

Expenditure on Indigenous Affairs and Social Services in the Northern Territory

Coalition Senators' Dissenting Report

Coalition senators believe this inquiry has exposed serious questions about the spending priorities and accountability mechanisms of the Northern Territory Government, in particular with respect to spending on programmes affecting its substantial indigenous population.

Key witnesses claimed that the NT Government underspent on a range of social welfare programmes by hundreds of millions of dollars, as measured against standardised "assessed spending" figures calculated by the Commonwealth Grants Commission. In the words of NTCOSS:

The spending priorities of the NT Government exacerbate the differences in measures and senses of equality for low-income and disadvantaged people, thereby contributing to the reduced life expectancy, poor health, violence and other differences that they are intended to address.¹

Grants Commission Methodology

At the heart of this inquiry was the appropriate use to be made of Commonwealth Grants Commission "assessed expenditure" figures for states and territories. These figures assist the Commission to determine what states and territories *would have needed to spend to provide the Australian average level of service* in each of its reference periods.

In evidence before the inquiry, the Grants Commission was, properly, very careful to avoid being drawn into making any judgement of the appropriateness of government expenditure in the NT. In doing so it emphasised the limitations of the work it does, implying that it would be unwise to draw practical conclusions from its assessments. Of course a very practical conclusion, the distribution of GST revenue, is drawn from them.

However, that caution noted, it is equally clear that the assessed expenditure figures are not simply abstract integers. They are adjusted to reflect conditions and factors prevalent in individual jurisdictions, and are carefully and professionally formulated with input from the jurisdictions affected by them. They do reflect, in at least an approximate sense, the real fiscal effort required to provide the services in question to that particular community.

¹ NTCOSS, *Submission 4*, p. 2.

Ms Prince, NT Under Treasurer, noted that the Grants Commission processes reflected the actual cost of service provision in the Territory. Having stated that "...the demographic influences and the proportion of Indigenous people influence our services greatly" she went on to say that "[t]hese influences result in a far greater demand for and cost of government services in the Territory. It is those issues that are taken into account by the Commonwealth Grants Commission."²

The assessments are based on actual expenditures by states and territories and they go into a considerable level of detail. Similarly the adjustments made to these figures are based on hard data from authoritative sources, particularly the Australian Bureau of Statistics.

For example, Education is analysed in eight sub-categories and Health and Community Services in nine. Each sub-category is then examined in further detail. Transport of Rural School Children (which was the subject of some discussion in Darwin) is examined under four sub-headings; Efficiency of Service Delivery, Number of Students, Distance Travelled and Type of Road:

The Commission aims to identify why it costs some States more to provide transport to and from school for rural school children and then using this information to estimate what it would cost each State to provide the service using the average policy and practice of all States.

[The CGC] attempts to quantify how a State varies from the average in some underlying characteristic (for example, the proportion of its student population attending government schools) and what effect such a variation could have on its total expenses. Bringing them together shows how much a State could be expected to vary from the average, solely because of its innate characteristics.³

The Commission process to deliver this outcome is described in considerable detail:

Box 4: Socio-demographic composition factor

Step 1: Calculate the number of primary aged children and secondary aged children in the population

The number of children aged 5 to 11 and aged 12 to 17 were obtained from the 2001 Census.

Step 2: Calculate the number of children requiring transport

The Commission estimated:

- the number of rural children aged 5 to 11 who were located 60 kms from a primary school; and
- the number of rural school children aged 12 to 17 who were located 80 kms from a secondary school.

² Hansard, Darwin, 30 October 2008, p. 2.

³ CGC update Report 2008, Working Papers, vol 3, no 10, p.3, para 15

Step 3: Calculate the proportion of rural school students requiring transport

The proportion of primary school children requiring transport was obtained by dividing the number of requiring transport (from Step 2) by the number of children in the population (from Step 1). This was done separately for the two age groups (5 to 11 and 12 to 17).

Step 4: Calculate the number of rural school children requiring transport

The number of rural school children requiring transport was calculated by:

- applying the 5 to 11 proportion (step 3) to notional primary enrolments;
- applying the 12 to 17 proportion (step3) to notional secondary enrolments; and
- adding.

