

The Senate

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Standing Committee on  
Community Affairs

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Government expenditure on Indigenous  
affairs and social services in the Northern  
Territory

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## 42<sup>nd</sup> Parliament

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# CHAPTER 1

## INTRODUCTION

### Terms of Reference

1.1 The Senate referred the following matter to the Senate Standing Committee on Community Affairs on 15 September 2008:

The levels of Federal and Northern Territory Government expenditure on Indigenous affairs and social services in the Northern Territory, including expenditure on services for families, children and people with disabilities in the Northern Territory, with particular reference to:

- (a) 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; and
- (b) whether the Northern Territory Government's expenditure of goods and services tax receipts accurately reflects the Commonwealth Grants Commission's funding formula for the expenditure of such receipts by program, by location, and by intended service recipient for meeting disadvantage and regional need.

### Background

1.2 The terms of reference reflect claims made by the President of the Northern Territory Council of Social Services (NTCOSS) and others that successive NT Governments have been "misspending" billions of dollars in Commonwealth funding allocated to the Northern Territory through the Commonwealth Grants commission process.

1.3 As Mr Hansen, the President of NTCOSS makes clear in an interview with the ABC, he does not suggest that any dishonesty or corruption is involved but rather that money allocated to the Territory reflecting its high indigenous population, the low living standards of that population and the additional cost that remoteness imposes on the provision of services, have not been spent to address those issues.<sup>1</sup>

1.4 The committee's report considers the matters raised in its terms of reference in reverse order. It is important that readers have a clear grasp of the Commonwealth Grants Commission's (CGC) processes and the basis on which Goods and Services Tax revenues (and some other funding) are distributed and the magnitude of funds available to the Northern Territory before considering how that revenue is spent. Thus Chapter 2 examines the processes of the Commonwealth Grants Commission, the

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<sup>1</sup> ABC Online, 15 July 2008; <http://www.abc.net.au/news/stories/2008/07/15/2303835.htm>; <http://www.abc.net.au/pm/content/2008/s2304590.htm>; Accessed 13 November 2008.

methods used to determine the allocation of revenue to each State and Territory and the specific outcome for the Northern Territory.

1.5 Chapter 3 examines recent Northern Territory budgets and summarises actual levels of expenditure on services to the indigenous population. The committee is aware that this is a very thoroughly traversed area and has relied on existing research. It is also sensitive to the responsibilities of the Senate Select Committee on Regional and Remote Indigenous Communities. Chapter 4 considers recent changes in the administration of Indigenous affairs which are directed to the issues raised by this inquiry.

### **Conduct of the Inquiry**

1.6 The committee is required to report to the Senate by 4 December 2008.

1.7 Advertisements seeking submissions were placed in the national media and interested parties were also contacted directly and invited to contribute to the inquiry. A list of those who made submissions to the committee is attached to this report at Appendix 1. Two public hearings were conducted: in Darwin on 30 October and in Canberra on 11 November 2008. A list of witnesses who appeared at the committee's hearings is at Appendix 2.



## 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<sup>1</sup> 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.<sup>2</sup>

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;...<sup>3</sup>

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](http://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](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.<sup>4</sup>

### **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.<sup>5</sup> The Grants Commission operates under terms of reference given by the Commonwealth Treasurer, which do not vary significantly from year to year.<sup>6</sup>

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.<sup>7</sup>

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

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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.

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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.<sup>8</sup>

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.<sup>9</sup>

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.<sup>10</sup>

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...<sup>11</sup>

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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...<sup>12</sup>

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...<sup>13</sup>

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.<sup>14</sup>

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'.<sup>15</sup>

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'<sup>16</sup> 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.

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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.'<sup>17</sup>

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.<sup>18</sup>

### **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.<sup>19</sup>

2.19 The starting point for the distribution of the GST pool is to derive an equal per capita (EPC) figure<sup>20</sup> which assumes that all States and Territories have the...same revenue raising capacity, cost of providing services and per capita SPP income.<sup>21</sup> 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

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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.<sup>22</sup>

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.<sup>23</sup>

### ***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

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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.

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disadvantage in revenue raising terms; for example the ACT adjustment is \$138.4 million and Tasmania's \$432.9 million.<sup>24</sup>

### ***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.<sup>25</sup>

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.<sup>26</sup>

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...'<sup>27</sup> 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%.<sup>28</sup> Other significant factors were population dispersal, \$404.3 million, scale of service provision, \$205.5 million, the physical environment, \$169.4 million<sup>29</sup> and 'other socio-demographic composition influences', \$107.6 million.<sup>30</sup>

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.<sup>31</sup> Importantly a very high proportion of the Indigenous population - approximately 81% - live in remote or very remote areas,<sup>32</sup> 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.<sup>33</sup>

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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.<sup>34</sup>

### ***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).<sup>35</sup>

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.<sup>36</sup>

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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.<sup>37</sup>

### **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.<sup>38</sup>

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....<sup>39</sup>

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.

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

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...'.<sup>41</sup>

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.<sup>42</sup>

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

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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.<sup>43</sup>

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 of 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'.<sup>44</sup>

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'.<sup>45</sup> 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

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43 A further complication is that the CGC "...uses different data sources to derive the 'actuals' for the most recent year and the preceding 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.

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for the Northern Territory was \$518.46 and the average across all jurisdictions was \$14.65.<sup>46</sup> 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.<sup>47</sup>

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'.<sup>48</sup>

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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'.<sup>49</sup> 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.

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49 *ibid.*, p.3.

## CHAPTER 3

### SERVICES TO THE INDIGENOUS POPULATION OF THE NORTHERN TERRITORY

- 3.1 The first part of the committee's terms of reference require it to examine:  
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;...
- 3.2 This is complex question in part because there is no commonly accepted figure (or figures) for the expenditure of both Federal and Northern Territory monies on services to Indigenous people. Services are provided by all three levels of government and Indigenous people utilize both mainstream and Indigenous-specific services and programs. While specific programs for Indigenous Territorians can be identified, the Indigenous 'share' of mainstream services provided by the various levels of government is more difficult to estimate and, in the case of the Territory government's general expenditure, it is a matter of some dispute.
- 3.3 This chapter seeks to identify specific funding while indicating important sources of mainstream funding. It also considers the debate over actual levels of expenditure by the NT Government on services to Indigenous people and, specifically the Territory's *Indigenous Expenditure Review*. With regard to service delivery and outcomes, the committee has drawn on evidence it has received and the very large number of reports looking at this subject that are now being produced.

#### **Commonwealth Expenditure**

- 3.4 The amount of Commonwealth revenue that, directly or indirectly, is spent on services to the Northern Territory's Indigenous population is difficult to estimate. Aggregate figures for identified expenditure are provided in the Australian Government Indigenous Expenditure reports<sup>1</sup> but these are not broken down by jurisdiction. While virtually every Commonwealth Department has some Indigenous related expenditure, the three major contributors are Education, Employment and Work Place Relations, Families, Housing, Community Services and Indigenous Affairs, (FaHCSIA) and Health and Ageing, with expenditures of \$814 million, \$2.2 billion and \$690 million on Indigenous services respectively.
- 3.5 Major expenditures by the Commonwealth through FaHCSIA include the Community Housing and Infrastructure Program (CHIP) - \$365m in 2007-08 - and

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1 See, Parliamentary Library, *Commonwealth Indigenous Specific Expenditure 1968-2008*, Table 7.

