CHAPTER 2

THE COMMONWEALTH GRANTS COMMISSION

2.1 The committee's second term of reference requires it to examine '…whether the Northern Territory Government's expenditure of goods and service tax receipts accurately reflects the Commonwealth Grants Commission's (CGC) funding formula for the expenditure of such receipts by program …'. This chapter will consider the functions of the CGC and the basis upon which Goods and Services Tax (GST) revenues[1] are distributed to the States and Territories, the CGC's responsibilities and its methodologies in assessing the States and Territories shares of GST revenue.

2.2 The Constitution limits the States' and Territories' taxing options; they cannot levy excises or customs duties and cannot tax Commonwealth property. The right to raise income taxes was surrendered to the Commonwealth in 1942, a temporary wartime expedient which became permanent, and a number of High Court decisions have further limited their powers. Within these limitations the States had adopted a range of taxes and charges many of which were complex and economically inefficient.[2]

2.3 The current Commonwealth/State fiscal system is a product of the tax reforms that saw the introduction of a goods and services tax collected by the Commonwealth. The Commonwealth and the States and Territories agreed to a process whereby a range of state taxes and charges would be removed progressively in exchange for a guaranteed flow of revenue from the GST.

> 2 The objectives of the reforms set down in this agreement include:
>
> (i) the achievement of a new national tax system, including the elimination of a number of existing inefficient taxes which are impeding economic activity;
>
> (ii) the provision to State and Territory Governments of revenue from a more robust tax base that can be expected to grow over time;…[3]

Thus the GST revenue was to a large extent replacing state revenue sources over which the States and Territories had had absolute discretion as to expenditure.

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1 The Commonwealth Grants Commission also distributes Health Care Grants using the same methodology. For convenience this report will refer to the distribution of GST revenue as encompassing both types of grant.

2 Commonwealth Treasury, *Reform of Commonwealth-State Financial Relations.* www.treasury.gov.au/documents/196/PDF/round5.pdf accessed 14 November 2008.

3 *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations 1999*, clauses 7& 8. http://www.coag.gov.au/intergov_agreements/docs/reform_of_comm-state_financial_relations.cfm. accessed 13 November 2008.

2.4 The distribution of the GST pool is governed by the terms of the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations 1999* (IGA) which set out the principles which govern that distribution:

> Distribution of GST Revenue:
>
> 7 The Commonwealth will make GST revenue grants to the States and Territories equivalent to the revenue from the GST subject to the arrangements in this Agreement. GST revenue grants will be freely available for use by the States and Territories for any purpose.
>
> 8 The Commonwealth will distribute GST revenue grants among the States and Territories in accordance with horizontal fiscal equalisation (HFE) principles subject to the transitional arrangements set out below and other relevant provisions of this Agreement.[4]

The Responsibilities of the Grants Commission

2.5 The role of the Grants Commission is to advise the Commonwealth Government on the distribution of GST revenue and health care grants. The sole outcome of the CGC referred to in its Annual Report is the provision of advice on fiscal equalisation.[5] The Grants Commission operates under terms of reference given by the Commonwealth Treasurer, which do not vary significantly from year to year.[6]

2.6 The Commission summarised the 'three pillars of equalisation' as:

> (i) The financial capacities of States, not their performance or outcomes, are equalised.
>
> (ii) States are equalised to standards that reflect what they all do on average.
>
> (iii) A State's own policies or choices should not directly influence its grant.[7]

2.7 In its submission to this committee the Grants Commission Secretariat stated that its starting point is to assume,

> …that to deliver a comparable service a State should spend the observed average State spending. It would deviate from that average if it faced

4 Ibid.

5 Commonwealth Grants Commission, *Annual Report 2007-08, (Canberra 2008)*, p.3.

6 The terms of reference for the Grants Commission's 2008 Update are at attachment B of the CGC *Annual Report, 2007-08.* The terms of reference may specify that particular agreements between the Commonwealth and a State or Territory should not influence per capita relativities. For example Commonwealth funding to deliver the Northern Territory Emergency Response is excluded from consideration in deriving State and Territory relativities.

7 Commonwealth Grants Commission, *Report on State Revenue Sharing Relativities 2004 Review,* p.x. Note that the CGC uses ‘States’ to include Territories unless an alternative meaning is specifically indicated.

