just stress that point.

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So you've got a child in a NT community that can't hear because of persistent ear infection so they get kicked out of school eventually and they end up in the justice system. And the Royal Commission recently just showed us how much of an effect down the track a lack of investment in those primary care services can have later on because we lose kids out  
35 of the system. So I just wanted to stress that point. And the fact that the NT Government, and the members of industry that have been here I'm sure would agree, that I seem to get the feeling from your comments that you think there's not enough incentive for the government and for industry to get some economic development happening, that they need a  
40 bit more incentive.

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But the incentive is in the disadvantage and the challenges that are there for the Northern Territory Government and for industry to do well and to prosper. So I think you needn't worry too much about that. I just get a bit of a concern about this false economy where if you penalise

smaller not as strong economies that's not going to lead to the growth that we need to make sure that Territorians have access to the same services as people throughout Australia. But I really thank you for coming, really thank you for coming up to Darwin. Can I just also quickly in my minute  
5 remaining reflect on the fact that you mentioned the CGC sometimes doing its work but doesn't have the full or right information.

Can I just flag the fact that the Australian Bureau of Statistics Office here in Darwin has been cut from 34 down to 15? I'm still getting my  
10 head around the way the estimated population number works in relation to how the CGC does its thing but having less ability to count Territorians is a problem. We've also seen significant cuts to the Australian Electoral Commission Office. And again, because of those distances, because of the difficulties we have in providing services there's the lowest enrolment  
15 in the country here as well. So I just point to the disadvantage the Territory has when the Commonwealth cuts jobs in the public service it leads to less services to Territorians. Thank you very much for coming up and I hope you make your plane.

20 **MR COPPEL:** Great, excellent, thank you.

**MS CHESTER:** Thank you.

**MR COPPEL:** Are there any other people in the room who would like to  
25 make a brief statement before we wrap up proceedings? I don't see any so I will formally close the public hearings in Darwin and the Commission will reconvene on Friday morning this week in Hobart, which will be the final public hearing. Once again, thank you all for your participation.

30 **MS CHESTER:** Thank you.

**MATTER ADJOURNED AT 10.54 AM UNTIL  
FRIDAY, 1 DECEMBER 2017**