Community Development Employment Projects (CDEP) - \$192.5 million.<sup>2</sup> Indigenous people also use mainstream programs such as Medicare or the Pharmaceutical Benefits Scheme.

3.6 In 2007-08 the Northern Territory received a total of \$516.6 million in Commonwealth Specific Purpose Payments (SPP) for current and capital purposes.<sup>3</sup> Most SPPs are not Indigenous specific thus it is not possible to estimate what proportion of that expenditure provides services to the Indigenous community. The Northern Territory received the following amounts under those that are Indigenous-specific:

- Improving policing in very remote areas - \$259 000;
- Indigenous Education Strategic Initiatives Programme - \$32 872 000;
- Family Violence Partnership – \$529 000; and
- Housing assistance for Indigenous people – \$2 219 000.<sup>4</sup>

3.7 The Northern Territory Emergency Response, announced by the previous government in June 2007 and continued, with some modification, by the current Federal Government, has seen a major injection of additional funds – nearly \$1.4 billion committed over five years and \$466 million spent in 2007-08<sup>5</sup> - and an increased focus on the need to remedy some of the most glaring hardships faced by Indigenous people in the Territory.

## Local Government

3.8 A small number of SPPs are payments through the Territory government to local government. These comprise \$12.59 million in general purpose payments and \$12.84 million in local roads grants. Funding for local government is a specific issue for the Territory in that the local government revenue base in remote communities is very small while the range of services provided is more extensive than in other jurisdictions.

3.9 The NTER Review Board commented that:

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2 FahCSIA, *Annual Report 2007-08*, following p.81 Note that the CDEP figure is for the period December 2007 to June 2008 because of changes to portfolio responsibility. The full year expenditure was \$364 million.

3 *Final Budget Outcome 2007-08* (September 2008), pp. 72-76. This figure is above a per capita distribution of SPPs. A small proportion of SPP payments go through the Territory government to end recipients – local government or private schools for example. The majority are administered by the Territory.

4 *ibid.*, pp.72-76.

5 FaHCSIA, *Submission of Background Material to the Northern Territory Emergency Response Review Board*, (August 2008), Tables 2 and 3, p.44 & 45



...local governments deliver a wider range of services than is typical elsewhere in Australia, including some on an agency basis for other governments, such as acting as agents for Centrelink and undertaking management and repairs and maintenance of housing for Territory Housing.<sup>6</sup>

3.10 The NTER Review identified weakened community governance as a significant contributor to the 'social and economic dysfunction now evident in most communities' and saw the [re-]establishment of 'capable, legitimate community and regional governance systems' as an urgent priority for the Australian and Territory governments and essential to the wellbeing of communities.<sup>7</sup>

3.11 The NTER Review noted that:

...local government is significantly and structurally disadvantaged in the Northern Territory as a result of the current funding arrangements by the Commonwealth whereby grants are distributed on a per capita basis ...[with the result that] ... the Northern Territory receives less in local government funding than Geelong.<sup>8</sup>

Thus despite the greater demands placed upon it in the remote areas of the Northern Territory, local government's real capacity is inadequate to meet those demands.

3.12 A fundamental reform of the structure of local government is being undertaken in the Territory. A shire structure covering the whole Territory was established on 1 July 2008. The new shires will take over functions from community councils. The objectives of this change are:

...to develop strong regional local government, provide economies of scale in service delivery, underpin stronger management structures, increase the focus on local Aboriginal employment, and provide a stronger voice for local communities with other governments.<sup>9</sup>

3.13 This is, potentially, an important development. Local government should provide a means of identifying actual levels of service delivery and what is needed to improve them and, at the same time, a mechanism for targeting expenditure. However, as the NTER Review noted, it is too early to know whether the new arrangements 'will be regarded as culturally legitimate'. The submission to this committee from the Tiwi Land Council also expresses reservations about the potential of the new local government structure to address local disadvantage and regional need.<sup>10</sup>

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6 NTER Review Board Report, p.50.

7 NTER Review Board Report, p.55.

8 NTER Review Board Report p.50.

9 NTER Review Board Report p.55.

10 Tiwi Land Council. *Submission 5*, p.2.

3.14 The ramifications of a weak local government structure have been far reaching. In their submission to the committee Professor Altman and Ms Jordan commented that the inability of local government to provide basic municipal services had resulted in the diversion of funds from Federal and Territory departments to fill the gap and also in the substitution of mining royalties for public funding, distorting the purpose of royalty payments. CDEP has suffered from similar misuse, becoming a provider of basic services rather than an employment development program.<sup>11</sup>

### **Northern Territory Expenditure**

3.15 Expenditure by the Northern Territory Government in providing services to its Indigenous population is the issue which gave rise to this inquiry with claims that successive Territory governments had focussed expenditure disproportionately on the Darwin region and on large scale projects.<sup>12</sup>

3.16 The submission to this committee by the Central Australian Aboriginal Congress provides a brief summary of the perception of bias in expenditure:

- Provision of 'public amenities such as civic and recreational infrastructure far beyond what a small city like Darwin could normally afford';<sup>13</sup>
- Excessive expenditure on industry support and tourism promotion; and
- A preference for major capital works projects such as the Darwin Waterfront and Convention Centre and cruise ship terminal.<sup>14</sup>

3.17 As noted in the previous chapter these types of expenditures were contrasted with apparent underexpenditure of revenue distributed to the Territory partly in response to the additional costs it faces in providing services to Indigenous people and to remote communities.

3.18 In response to ongoing criticisms the Territory government undertook to provide an *Indigenous Expenditure Review* (IER) on a biannual basis – the only one of its kind in Australia. The first covered the financial year 2004-05 and the second, published in October 2008 covers 2006-07. The *Indigenous Expenditure Review* sets out to provide a 'robust, transparent measure of indigenous related expenditure and revenue'.<sup>15</sup>

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11 Centre for Aboriginal Economic Policy Research, *Submission 10*, p.2-3.

12 Rolf Gerritsen, ABC Radio, PM, 15 July 2008.

13 Central Australian Aboriginal Congress, *Submission 11*, p.2. Comparisons are made with major regional cities having similar or larger populations – Geelong, Townsville and Wollongong.

14 *ibid.*, p.2.

15 Government of the Northern Territory, *Indigenous Expenditure Review 2006-07*, October 2008, p.2.

3.19 The *Review* seeks to apportion all government expenditure on all services on the basis of the end user or beneficiary. As the report notes this is relatively straight forward where services are provided to identified individual users but becomes more complicated where the users of mainstream services are not identified as Indigenous or non-indigenous. Allocation of a proportion of the expenditure in support of a particular economic activity, for example tourism, or of machinery of government activities such as the Territory's Legislative Assembly is even more difficult.