> inherent State circumstances which would lower or increase its expenditure. For example, with a younger population it could be expected to spend more per capita on primary education.[8]

2.8 In view of the wording of the committee's reference it is important to clarify the purpose of horizontal fiscal equalisation and the objectives of the distribution of funds. Horizontal fiscal equalisation (HFE) seeks to equalise the fiscal capacity of State and Territory governments and reflects the view that:

> State governments should receive funding from the Commonwealth such that, if each made the same effort to raise revenue from its own sources and operated at the same level of efficiency, each would have the capacity to provide services at the same standard.[9]

2.9 The second important feature of the distribution of GST revenue is that it is provided to the States and Territories as untied funding. Thus, while factors such as the size of a jurisdiction's indigenous population or the additional costs of providing services to remote communities (or high wages and salaries and other cost of living factors in major capital cities, for example) are taken into account by the CGC in assessing each State's expenses, there is no requirement that the expenditure of the State's share of the GST pool is specifically targeted to addressing those issues.

> Since the funds subject to distribution are untied funds, which the States can spend as they decide, the basis of distribution can not contain any implication that the States are required to spend them in a particular way. The commission has accordingly taken the view that the application of the HFE principle can not contain any expectation of performance or outcome equalisation – to do so would constrain the sovereignty of State governments.[10]

2.10 The combination of providing an equalised fiscal capacity and untied funding can give rise to confusion. The process might best be seen as trying to balance two objectives through fiscal equalisation. The first is,

> …reflecting an entitlement of people, based on their shared national citizenship, that their State governments should be able to provide them with similar levels of State services without imposing on them different levels of State taxes…[11]

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8 Commonwealth Grants Commission, *Submission 3,* p.2.

9 Commonwealth Grants Commission, *Discussion Paper CGC 2001/7, Interpretation of the Terms of Reference for the 2004 Review, and Issues of Concepts and Methods*.(Canberra 2001), p.3, para 10.

10 ibid., p.3. para 12.

11 Cliff Walsh & Bob Searle, *Current and Prospective Financial Arrangements between the Commonwealth and Northern Territory Governments – Report prepared for the NTER Review Board* (October 2008), p.iv, Box (i) Untied (GST/CGC) Grants. Note that Mr Searle is a former secretary of the CGC.

2.11 The second principle that the Grants Commission process seeks to accommodate is that of the sovereignty of the States within a federal system.

> The intention is, that if there are differences in service levels in different States, they should be because of outcomes of democratic processes, not differences in the ability of States to afford to provide services…[12]

2.12 Thus the wording of the committee's terms of reference does not reflect the actual basis on which the CGC distributes revenue to the states. There is no 'funding formula for the expenditure of receipts by program, by location, and by intended service recipient'.

> The Commission's "funding formula" does not contain any expected, or target, or ideal level of expenditure by State, program, location or intended service recipient…[13]

2.13 In evidence to the committee the Secretary of the Grants Commission emphasised that point:

> …there is no funding formula used by the Commonwealth Grants Commission which talks about the level of expenditure of receipts by program, by location and by intended service recipient for meeting disadvantage or regional need in relation to the distribution of the pool in the year in which the states actually get that money.[14]

2.14 The principle that funding is untied and that expenditure decisions are a matter solely for the recipient States and Territories has not gone unchallenged. In the *Report on State Revenue Sharing Relativities: 2004 Review* the CGC noted that Victoria had argued that, '…those States that receive above average per capita grants should be accountable to the broader Australian community for the use of the funds' and that, '…there should be evidence of disabilities reducing over time as recipient States apply their larger per capita grant shares to overcoming the disabilities they face'.[15]

2.15 Thus it has been argued that where a State or Territory received an increase in its share of the GST pool in recognition of a specific 'disability'[16] there is an

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12 ibid., p.iv, Box (i) Untied (GST/CGC) Grants.