Step 5: Calculate the State ratio

The ratio for each State and Australia is calculated by dividing a State's assessed rural school students requiring transport by its population.⁴

The factors considered get down to the level of detail of the type of road travelled – whether sealed or unsealed - and the figures for this are derived from AustRoads data.

Acknowledging all the qualifications – that these figures are based on the previous five years expenditures; that they are made prior to budget decisions for the upcoming financial year, etc – Coalition senators believe the assessed expenditure figures do therefore provide a realistic, general estimate of approximately what a jurisdiction would need to spend to provide an average level of service.

In a paper prepared for the NTER Review, co-authored by a former secretary of the Grants Commission, the following comment was made with regard to NT expenditure in the 'Services to Indigenous Communities' category:

[the Grants Commission assessment results] ... should be treated with some caution. However they probably do indicate a decision by the NTG to spend less than the national average on community infrastructure, management and municipal services.⁵

The current secretary of the CGC did not accept Senator Humphries' comment that he, Mr Spasojevic, was suggesting that "...you should not make comparisons between what states actually spend and what [the CGC] assessed", and stated that:

⁴ *CGC update Report 2008*, Working Papers, vol 3, no 10, p.7.

⁵ Cliff Walsh and Bob Searle, *Current and Prospective Financial arrangements Between the Commonwealth and Northern Territory Governments*, October 2008, p. 12.

...you can use the data however you see fit as long as you are aware of the health warnings.⁶

The Government senators' report attempts to throw doubt on the reliability of using the Grants Commission figures in the present context. However, Coalition senators feel this approach overlooks the important point that the variations between the Grants Commission's assessed expenditure and the NT's actual expenditure are huge, at least in certain key service delivery areas. The following gaps between notional expenditure and actual expenditure cannot be explained by statistical anomalies or shades of difference in policy approaches:

Category of Expenditure	CGC Assessment \$m	Actual Expenditure \$m	Over (under) spending \$m	%
<i>Family & Child Services</i>	178.693	42.982	(135.711)	(75.9%)
<i>Aged & Disabled Services</i>	65.617	61.627	(3.990)	(6.1%)
<i>Services to Indigenous Communities</i>	217.890	110.330	(107.560)	(49.4%)
<i>Homeless & General Welfare</i>	61.886	48.448	(13.438)	(21.7%)
<i>Housing</i>	136.201	120.536	15.665	(11.5%)
<i>First Home-Owners scheme</i>	8.820	8.820		
TOTAL COMMUNITY SERVICES	669.107	392.743	(276.364)	(41.3%)
<i>Police</i>	165.729	136.223	(29.506)	(17.8%)
<i>Administration of Justice</i>	83.994	84.598		
<i>Corrective Services</i>	132.989	67.782	(65.207)	(49.0%)
<i>Public Safety</i>	46.523	27.248	(19.275)	(41.4%)
TOTAL JUSTICE, CORRECTIVE & SAFETY	429.235	315.851	(113.384)	(26.4%)

Indeed, it is worth observing that the NT Government made little attempt during the Darwin hearings to offer any breakdown of the reasons for these vast differences, preferring instead to point repeatedly at the unreliability of the Grants Commission's assessed expenditure figures as a measure against which to judge NT spending efforts.

NTCOSS rejected the notion that the Grants Commission evidence had invalidated the thrust of its submission:

In this context, I refer to the evidence given by Mr John Spasojevic, Secretary of the CGC. He confirmed:

- That the CGC put out a data request every year asking (the States and Territories) for a break down of their expenditure in certain categories which

⁶ Hansard, Canberra, 11 November 2008, p. 4.

align with the ABS government financial statistics classification, and they provide us with data consistent with that that we can use in our work.

(Transcript of Canberra Hearings page CA5).

- "...every year we would get revised numbers for a new year on how much the states actually spent in those different categories. (Transcript of Canberra Hearings page CA 2)

- "The ABS has a classification which is common across all the states to which the states report data for government financial statistics. We use the same break-up and the states go to the task of allocating those things on a consistent basis in a comparable way across the states.. (Transcript of Canberra Hearings page CA6).