3.20 The Territory's *Indigenous Expenditure Review 2006-07* estimates that, in that financial year, 52.4% (\$1.63 billion) of Territory expenditure was related to the Indigenous population.<sup>16</sup> The validity of these figures has been disputed on the grounds of methodology, the actual proportion to be attributed to the Indigenous population and, perhaps most importantly, what conclusions may be drawn from the results.

The NT Government's 2006-07 Indigenous Expenditure Review provides an alternative view that 52 per cent of Territory expenditure was Indigenous related. However, the report is riddled with systematic errors including assumptions and judgments on methodology, total lack of independence and summary tables of funding which offer no breakdown whatsoever of departmental budgets.<sup>17</sup>

3.21 The methodology of the Review has been criticised as containing an element of subjectivity in allocating a proportion of the cost of non-Indigenous specific programs to the Indigenous community. For example, where 'use and cost data was not available, other third-party data sources and/or judgement from operational managers have been applied to determine indigenous related expenditure'.<sup>18</sup> Similarly the IER seeks to apportion costs on the basis of downstream benefits from specific policies. It cites, for example business support directly to '...a pastoralist receiving drought assistance or a mango farmer receiving a small business grant' from which the whole community benefits through "...employment, increased production and better quality product'.<sup>19</sup>

3.22 However, the Territory's Auditor-General has examined the IER and reported that it '...presents fairly, in all material respects, the financial and statistical information that is attributable to the indigenous residents of the Northern Territory'.<sup>20</sup> Thus, in terms of the second part of the committee's terms of reference, the IER may

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16 *Indigenous Expenditure Review 2006-07*, p.3.

17 Central Land Council, *Submission 7*, p.3. See also, Mr Hansen, President NTCOSS, Committee transcript, Darwin, 30 October 2008, p. 21; NTCOSS submission, p.8; NT Shelter submission, p.4.

18 *Indigenous Expenditure Review 2006-07*, p.7.

19 *ibid.*, p.8.

20 *ibid.*, p.i.

be seen as a useful guide to gross levels of expenditure generally attributable to the Territory's Indigenous community.

3.23 Much of the disputation with regard to the IER turns on the use of the term 'indigenous related expenditure'. The IER does not claim that 52% of Territory expenditure goes directly to the provision of tangible services to Indigenous end users. The IER is an accounting exercise which seeks to allocate an appropriate proportion of all NT Government expenditure to the Indigenous community. The figure includes a proportion of the 'administrative tail' which supports service provision; machinery of government and central office costs and also a proportion of the expenditure on activities that may provide a general benefit to the community, such as industry support.

3.24 In terms of the first part of the committee's terms of reference - levels of service delivery and outcomes – the IER is less relevant. Allocating a proportion of the cost of a service does not necessarily mean that a proportionate benefit accrued to that particular group or that a measurable outcome was achieved within the community. It may be reasonable to describe 30.4% of the cost of the Legislative Assembly (exactly proportional to the Indigenous proportion of the total population of the NT) as accruing to the Territory's Indigenous community but it is hardly a useful indication of a service providing a tangible, proportionate benefit to that community.

3.25 As Professor Altman and Ms Jordan note in their submission to the committee, it is also important to apply the concept of positive and negative funding to expenditure, '...the former reflecting past disadvantage, the latter future prospects'.<sup>21</sup> For example, 58.7% and 64.0% of the expenditure on Police, Fire and Emergency Service and Justice respectively are described as Indigenous-related. Those figures may be accurate but to the extent that they reflect the over-representation of Indigenous people in the Criminal Justice system, the expenditure may equally well be described as indicators of continuing disadvantage or social dysfunction as of a 'service' to the Indigenous community.

3.26 The 59.9% of Health and Community Services expenditure attributed to the Indigenous population may be taken as an indicator of that group's disproportionately poor health status and/or of its over reliance on public hospital and community health services when compared with the non-Indigenous population. In terms of actual expenditure, the Australian Institute of Health and Welfare (AIHW) report estimates that in 2004-05 the Indigenous share of Northern Territory health services expenditure was 58.8%.<sup>22</sup>

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21 CAEPR, *Submission.3*, p.4.

22 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), p.22, table 2.12. The ratio of Indigenous to non-Indigenous per capita health expenditure was 3.35:1.

3.27 The AIHW report demonstrates that the disproportionate expenditure on public services can be an indicator of relatively poorer access to the range of health services than that available to the rest of the community. Public expenditure on Indigenous health care was higher per capita than the Australian average because Indigenous Australians make disproportionately greater use of public hospitals and community health centres which are State and Territory funded but make significantly less use of Commonwealth funded programs such as Medicare and the Pharmaceutical Benefits Scheme (PBS). In addition Indigenous Australians make much less use of private health services.<sup>23</sup>

3.28 The AIHW/ABS report, *The Health and Welfare of Australia's Aboriginal and Islander Peoples 2008* commented that, Australia-wide:

...average expenditure on health goods and services for Aboriginal and Torres Strait Islander people was \$4718 - some 17% higher than the expenditure for non-Indigenous people (\$4019). Considering the high level of morbidity ... and mortality rate that are more than twice those for other Australians, these figures suggest that expenditures...were not sufficient to match needs.<sup>24</sup>

3.29 These comments illustrate the limited utility of bare expenditure figures in providing any guide to what is actually happening within a given community.

3.30 A second consideration in interpreting the IER is that it aggregates figures for the whole Territory – urban, remote and very remote. Yet it is clear that access to services varies greatly depending on location. It is thus much more useful to look at actual outcomes for the Territory's indigenous population both at an individual and a community level than to become bogged down in discussion of accounting techniques.

### **Service Delivery and Outcomes Achieved**

3.31 The delivery of services and the outcomes achieved among Australia's indigenous population are the subject of extensive scrutiny. In the recent past the Steering Committee for the Review of Government Service Provision (SCRGSP), in its report, *Overcoming Indigenous Disadvantage*<sup>25</sup>, has provided a comprehensive review of the 'key indicators of indigenous disadvantage'. The SCRGSP also produces the *Report on Government Services 2008* and abstracts from that an *Indigenous*

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23 *Expenditures on Health, op cit*, pp.7-8. Tables 2.1 & 2.2. 30.6% of non-Indigenous expenditure on health relates to private provision compared with 7% for Indigenous Australians.

24 AIHW/ABS, *The Health and Welfare of Australia's Aboriginal and Islander Peoples 2008*, p.188.

25 SCRGSP, *Overcoming Indigenous Disadvantage: Key Indicators 2007*, Productivity Commission, Canberra, 2007

*Compendium*<sup>26</sup> which provides a thorough overview of service provision in all states and territories.