13 Commonwealth Grants Commission, *Submission 3,* p.2.

14 Mr John Spasojevic, Secretary, Commonwealth Grants Commission, *Committee Hansard*, 11 November 2008, p.1.

15 Commonwealth Grants Commission, *Report on State Revenue Sharing Relativities 2004 Review* (Canberra 2004), p.81.

16 The CGC uses the term disability to describe "an influence beyond a *State's* control that requires it: (a) to spend more (or less) per capita than the *Australian average* to provide the average level of service; or (b) to make a greater (or lesser) effort than the *Australian average* to raise the average amount of revenue per capita." Commonwealth Grants Commission, *Report on State Revenue Sharing Relativities 2008 Update,* p.122.

acknowledgement that that jurisdiction requires increased revenue to address the consequences of that disability, and that it should apply the revenue accordingly.

2.16 New South Wales and Victoria, while expressing support for the principle of HFE, believed that its interpretation and application was open to review. However this position was 'strongly contested by other States and Territories. The CGC concluded that its approach should be based on the equalisation principle in place at the time the IGA came into effect - that is, the 1999 Review principle' and that it had '…indicated to the States that if governments wished us to undertake a wider review, we would need further terms of reference that made this clear.'[17]

2.17 The CGC acknowledged that alternative views of what 'equalisation' should mean had been canvassed but did not accept that the alternative of equalisation directed to equality of outcomes, as proposed by some States, reflected the practice of State and Territory governments:

> …the current objectives of fiscal equalisation are directed towards the equalisation of State fiscal capacities. They do not have as their objective a fiscal transfer system directed towards interpersonal equity or community or regional equity. Within the limits of their current fiscal capacities, States do not themselves follow policies of interpersonal or community equalisation; for example, by and large, it is accepted in the policies of states that residents of rural and remote communities cannot be assured the same level of access to services as that received by residents of metropolitan areas.[18]

Achieving fiscal equalisation – the CGC processes

2.18 The CGC broadly summarises its task as follows:

> The commission measures both the economic and social conditions in the States as they affect relative costs States incur in providing services and the relative capacity of States to raise their own revenue. The cost and revenue estimates are then combined into a single measure; State relativities.[19]

2.19 The starting point for the distribution of the GST pool is to derive an equal per capita (EPC) figure[20] which assumes that all States and Territories have the…same revenue raising capacity, cost of providing services and per capita SPP income.[21] This figure is derived from the five financial years preceding the year in which the calculation is made. The actual situation of each jurisdiction with regard

17 ibid., p.82, 83.

18 ibid., p.84.

19 Commonwealth Grants Commission, *Report on State Revenue Sharing Relativities 2008 Update*, (Canberra 2008) p.111.

20 An equal per capita figure would result in each state and territory receiving a share from the pool exactly proportional to its population.

21 op cit., *2008 Update*, p.111.

to these three factors is then examined, an estimate of the impact of each of these factors is derived and the distribution of the pool is adjusted accordingly.

2.20 It is important to note that the CGC bases its calculations on actual, historical expenditure. It takes the expenditure for the preceding five financial years and calculates the States' shares of the GST for the upcoming financial year from those figures. Thus if there had been a persistent pattern of under-investment in a particular area the CGC process would reflect the actual expenditure not the level of expenditure that would be necessary to improve the particular service.

> …the Commission makes no independent assessment of what would need to be spent to address [a] disadvantage. At an extreme, if the average policy of the States was to cease assisting a particular disadvantaged group then the problems of that group would have no impact on the distribution of the [GST] pool.[22]

2.21 If a service, region or group has been persistently underfunded, or services have not been provided at all the Grants Commission distribution will not reflect the funding a jurisdiction would require to overcome that backlog in service provision. The current Chairman of the Grants Commission stated this clearly:

> Giving [the Territory] the same fiscal capacity as other states to deliver services to its citizens means maintaining any pre-existing differentials. If this capacity has to be applied to communities facing very different circumstances…- and this is what we see in the Territory – outcomes will not narrow over time. The Territory's financial support does not provide it with catch up capacity.[23]

Revenue Raising

2.22 Subject to the 1999 Inter-Governmental Agreement the States and Territories retain the right to raise their own revenues from such sources as mining royalties, property taxes and conveyancing and payroll taxes. However there is considerable variation in capacity to raise revenue between the States. For example, at present Western Australia is benefiting from high returns from taxes related to the resource industries and, until recently, New South Wales raised disproportionately large amounts of revenue from property related taxes because of the housing boom.