Mr Spasojevic also issued two cautions ("health warnings"):

- the GST pool distribution to states and the state budgets are both prospective documents, not retrospective, and there is therefore an element of uncertainty as to what the final figures will be; and
- difficulties can arise when one draws correlations between the policies of different states.

NTCOSS' original submission is entirely consistent with Mr Spasojevic's explanation of the data processes.

With regard to his cautions, we believe the differences between CGC assessments and NT actual expenditure are so extreme over a period of years as to render irrelevant the first warning.

Concerning the second warning, NTCOSS has not attempted to draw policy correlations between states.⁷

Service Delivery & Outcomes

Funding inputs are one measure of how well governments are addressing social problems. Another, better measure is outcomes.

Chapter 3 of the Government senators' report provides a brief summary of current statistics on outcomes. These come from independent bodies such as the Productivity Commission and the Australian Institute of Health and Welfare. At the Territory-wide level they show that outcomes are not good and that even where improvements have occurred the gap between Indigenous and non-Indigenous Australians is not narrowing in key areas of Health, Education and Employment.

⁷ NTCOSS, *Submission 4A*, pp. 2-3.

At the community level a report on Thamarrurr (which includes Wadeye) provides a more detailed illustration of this dilemma. A 2005 report, *The Opportunity Cost of the Status Quo in the Thamarrurr Region*, concluded that "after accounting for all government dollars and transfer payments ... far less is spent on [Thamarrurr residents] per head than is spent on the average Territorian" and "a key factor in this deficit is an apparent gross underspending on education at Thamarrurr of some \$3.2 million largely reflecting low levels of school attendance."⁸

Outcomes such as those at Thamarrurr add flesh to the contention of some witnesses that there are serious, unaddressed problems with the spending effort of the NT Government.

Specific Purpose Payments

The terms of reference of the committee included part (a) which reads:

the level of service delivery and of outcomes achieved in Indigenous communities in the Northern Territory in relation to the expenditure of both Federal and Northern Territory monies.

Evidence was provided to the committee by Mr John Elferink MLA, shadow treasurer in the Northern Territory Legislative Assembly, alleging the substitution of Federal Government specific purpose payments (SPP) grants for Northern Territory Government budgeted expenditure in the areas of health and housing.

The evidence specifically alleges that the Northern Territory Government deliberately transferred budgeted allocations out of the health budget after the Northern Territory Government received health-related SPPs.

While the receipt of SPPs resulted in a reported increase of expenditure by the Northern Territory Government in the areas of health and housing, Mr Elferink suggests that the effect of the alleged transfer of NT Government funds resulted in a decrease in expenditure from what would have been achieved had the original NT Government budgeted allocations remained in the Health Department budget.

The Australian Government has provided significant financial resources to the Northern Territory to address disadvantage and poor or missing services and infrastructure through both direct investment as well as through SPPs and CGC payments.

Despite this investment there remains significant disadvantage and lack of services in a number of outcome areas.

⁸ *The Opportunity Cost of the Status Quo in the Thamarrurr Region*, 2005, Foreword.

Conclusion

The concerns of community organisations regarding the spending effort of the NT Government are, in the view of Coalition senators, well founded. The yawning chasm between the Grants Commission's assessments and actual spending levels were not explained to the Committee, notwithstanding sustained attempts by senators to understand the differences. The actual outcomes, especially in areas of Indigenous health, housing and education indicators, add weight to these concerns.

Accordingly, Coalition senators recommend that the Commonwealth Government formally requests the NT Government to provide a detailed analysis of its spending levels in specified Grants Commission-determined categories (including community services and Indigenous affairs) where there are significant disparities between "assessed expenditure" and actual expenditure.

Further, Coalition senators recommend that the Commonwealth Government formally requests the NT Government to provide a summary of the NT Government budgeted versus actual allocation of NTG funds in areas where SPPs have been provided by the Commonwealth.

Senator Gary Humphries

Senator Sue Boyce

Senator Nigel Scullion