3.32 There are numerous other reports and studies that deal with particular services or issues and contribute to our knowledge of service provision and outcomes for the Indigenous communities in the Northern Territory. The Australian Institute of Health and Welfare report on expenditure and *The Health and Welfare of Australia's Aboriginal and Islander Peoples* referred to above are valuable sources.<sup>27</sup> The NTER was precipitated by the *Little Children are Sacred* report into child abuse in 2007. Reports being produced by the NTER and the Review report also provide information on service provision and outcomes.

3.33 The Senate has also established a Select Committee on Regional and Remote Indigenous Communities with terms of reference that require it to investigate and report regularly throughout the life of the current Parliament on:

- (a) the effectiveness of Australian Government policies following the Northern Territory Emergency Response, specifically on the state of health, welfare, education and law and order in regional and remote Indigenous communities;
- (b) the impact of state and territory government policies on the wellbeing of regional and remote Indigenous communities;
- (c) the health, welfare, education and security of children in regional and remote Indigenous communities; and
- (d) the employment and enterprise opportunities in regional and remote Indigenous communities.

3.34 Before considering the findings of these reports the committee notes the SCRGSP comment that, while concentrating on 'disadvantage experienced by many Indigenous people' it is important not to lose sight of the fact that '...most Indigenous Australians live constructive and rewarding lives, contributing to their families and wider communities'.<sup>28</sup>

3.35 These reports, at a general level, present a mixed picture of improvements in many areas but a persistent gap between outcomes for Indigenous Australians and the rest of the population. The SCRGSP report finds improvements in a number of areas but it concludes that:

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26 SCRGSP, *Report on Government Services Provision 2008, Indigenous Compendium*, Productivity Commission, Canberra 2008.

27 AIHW/ABS, *The Health and Welfare of Australia's Aboriginal and Islander Peoples 2008*. The committee also notes the comment of Professor Jon Altman in his submission to the committee that, '... 2008 has seen an historically unprecedented number of reviews in indigenous affairs policy'.

28 SCRGSP, *Overcoming Indigenous Disadvantage*, op cit p. iii. This report includes many examples of "things that work".

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...even where improvements have occurred, Indigenous people continue to do worse than other Australians. And many indicators have shown little or no movement. Indeed in some areas, particularly criminal justice, outcomes for Indigenous people have been worsening.<sup>29</sup>

3.36 A summary of the headline indicators in the SCRGSP report confirms that outcomes for Indigenous Australians remain significantly worse than for the community as a whole. Life expectancy, '... an indicator of the long term health and well being of a population' is 17 years lower for the Indigenous community than for the total population, with Indigenous males in the Northern Territory having the lowest life expectancy.<sup>30</sup>

3.37 Another study finds that:

Indigenous health status has improved considerably in recent decades. There is still however substantial disparity between life expectancy measures of the Indigenous and non-Indigenous populations<sup>31</sup>

3.38 With regard to disability and chronic disease the SCRGSP report presents a bleak picture of high incidence of chronic disease and, in some cases, for example kidney disease, a widening gap between the Indigenous and non-Indigenous population.<sup>32</sup> The AIHW/ABS report, looking specifically at the Northern Territory, concluded that, for a range of common chronic diseases examined over the period 1977-2001, and despite improvements in some conditions, 'The ratio of Indigenous mortality rates in the Northern Territory to total Australian mortality increased for all six chronic diseases'.<sup>33</sup>

3.39 In education, school retention rates at years 10 and 12 were significantly lower and educational outcomes worse.<sup>34</sup> Labour force participation and unemployment outcomes have shown some improvement but lag significantly behind national averages.<sup>35</sup> These trends are repeated across virtually all indicators.

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29 SCRGSP, *Overcoming Indigenous Disadvantage*, Foreword, p.3.

30 *ibid.*, p.11.

31 AIHW/ABS *op cit.*, p.184-5, quoting a study that shows significant improvements in Indigenous life expectancy in the Territory in the period 1967-2004.

32 SCRGSP, *Overcoming Indigenous Disadvantage*, p.12, Box 1.2.

33 AIHW/ABS, *op cit.*, p.184.

34 SCRGSP, *Report on Government Services 2008, Indigenous Compendium*, tables 4A.42 to 4A.52 show that Indigenous students at years 3, 5 & 7 perform significantly worse against the standard reading, writing and numeracy benchmarks than the average of all students in other States and Territories, that the gap increases with age and that the gap between Indigenous and non-Indigenous students is significantly wider in the Territory.

35 SCRGSP, *Overcoming Indigenous Disadvantage*, Overview. Participation in CDEP tends to increase labour force participation and reduce unemployment outcomes.

3.40 Among the most valuable of recent studies are those by CAEPR of the Thamarrurr region of the Northern Territory, which includes the Wadeye community.<sup>36</sup> Detailed reports at the regional or community level provide a much clearer analysis of actual conditions and outcomes achieved than either Territory-wide statistics or expenditure figures. They are also a necessary base for policy making and service delivery at the local level since they reflect the unique circumstances and needs of each community.

3.41 Professor Altman, Director of CAEPR, in his introduction to the second of these papers summarised Thamurrurr as having a '...population that is relatively sick, poorly housed, illiterate, innumerate, on low income, unemployed and with sub-standard physical infrastructure'.<sup>37</sup> The 2005 report 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'.<sup>38</sup>

3.42 The committee notes that Wadeye is not typical of Territory indigenous communities and has been the focus of much adverse publicity. However it is important as an example the interconnected nature of the problems facing Indigenous communities and of costs of failure to address these problems.

3.43 A brief summary of the Thamurrurr studies provides both an insight into the current situation in a remote community and the costs of remedying the deficiencies. Less than 20% of adults are employed and only a small proportion of that group have employment outside CDEP. More than 40% of adults are outside the labour market altogether. With regard to education, both school enrolment and attendance are very low with the result that '...only a handful of school leavers enter working age with high school level achievement and skills". The outcome for the vast majority of Aboriginal adults is that they are "effectively marginalised in any competition for jobs ...".<sup>39</sup>

3.44 With regard to housing, 'the occupancy rate is currently 16 persons per functional dwelling, with the cost of meeting agreed standards...estimated at \$52 million'. On top of this, funding for maintenance and expansion of housing stock in response to population growth is required. Health status, indicated by a median age at

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36 J Taylor, *Social Indicators for Aboriginal Governance: Insights from the Thamurrurr Region, Northern Territory*, CAEPR Monograph 24, 2004 & J Taylor & O Stanley, *The Opportunity Cost of the Status Quo in the Thamarrurr Region*, Centre for Aboriginal Economic Policy Research (CAEPR), Working Paper 28/2005. These reports arose out of a COAG program.

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

38 *ibid*, p.xii. The report notes that funding for those actually attending school is slightly higher than the Territory average but the attendance rate is very low and expenditure per child of compulsory school age in Thamurrurr is 47% of the average.