2.23 The Northern Territory is assessed by the CGC as having a below average revenue raising capacity and received an adjustment of $75.3 million above EPC as a result. Income from mining royalties, of the various categories of revenue, exceeds the national average capacity by a significant margin while gambling taxation is close to average. The Northern Territory is not at a significant

22 Commonwealth Grants Commission, *Submission 3,* p.3.

23 Alan Morris, Chairman, Commonwealth Grants Commission, speech at Charles Darwin University 2003, quoted NT Government, *Submission 6*, p.ii.

disadvantage in revenue raising terms; for example the ACT adjustment is $138.4 million and Tasmania's $432.9 million.[24]

Cost of Service Provision

2.24 In deriving a jurisdiction's expenses the cost of service provision is analysed under nine headings covering all areas of government activity. It is in the cost of service provision that the Northern Territory's relative disadvantage becomes clear. The Territory's overall cost of providing services is assessed at 250% above the average for all jurisdictions. Significantly the largest areas of expense within state and territory budgets, health and education, are 192% and 196% above average, while community service provision is 516% above average.[25]

2.25 The CGC Update notes that,

> The community services group, which includes welfare services, housing services and services to Indigenous communities, made the largest contribution to the Northern Territory's above average costs … Indigenous people used these services more extensively than non-Indigenous people and the proportion of Indigenous people in the Northern Territory's population was well above the national average.[26]

2.26 As a result of the redistribution of funds within the GST pool resulting from this analysis the Northern Territory was assessed as requiring $1.88 billion above its EPC figure to have an equal capacity to deliver services.

2.27 The CGC provides an alternative analysis of the relative position of each State and Territory which is particularly useful to the committee's inquiry. The CGC uses the concept of expense disabilities (see above, footnote 16) to allow for 'Differences between the States in the characteristics of their population, in the cost of inputs…and the ability to access economies of scale…'[27] which have an impact on their relative costs.

2.28 There are nine categories of 'disabilities', including Indigenous influences, other socio-demographic composition influences, wage levels, scale of service provision and population dispersion. In breaking down the redistribution from the GST pool in terms of these disabilities, the influence of the Northern Territory's Indigenous community on its share of GST revenue becomes clear.

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24 Commonwealth Grants Commission, *2008 Update*, op cit, Attachment E, p.112, table E-3 – Difference between equalisation and equal per capita distributions, dissected by source. Tables E-3 & E-4 show the contribution of each revenue category to the redistribution in cash terms and proportionally. The figures in this section relate to '…the latest estimates of the 2007-08 pool'. ibid., p.111.

25 ibid., p.115, tables E-5 & E-6. See Appendix 4.

26 ibid., p.114.

27 ibid., p.114.

2.29 In 2008-09 the total redistribution above EPC with regard to expenses to the Territory is $1.88 billion. 'Indigenous influences' was by far the most important single factor in increasing the Territory's share of the GST pool, assessed at $858.7 million or 46%.[28] Other significant factors were population dispersal, $404.3 million, scale of service provision, $205.5 million, the physical environment, $169.4 million[29] and 'other socio-demographic composition influences', $107.6 million.[30]

2.30 While the additional cost imposed by those factors which are not specific to the Indigenous community cannot be attributed solely to the needs of the Territory's Indigenous population, many of them clearly relate disproportionately to the needs and location of that population. Similarly, other socio-demographic factors, particularly age, cultural and linguistic diversity and income are matters that have particular impacts on the delivery of services to Indigenous communities.

2.31 It should be noted that Indigenous people comprised approximately 30.4% of the Territory's population in 2007 - a much higher proportion than any other jurisdiction.[31] Importantly a very high proportion of the Indigenous population - approximately 81% - live in remote or very remote areas,[32] and the proportion of the total Territory population living in these areas is much higher than for other jurisdictions. Approximately 60% of residents classed as living in remote or very remote areas in the Territory are Indigenous and 80% of those in very remote areas are Indigenous. Thus the 'population dispersal' factor is disproportionately a response to the Indigenous community. [33]

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28 ibid., p116, table E-7. See Appendix 4. This also represents approximately 23% of the total estimated revenue of $3.78 billion for the Northern Territory in the budget for 2008-09.