39 Taylor & Stanley, *op cit*, p.6, 7.



death - 46 years - is worse than the average for Indigenous people in the Territory, and is attributable solely to higher male mortality.<sup>40</sup> The report notes that this points up the:

...significance of ongoing backlogs in achieving adequate environmental health infrastructure (including a reduction in overcrowded dwellings), a continuing gap between ideal and actual staffing levels in health personnel, and difficulties in achieving better nutritional status...<sup>41</sup>

3.45 Interaction with the criminal justice system is identified as a 'pressing issue' having a significant bearing on an individuals prospects of 'participating in the regional society and economy...'. Ten per cent of adults are in custody at any one time with a significant group of '...children of primary school age who essentially experience an apprehension-free apprenticeship into recidivist behaviour'. Taylor postulates a link between '...lack of participation in schooling..., the low level of youth labour force participation, and the scale of youth participation in recidivist activity'.<sup>42</sup>

3.46 In submissions to this committee Indigenous councils provide examples of significant backlogs in infrastructure provision and a very limited government response. For example, the Tiwi Land Council states that 75% of the 210 houses in Nguiu, the islands' largest community, are unfit for human habitation yet it has received funding for only 9 houses in the past decade.<sup>43</sup>

3.47 What emerges clearly from the literature, of which this is a very brief summary, is that both services available and outcomes for Indigenous people, particularly in the remote areas of the Northern Territory, are not close to the national average. A second point that can be made is that the interactions of service deficiencies and poor outcomes are complex and have compounded over a long period. Poor housing leads to overcrowding and contributes to low health status. Inadequate education facilities discourage school attendance while poor educational outcomes exacerbate employment difficulties which feed back into a perception that education is irrelevant.

3.48 As the NTER has shown the problem of child abuse cannot be considered in isolation from the effective functioning of the full range of services which any Australian community should have reasonable access to. The First Report on the NTER – *One Year On* – reports a range of actions across the areas of public administration, police and justice, family services, youth programs, welfare,

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40 Taylor & Stanley, op cit, p.7. These figures are calculated for the Daly statistical area, which includes Thamurrurr.

41 Taylor & Stanley, op cit, p.8.

42 Taylor & Stanley, op cit, p.8.

43 Tiwi Land Council, *Submission 5*, p.2.

employment, child and family health, education and housing which are necessary to address the core issue of child abuse.<sup>44</sup>

## Conclusion

3.49 In the committee's view it is not useful to seek to attribute this situation to any particular tier of government. The problems are of long standing and represent the accumulation of failures by successive governments. A recent study of this issue noted that, at self-government in 1978 the Commonwealth had retained responsibility for water, power and sewerage infrastructure in a significant number of remote communities in the Territory. The Northern Territory government claimed, during negotiations on the transfer of these services to the Territory in 2007, that the Commonwealth failed to provide these services.<sup>45</sup> Provision of services to Indigenous communities is not served by these sorts of unproductive disputes.

3.50 It is clear from the submissions and other material available to this inquiry that the issues facing Indigenous Australia have been thoroughly studied and are clearly understood. In their submission to the committee Professor Altman and Ms Jordan from CAEPR make the observation that '...2008 has seen an historically unprecedented number of reviews in Indigenous affairs policy, certainly compared to any other period over the last 30 years'.<sup>46</sup>

3.51 Addressing these issues will not be easy. Despite the considerable resources devoted to Indigenous services, improvements have been hard won. Altman and Jordan comment that,

The system of funding has...failed to address the two key issues of capital versus recurrent expenditure and positive versus negative funding. The system is not geared to take account of Aboriginal aspirations, does not sufficiently fund Outstation Resource Agencies and does not adequately account for the small, dispersed nature of the more than 500 Aboriginal communities scattered throughout the NT. The sheer number and small scale of such communities raises problems of dispersed governance and diseconomies associated with small scale that would provide a deep challenge to any system of funding support.<sup>47</sup>

3.52 The problems that this dispersion creates are compounded by the range and diversity of 'Indigenous communities' and by the high level of mobility of Indigenous people. The NTER Review summarised it thus;

There has been a major displacement of Aboriginal people to settlements and urban fringe over the past century...A substantial proportion of

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44 FaHCSIA, *One Year On*, June 2008, pp.3-4

45 Dillon & Westbury, *op cit*, p.187.

46 CAEPR, *Submission 10*, p.1.

47 CAEPR, *Submission 10*, p.1.

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Aboriginal people do not live on their traditional country...Traditional owners are often a minority in their own land...

3.53 As a result Indigenous communities are socially and culturally complex, each of them having a unique character. This means that they cannot be dealt with effectively by generalised policy approaches. As the Review noted, policies must be '...based on a real understanding and appreciation of the cultural setting in which that engagement is sought'.<sup>48</sup>

3.54 The committee has noted in the previous chapter that the distribution of the GST pool by the Commonwealth Grants Commission does not provide funding to address longstanding backlogs in the provision of infrastructure or to deal with the consequences of inadequate service provision over time. The cost of addressing the infrastructure and service backlog has been estimated by the Northern Territory Government to be in the range of \$2 to \$3 billion and it comments that "... the quantum of funds required remains beyond the fiscal capacity of the Northern Territory".<sup>49</sup> Thus it is important to look to what is being done to remedy these problems.

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48 NTER review, p.19.

49 NT Government, submission, p.iv estimates that \$2.85 billion is required. The Central Land Council submission, p.2, quotes figures of \$2 million for 'housing and infrastructure backlogs and a further \$600 million...to fund unmet service and repairs and maintenance needs'.



## CHAPTER 4

### THE WAY FORWARD

4.1 This inquiry is, in a sense, part of a long running 'intractable issue' within Indigenous affairs – the inadequacy of the funding arrangements to ensure that services to Indigenous Australians, particularly those in remote areas, are provided on an 'equitable needs basis'. This is particularly important for relations with and service provision in the Northern Territory where responsibilities have been confused and disputed since self-government in 1978.

4.2 In its submission to the committee ANU's Centre for Aboriginal Economic Policy Research summarised the findings of research and public inquiries down the years which demonstrate the lack of clarity in administration and responsibility between the various levels of government; the propensity to 'cost shift' as government seeks to move responsibility to another level and substitution of both Indigenous program funding and other sources of income for proper funding of public services.<sup>1</sup>

4.3 It is a disturbing, but nevertheless welcome, comment on the management of Indigenous affairs over the last forty year that the FaHCSIA submission to the NTER Review Board could state, with regard to the Intervention, that,

...The pace and breadth of working in a whole-of-government way, across levels of government, and government-volunteer-non-government organisation working and cooperative arrangements *was new to Indigenous affairs*.<sup>2</sup> [emphasis added]

4.4 To address these issues the committee believes that three fundamental steps are necessary;

- Clear definition of financial and administrative responsibility, by level of government and within individual governments, for service provision to Indigenous communities which will address the issues of cost-shifting and funding substitution and unequivocally acknowledge public responsibility for service provision to Indigenous communities;
- Proper public accountability for outcomes; and
- Thorough analysis and quantification of the extent of the actual needs of Indigenous communities using the Thamurrurr and similar studies as a model and the development of action programs at the community, shire or regional level.

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1 CAEPR, *Submission 10*, p.2.

2 FaHCSIA, *Submission of Background Material to the Northern Territory Emergency Response Review Boar*, (August 2008), p.13.

4.5 The latter part of chapter 3 presented a brief summary of services and outcomes for communities in the Territory, which tended to focus on service failures and poor outcomes. However as was noted in that chapter, many Indigenous communities work well and there are numerous examples of community-based solutions to problems. The SCRGSP report, *Overcoming Indigenous Disadvantage*, has interspersed throughout examples of 'Things that Work' – government and community programs that have successfully addressed key issues for indigenous communities.

4.6 There is also cause for optimism in that government at all levels is now focussed on providing the resources and support necessary to achieve measurable improvements in outcomes for Indigenous Australians. The Northern Territory Emergency Response is the most visible example of this, and the intention of both the previous and current governments to develop it from an emergency response to a long-term sustainable program is welcomed.<sup>3</sup>

4.7 The Northern Territory Emergency Response was the culmination of growing concern and frustration at the failure to address the issues which the *Little Children are Sacred* report brought into Australia-wide prominence. As the FaHCSIA submission to the NTER Review states,

...many of the issues raised in the LCS report had already been highlighted and additional funding had been committed by the Australian Government. ...through strategic interventions, funding additional police and funding programs. The previous Government had also consistently raised the issue of violence in Indigenous communities with the states and territories.<sup>4</sup>

4.8 A key element of the NTER is the recognition that the specific issue of child abuse cannot be addressed without taking a comprehensive approach to improving the lives of Indigenous communities – addressing housing, education, health, employment and governance issues. As the FaHCSIA submission put it, this is a product of '... people without meaningful things to do, failure of service methodologies, dysfunctional government and overcrowded houses'.<sup>5</sup>

4.9 Perhaps more important in the long term, is the Council of Australian Government's (COAG), involvement, particularly the 'Closing the Gap' initiative, representing as it does an Australia-wide approach embracing all jurisdictions.

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3 A recent paper from CAEPR, J C Altman, N Biddle & B H Hunter, *How Realistic are the Prospects' Closing the Gap' in Socioeconomic Outcomes for Indigenous Australians*, emphasises the importance of long term commitment and a willingness to adopt fundamentally new approaches where necessary if disparities are to be reduced.

4 FaHCSIA, *Submission of Background Material to the Northern Territory Emergency Response Review Board*, (August 2008), p.7. Total funding for the NTER from the Commonwealth is nearly \$1.4 billion over 5 years. \$466.6 million was expended in 2007-08 and \$460 million is committed for 2008-09. Details of actual and proposed expenditure are in Tables 2 and 3, p.44 & 45 of this submission.

5 *ibid.*, p.10.

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4.10 'Closing the Gap' commits all Australian Governments to pursue measurable objectives with regard to Indigenous outcomes within specified time-frames. These are:

- to close the gap in life expectancy within a generation;
- to halve the gap in mortality rates for Indigenous children under five within a decade;
- to ensure all Indigenous four years olds in remote communities have access to early childhood education within five years;
- to halve the gap in reading, writing and numeracy achievements for Indigenous children within a decade;
- to halve the gap for Indigenous students in year 12 attainment or equivalent attainment rates by 2020; and
- to halve the gap in employment outcomes between Indigenous and non-Indigenous Australians within a decade.

4.11 At its meeting in October 2008 COAG further agreed to

...hold a dedicated meeting in 2009 to:

- agree between all governments, a national strategy for achieving the six COAG Closing the Gap targets;
- provide a formal opportunity for exchange between jurisdictions of programs and initiatives that are working successfully to advance the areas covered by the Closing the Gap targets; and
- maximise the contribution that private and community sector initiatives in education, employment, health and housing can make to the success of the overall strategy.<sup>6</sup>

4.12 COAG has had a long term interest in Indigenous matters. The SCRGSP reports on Indigenous disadvantage were initiated by COAG in 2000 and the reports into the Thamurrurr community by CAEPR were commissioned by COAG. In 2004 COAG adopted the National Framework Principles for Service Delivery to Indigenous Australians. These principles are embodied in the *Overarching Agreement on Indigenous Affairs between the Commonwealth of Australia and the Northern Territory of Australia* signed in 2005. COAG also convened the Intergovernmental Summit on Violence and Child Abuse in Indigenous Communities in 2006.

4.13 The 'Closing the Gap' initiative allied to the sense of urgency generated by the NTER does offer the prospect of a more committed, long-term approach to these issues coupled with the opportunity to measure progress against publicly acknowledged outcomes.

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6 Council of Australian Governments, [http://www.coag.gov.au/coag\\_meeting\\_outcomes/2008-10-02/index.cfm#child](http://www.coag.gov.au/coag_meeting_outcomes/2008-10-02/index.cfm#child) Accessed 20 November 2008.

4.14 The Northern Territory government has introduced its own 'Closing the Gap' policy as a response to the *Little Children are Sacred* report in August 2007. This is described as a twenty year plan which will be '...the Territory Government's principal framework for advancing Indigenous Territorians' life outcomes'. This plan involves both additional funding - \$286 million over the next five years – and the alignment '...of new and existing programs...to the Closing the Gap objectives'.<sup>7</sup> A second part of the Territory's response is the reform of local government through the establishment of shire councils as of July 2008 which will assume many of the responsibilities of smaller community organisations in providing municipal services.

4.15 The committee notes that the forthcoming reform of Commonwealth-State financial relations will address some of the key problems of transparency of funding and expenditure and accountability. The provision of services to Indigenous communities has been bedevilled for many years by 'cost shifting between the various levels of governments and between agencies at the same level of government'.<sup>8</sup> The new financial arrangements will include 'a clear statement of the roles and responsibilities of the Commonwealth government and the states and territories... [which] will focus on objectives and outcomes'.<sup>9</sup>

4.16 Under the auspices of COAG a uniform framework for reporting on the provision of services to Indigenous communities was agreed to in December 2007 and is currently being developed. The introduction of this framework will go a long way to addressing criticism of the Northern Territory's Indigenous Expenditure Review and providing a uniform, national basis on which the performance of each jurisdiction can be compared. The committee notes that framework will include,

...expenditure from all funding sources on both Indigenous-specific and mainstream service, with an emphasis on 'on the ground' service provision ...[and]...expenditure in areas such as education, justice, health, housing, community services, employment ...<sup>10</sup>

4.17 The adoption of this framework should ensure that service delivery to, and outcomes in, Indigenous communities become much more transparent. As a number of submissions to this inquiry have pointed out, public accountability of funding agencies and service providers for outcomes achieved is essential for real progress to be made. The Australian Government has made transparency and accountability key parts of its 'Closing the Gap' policies – the Single Indigenous Budget will make Commonwealth funding more accessible; there is to be an annual progress report to

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7 NT Government, *Budget Overview 2008-09*, p.8. In 2008-09 \$57.6 million will be spent on this program.