29 Includes climate, natural hazards and water availability among other factors.

30 Other socio-demographic composition influences includes 'the effects of age, sex, cultural and linguistic diversity, income and the cross border use of services'.

31 A slightly earlier measure of the Indigenous populations gives the following numbers and relativities for 2004; NT – 59,941 people representing 29.7% of the population; WA – 22,357/ 3.5%; Qld 0 33,544/3.4%. Australian Institute of Health & Welfare, *Expenditures on Health for Aboriginal and Torres Strait Islander Peoples 2004-05,* Health & Welfare expenditure series No 33, , Canberra 2008, table 1.1, p.2.

32 Almost all of the Northern Territory, with the exception of the area immediately around Darwin, extending out approximately 50 kilometres from the city, is classed as remote or very remote. The remote classification refers to Katherine, Alice Springs and the northern region beyond the approximate 50 km inner circle around Darwin; the rest of the Territory is classed as very remote.

33 These figures are derived from Australian Bureau of Statistics based on the 2006 Census:

http://www.abs.gov.au/Ausstats/abs@.nsf/0/794D620169DD1A89CA256DEA00053A6E?Open

http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/4705.0Main+Features12006?OpenDocument

Accessed 10 November 2008.

2.32 Similarly the limited opportunities to access economies of scale in service provision, while generally influenced by the Territory's small total population is also influenced by the need to provide services to small groups living in remote locations – again predominantly the Indigenous population.

2.33 The socio-demographic factors are also heavily influenced by the characteristics of the Indigenous population. It is significantly younger than the general population and literacy and numeracy rates are lower thus adding to the cost of education. Similarly, the Indigenous population is located overwhelmingly in the lowest percentiles of income.[34]

Specific Purpose Payment Income

2.34 The third factor considered by the CGC in determining allocation from the GST pool is the level of Specific Purpose Payments (SPP) received by each jurisdiction. SPPs are defined by the Commission as:

> - specific purpose payments shown in Australian Government budget papers; and
> - other payments by Australian Government departments or agencies to the States for the provision of services that are normally the responsibility of State governments.
>
> For convenience, the Commission refers to, and treats, all such payments as specific purpose payments (SPPs).[35]

2.35 SPPs are paid to the States and Territories for a variety of purposes. Broadly speaking, if an SPP is a payment to fund the provision of a 'state-type' service then it is treated as part of the State's or Territory's own revenue raising capacity and is included in the calculations for distribution from the GST pool. If the payment is 'through' the State or Territory, for example to local government or non-government organisations or is a payment for a service 'normally provided by the Australian Government', then the payment is excluded.

2.36 For 2008 some $119 million of SPPs was included in the Northern Territory's equalisation calculation which had the effect of reducing that allocation. The outcome of the application of the three factors – revenue raising capacity, cost of service provision and SPPs – produced a final outcome of $1.83 billion above an equal per capita share of the GST pool for the Territory.[36]

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34 Australian Institute of Health & Welfare, *Expenditures on Health for Aboriginal and Torres Strait Islander Peoples 2004-05,* Health & Welfare expenditure series No 33, Canberra 2008, table 1.2, p.5.

35 Commonwealth Grants Commission, *Update Report 2008,* op cit, Working Paper 1, *Treatment of Australian Government Revenue Payments,* p.1. This paper deals with the treatment of SPPs in some detail.

36 Commonwealth Grants Commission, *Update Report 2008,* op cit, Attachment E, p.112.

2.37 The Grants Commission recommended that the appropriate relativity for the Northern Territory when determining the distribution of the GST pool was 4.52, i.e. that the Northern Territory receive 4.52 times what it would receive if the pool was divided on a strict per capita basis.[37]

Grants Commission Assessments and Actual Expenditure

2.38 Comparisons made between actual expenditure by the Territory government on particular services and assessments by the Grants Commission of the amount that would need to be spent to provide an average level of service are at the nub of this inquiry.

2.39 In its submission to the committee the Northern Territory Council of Social Services (NTCOSS) used these comparisons to highlight specific areas where, it claimed, there had been significant under-expenditure by the Northern Territory Government when compared with Grants Commission assessments.