8 CAEPR, *Submission 10*, p.2-3, quoting the Commonwealth Grants Commission, *Report on Indigenous Funding 2001*.

9 Mr Bernie Yates, Deputy-Secretary, FaHCSIA, Community Affairs, *Committee Hansard*, 11 November 2008, p.12.

10 Mr Bernie Yates, Deputy-Secretary, FaHCSIA, Community Affairs, *Committee Hansard*, 11 November 2008, p.12.



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Parliament by the Prime Minister and the Commonwealth is taking the initiative in COAG to establish 'arrangements for independent national monitoring and reporting of progress against agreed targets'.<sup>11</sup>

## Conclusion

4.18 In conclusion, the committee finds that the assumptions in part (b) of its terms of reference do not reflect the responsibilities and processes of the Commonwealth Grants Commission. The Commission has a clearly defined and limited responsibility to make recommendations with regard to horizontal fiscal equalisation in the distribution of the GST pool. It does not have any 'funding formula' nor does it make any recommendations with regard to expenditure by program, region or outcome.

4.19 Revenue distributed to the States and Territories through the Grants Commission process is provided as untied funding. It is available to the States and Territories to expend in accordance with their own policies and priorities. There is no pressure from State or Territory governments to alter this practice.

4.20 In calculating State and Territory relativities the Grants Commission uses actual expenditure in each jurisdiction from previous years. Thus its recommendations with regard to funding relativities make no provision for addressing situations where there have been long term deficiencies in service or infrastructure provision. The suggestion that the Northern Territory receives funding through the distribution from the GST pool that would enable it to make good the deficiencies of infrastructure provision in Indigenous communities is, therefore, not accurate.

4.21 Part (a) of its reference requires the committee to examine levels of service delivery and outcomes achieved. In chapter 3 the committee noted that, historically, service provision has been poor, that there are significant backlogs in infrastructure provision and that these problems have been compounded by governance failures at all levels.

4.22 The committee believes that the significant changes in the overall management of Indigenous policy and the provision of services and infrastructure to Indigenous communities initiated by the Council of Australian Governments (COAG) and by the Australian Government through the Northern Territory Emergency Intervention are evidence of a practical commitment to addressing this legacy. These initiatives are supplemented by the Northern Territory's own 'Closing the Gap' policy and its reforms to local government.

4.23 COAG's 'Closing the Gap' initiative provides clear targets against which progress can be measured; coordinated action by all jurisdictions in pursuit of those targets and a commitment to transparency. The uniform reporting framework for

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11 *Closing the Gap between Indigenous and Non-Indigenous Australians*, Budget Statement, the Hon Jenny Macklin, Minister for Families, Housing, Community Services and Indigenous Affairs.13 May 2008, p.37.

services to Indigenous communities will provide reliable information on expenditure comparable across jurisdictions. The Commonwealth's Single Indigenous Budget and commitment to annual reporting to Parliament of progress against these outcomes also enhance transparency and accountability.

4.24 The Northern Territory Emergency Intervention and other Commonwealth Government initiatives have seen significant progress made in addressing governance failures (in cooperation with the Territory government) and a large amount of additional revenue made available to address the problems of service provision and infrastructure in Indigenous communities in the Northern Territory.

Senator Claire Moore  
Chair

December 2008

# 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.<sup>1</sup>

### 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.

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<sup>1</sup> 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."<sup>2</sup>

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.<sup>3</sup>

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.

<sup>2</sup> Hansard, Darwin, 30 October 2008, p. 2.

<sup>3</sup> CGC update Report 2008, Working Papers, vol 3, no 10, p.3, para 15

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**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.<sup>4</sup>

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.<sup>5</sup>

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:

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<sup>4</sup> CGC update Report 2008, Working Papers, vol 3, no 10, p.7.

<sup>5</sup> 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.<sup>6</sup>

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 &amp; Child Services</i>	178.693	42.982	(135.711)	(75.9%)
<i>Aged &amp; 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 &amp; 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		
<b>TOTAL COMMUNITY SERVICES</b>	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%)
<b>TOTAL JUSTICE, CORRECTIVE &amp; SAFETY</b>	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

<sup>6</sup> Hansard, Canberra, 11 November 2008, p. 4.

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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.<sup>7</sup>

## **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.

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<sup>7</sup> 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."<sup>8</sup>

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.

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



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**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**



# **Additional comments on NT Expenditure by the Australian Greens**

## **The Australian Greens support the comments and recommendations of the Dissenting report from Coalition Senators**

In addition, the Australian Greens believe that – given the dire state of expenditure on services and support for Indigenous communities in the Northern Territory, the very poor state of basic infrastructure they experience, and continuing significantly sub-standard outcomes on health, education and social services – more needs to be done to ensure that public monies distributed to the Northern Territory from GST revenue are spent more appropriately to achieve a basic standard of living for its citizens.

We appreciate the caution exhibited in the evidence presented to the inquiry by the Commonwealth Grants Commission in indicating that it adheres strictly to its terms of reference, provides a quantum of funding based on a formula that makes allowance for the extra cost of services to remote and Indigenous communities but delivers these monies as untied funding to the Territory. Nevertheless the Senate does not need to exercise the same constraint as the CGC in analysing and comparing its allocation and assessed expenditure figures to on-the-ground outcomes, and to commenting on Territory policy – to the contrary we believe it has an obligation to do so.

To this end we are disappointed with the approach taken in the majority report, particularly in the manner in which it relies on a level of uncertainty inherent in the assessed expenditure figures to discount a consistent and very significant ongoing gap in expenditure on Indigenous communities. Ultimately the assessed expenditure figures are reliant on data provided by the Territory against standardised ABS classifications. It is incredulous under these circumstances for the Territory to be arguing that its assessed expenditure under these classifications does not reflect its actual expenditure on its Indigenous people when it is unable to provide any additional data or analysis to show how the categories or assessment systematically distort the CGC figures.

Ultimately, whether or not the assessed expenditure figures match the Territory's actual or claimed expenditure on delivering services to its Indigenous citizens, we are still left with a clear situation in which there is a significant gap in outcomes for Indigenous communities and a significant gap in the level of government services they are provided with. The Commonwealth is distributing additional funds to them based on a formula to reflect as best as it can the actual costs of delivering these services which are not being reflected in improved outcomes. Under these circumstances, if the Territory wishes to claim it is in fact spending as much or more as is indicated in its GST allocation on delivering these services and yet is failing to achieve comparable levels of service delivery then it leaves itself open to the criticism that it is spending this money inefficiently and its policies are poorly directed.

The Commonwealth Treasurer sets the terms of reference under which the CGC allocates GST revenues to Territories and States and ultimately has the power to vary these terms of reference if for one reason or another they are failing to achieve an acceptable level of government service delivery for some of its citizens. While it is desirable for the Commonwealth to seek to give States and Territories as great a degree of autonomy as possible in how they spend untied GST funding, ultimately its responsibility for the welfare and human rights of its citizens is paramount.