2.40 The President of NTCOSS, Mr Hansen, summarised the matter in evidence to the committee,

> The issue is that [the NT government] have money that is assessed and allocated on a certain basis by the Commonwealth Grants Commission and they have clearly not spent it in those areas because, in the reported expenditure in those areas, underspending is quite clear. The consequence is that those key social areas have a deficiency of service, which promotes inequality, lower life expectancy, higher antisocial behaviour, more violence and more illness.[38]

2.41 Northern Territory Shelter commented in its submission to the committee that,

> The Commonwealth Grant Commission Reports identify the level of funds allocated to the NT over successive years and although never enough to meet the increasing backlog of need, the figures also highlight a significant level of under-spending year after year despite the growing inequality in the housing delivered for Indigenous Australians….[39]

2.42 The Central Land Council put the view that:

> Commonwealth Grants Commission figures suggest that in the year 2006-07, the NT Government received $1.985 billion in untied GST grants yet underspent allocations across social service areas by $543 million. When

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37 ibid., p.2. For comparison the next highest above-average relativities were, Tasmania, 1.53 and South Australia, 1.21., NSW, Victoria, Queensland & Western Australia all received less than an equal per capita share.

38 Barry Hansen, President NTCOSS, *Committee Hansard*, Darwin, 30 October 2008, p.CA 22.

39 Northern Territory Shelter, *Submission 2*, p. 3.

> balanced against the need identified by the NT Government above, further interrogation of these figures is required.[40]

2.43 In its submission to the Committee the Grants Commission addressed some of the comments made in the Northern Territory which gave rise to this inquiry. Specifically it warned that '…caution needs to be exercised in comparing actual expenditure data and the Commission's assessment…'.[41]

2.44 It is understandable that confusion may arise when the CGC publishes tables which compare their assessed expenses, with actual expenditure by government in a particular area. Actual expenditure is the States' reported expenditure; assessed expenditure is the Commission's calculations of what each State would have required to have the fiscal capacity to provide the average level of service.

2.45 However the caveats entered by the Grants Commission are important. In comparing actual and assessed expenditure it must be recognised that,

- Assessments are based on average efficiency of service delivery whereas actual expenditure reflects actual efficiency;
- Reliable data may not be available to measure inherent differences between States;
- Commission assessments '…are made at very different points in time, with different information and for very different purposes'; and
- State budgets are framed independently of each other thus they deviate from the average.[42]

2.46 In comparing allocations from the GST pool and actual and assessed expenditure, it is particularly important to note that there are two distinct phases involved in forming Grants Commission advice. With regard to financial year 2008-09 the CGC made its recommendations with regard to the division of the GST pool in February 2008. The recommended relativities were derived from the actual and assessed expenditure for the preceding five completed financial years – 2002-03 to 2006-07.

2.47 The Commission's recommendation for the next financial year does not contain any assessment of '… what States might spend or how much revenue they might raise in the coming year…' nor does it '…form a view of what average State spending might be in different areas, eg on education, [or] different sets of residents'. It is based solely on the analysis of historical expenditure and is

40 Central Land Council, *Submission 7*, p.2.

41 Commonwealth Grants Commission, *Submission 3*, p.2.

42 ibid., p.2.

obviously made without knowledge of State and Territory budgets for the coming year or fiscal outcomes for that year.

2.48 The second process involving 2008-09 occurs after the end of that financial year. The CGC collects the details of actual expenditure and then calculates the assessed expenditure for that year. The assessment is backward looking. Figures for 2008-09 will be included as one of the five base years for calculating relativities for the distribution of the GST pool from 2010-11.[43]

2.49 The CGC's recommendation for the coming financial year may differ quite considerably from the results obtained by analysis of actual expenditure after it has occurred. For example in the current financial year, with the global financial crisis, State and Territory relativities based on actual revenue and expense in 2008-09 may be very different from the averages derived from the preceding five financial years. The Commission's processes involve constant updating of information and recalculation of relativities as more and better data become available for each if the five years on which the current assessment is based.

2.50 The committee noted above that Grants Commission assessments are not designed to be used as a guide to actual expenditure on specific programs, nor are they intended to be taken as an indicator of any preference for a particular policy or expenditure. At best, the CGC assessment can be used as a general indication of the level of expenditure which would be required by a jurisdiction to achieve an average level of service in a particular area should that be its objective.

2.51 The Northern Territory, in a supplementary submission to the committee, argued that, particularly with regard to the Territory, there were significant limitations in the CGC's approach particularly that in the '…national average spending in each expenditure category…the practices and priorities of the larger states have an overwhelming influence on the outcome'.[44]

2.52 A specific expenditure assessment raised both in submissions and at the committee's hearings related to the CGC category 'Services to Indigenous Communities'.[45] In CGC working papers the assessed expenditure in this category 2006-07 is $217.89m for the Northern Territory while the actual expenditure is $110.33m – a significant difference. However this is a category that brings together a range of methodological issues. Most particularly that the range of State and Territory expenditures is so great that an 'average' has very little meaning. The ACT and Victoria registered no expenditure, NSW had $4.05 per capita while the figure

43 A further complication is that the CGC "…uses different data sources to derive the 'actuals' for the most recent year and the preceeding four financial years in the assessment period…because data for the most recent year is not finalised prior to the release of the annual update of relativities". NT Government, *Supplementary submission*, p.6.

44 NT Government, *Supplementary submission*, p.5.

45 This is one of the areas of expenditure referred to specifically in the NT COSS submission, p.4.

for the Northern Territory was $518.46 and the average across all jurisdictions was $14.65.[46] The committee has been advised that this category is insufficiently robust and it is unlikely that it will be included in the CGC's assessments after 2009-10.[47]

2.53 It should also be noted that the various service classes used in CGC assessments – education, health community services, etc. – are standard classifications developed by the Australian Bureau of Statistics (ABS). All States and Territories provide details of expenditure to the CGC within these standard classifications. Thus in terms of actual expenditures the CGC is comparing like with like.

2.54 However the ABS classifications do not necessarily coincide with the administrative arrangements within State and Territory governments. For example expenditure which is included in the ABS health classification, may appear in a State's Community Services portfolio. Thus care needs to be taken in comparing the CGC assessment with actual State and Territory budgetary outcomes.

Conclusion

2.55 A significant proportion of the large transfer to the Northern Territory from the GST pool is, directly or indirectly, a reflection of the funds that would be needed by the Territory government to be able to provide services to the Indigenous community at a national average standard. As discussed in paragraphs 2.24 to 2.33, the expense disabilities making the largest contributions are either specifically related to the cost of providing services to Territory's Indigenous population or heavily influenced by it. However, it is not possible to put a precise figure on that proportion.

2.56 As untied funding, distribution of the GST pool is part of the general revenue of the States and Territories. The funding received by a jurisdiction as a result of the CGC assessment process is not 'earmarked' and cannot be followed through the budgetary process from receipt to a specific outcome.

2.57 For a range of methodological reasons considered above any direct comparison of CGC assessments and actual expenditure must be made extremely cautiously. As has been repeatedly pointed out by the Grants Commission, its '… assessments are made at very different points of time [from state budgets], with different information and for very different purposes'.[48]

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46 Commonwealth Grants Commission, Working Paper 2008, *Services to Indigenous Communities*, Table 4, p.5.

47 Advice from Commonwealth Grants Commission; NT Government, *Supplementary submission*, p.4.

48 Commonwealth Grants Commission, *Submission 3*, p.2.

2.58 An important consideration is that where service levels in a jurisdiction are heavily influenced by historical underfunding or, indeed, non-provision of services the CGC process '…makes no independent assessment of what would be need to be spent to address that disadvantage'.[49] Thus its assessments do not equip States or Territories to deal with backlogs in service or infrastructure provision.

2.59 It is also important to recognise that the Commonwealth Grants Commission is not a policy making body, that its assessments do not represent an indication of where it believes revenue should be expended and that it does not have a view on the outcomes achieved by the various jurisdictions.

2.60 Following from this, if the Commonwealth Government or the Council of Australian Governments wishes to identify and address areas of need in Indigenous communities – particularly the backlog in services and infrastructure – and make specific financial provision to address them using funding from the GST pool then the CGC can only take that into consideration in its calculations if it is directed to do so, with the agreement of all Australian governments.

49 ibid., p.3.