If the Government believes that the funding formula currently used by the CGC does not accurately reflect the cost of delivering services to Indigenous communities, then it has a duty to definitively determine the level of funding required. If the Government believes that the manner in which it assesses expenditure to deliver these services does not reflect actual expenditure then it needs to fix its assessment process.

If ultimately it is convinced that the Territory Government does not have the capacity or the will to spend those monies nominally allocated to ensure the delivery of service to Indigenous communities, then perhaps it should look to an alternative means of delivering these services that allows it to specify real deliverables and measurable outcomes.



Senator Rachel Siewert

## APPENDIX 1

### LIST OF PUBLIC SUBMISSIONS AND ADDITIONAL INFORMATION AUTHORISED FOR PUBLICATION BY THE COMMITTEE

- 1 Xstrata Zinc Australia (QLD)
- 2 Northern Territory Shelter (NT)
- 3 Secretary of the Commonwealth Grants Commission (ACT)
- 4 NTCOSS (NT)  
*Supplementary information*
  - Supplementary submission received 25.11.08
- 5 Tiwi Land Council (NT)
- 6 Northern Territory Government (NT)  
*Supplementary information*
  - Supplementary submission following hearing 11.11.08, received 19.11.08
- 7 Central Land Council (NT)
- 8 Mahony, Mr Steve and Ms Donna (NT)
- 9 Anyinginyi Health Aboriginal Corporation (NT)
- 10 Altman, Professor Jon and Jordan, Ms Kirrily (ACT)
- 11 Central Australian Aboriginal Congress Inc (NT)
- 12 Elferink MLA, Mr John (NT)
- 13 Burgen, Ms Clarissa (NT)

#### **Additional information**

#### **Department of Families, Housing, Community Services and Indigenous Affairs**

Submission of background material to the Northern Territory Emergency Response Review Board, dated August 2008, provided at hearing 11.11.08



## **APPENDIX 2**

### **WITNESSES WHO APPEARED BEFORE THE COMMITTEE AT PUBLIC HEARINGS**

*Thursday, 30 October 2008  
Crowne Plaza, Darwin*

#### **Committee Members in attendance**

Senator Rachel Siewert (Deputy Chair)  
Senator Judith Adams  
Senator Trish Crossin

Senator Mark Furner  
Senator Gary Humphries  
Senator the Hon Nigel Scullion

#### **Witnesses**

##### **Northern Territory Government**

Mr Mike Burgess, Chief Executive, Department of the Chief Minister  
Ms Jennifer Prince, Under Treasurer, Northern Territory Treasury  
Ms Jenny Scott, Executive Director, Community Services, Department of Health and Families  
Mr Bruce Michael, Senior Director, Public Finance, Northern Territory Treasury

##### **Northern Territory Council for Social Services**

Mr Barry Hansen, President  
Ms Wendy Morton, Executive Director

##### **Central Land Council**

Mr David Ross, Director  
Mr Jeremy Dore, Senior Policy Officer

##### **Tiwi Land Council**

Mr Robert Tipungwuti, Chairman  
Mr Walter Kerinaiaua, Manager, Tiwi Land Council and Director, Mantiyupwi Association  
Mr Cyril Kalippa OAM, Manager, Tiwi Land Council and Member, Tiwi Education Board  
Mr John Hicks, Executive Secretary, Tiwi Land Council

##### **NT Shelter**

Ms Toni Vine Bromley, Executive Officer

***Tuesday, 11 November 2008***  
***Parliament House, Canberra***

**Committee Members in attendance**

Senator Claire Moore (Chair)  
Senator Rachel Siewert (Deputy Chair)  
Senator Judith Adams  
Senator Sue Boyce

Senator Trish Crossin  
Senator Mark Furner  
Senator Gary Humphries  
Senator the Hon Nigel Scullion

**Witnesses**

**Commonwealth Grants Commission**

Mr John Spasojevic, Secretary

**Department of Families, Housing, Community Services and Indigenous Affairs**

Mr Bernie Yates, Deputy Secretary

Ms Lynne Curran, Group Manager, Office of Indigenous Policy Coordination

Mr Matthew James, Branch Manager, Performance and Evaluation



## APPENDIX 3

### COMMONWEALTH GRANTS COMMISSION TABLES ON STATE REVENUE SHARING RELATIVITIES 2008

**Table E-5 Contribution of services to the redistribution**

Contribution	Prop'n of expense	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total <sup>(a)</sup>
	% <sup>(b)</sup>	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Education	23.8	- 83.8	- 571.9	252.4	173.5	- 120.8	71.2	7.0	272.5	776.5
Health	23.7	10.9	- 382.3	14.1	30.5	73.3	40.2	- 72.4	285.6	454.7
Community Services	9.9	- 149.2	- 376.7	- 19.7	76.7	- 34.5	11.8	- 23.3	514.9	603.4
Law, order and public safety	7.5	- 73.3	- 253.0	4.3	59.2	- 91.9	2.7	52.3	299.8	418.2
Culture and Recreation	2.2	- 1.2	- 85.6	- 90.0	50.7	- 1.2	19.6	45.4	62.3	178.0
Concessions, other payments and services to industry	6.3	- 249.5	- 272.8	9.1	295.4	146.2	30.8	- 47.4	88.2	569.7
Transport <sup>(c)</sup>	8.0	74.3	- 192.8	- 61.4	188.8	- 62.9	- 41.9	- 23.4	119.5	382.5
General public services <sup>(d)</sup>	16.5	- 130.1	- 258.2	- 79.0	89.3	24.2	85.5	53.6	214.8	467.3
Debt charges and depreciation	2.1	- 12.3	- 31.1	10.6	7.7	- 4.0	8.9	1.0	19.3	47.4
<b>Total</b>	<b>100.0</b>	<b>- 614.3</b>	<b>- 2 424.4</b>	<b>40.5</b>	<b>971.8</b>	<b>- 71.7</b>	<b>228.7</b>	<b>- 7.3</b>	<b>1 876.7</b>	<b>3 117.7</b>

- (a) Total movement from EPC, calculated as the sum of total positive (or negative) components.  
 (b) Expenses in the group as a percentage of total net State expenses for the years 2002-03 to 2006-07.  
 (c) Includes urban transit and roads.  
 (d) Includes general public services, superannuation, and GST administration.

**Table E-6 Relative costs of providing services — average of 2002-03 to 2006-07**

Contribution	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
	%	%	%	%	%	%	%	%	%
Education	99.2	92.1	104.4	106.0	94.5	110.5	101.5	191.7	100.0
Health	100.1	94.7	100.3	101.0	103.4	105.9	84.5	196.1	100.0
Community Services	96.3	87.5	99.3	106.4	96.3	104.3	88.1	516.2	100.0
Law, order and public safety	97.6	88.9	100.3	106.5	86.8	101.3	135.5	420.2	100.0
Culture and Recreation	99.8	87.4	83.5	118.3	99.4	130.4	202.7	322.1	100.0
payments and services to industry	90.3	85.9	100.6	138.1	125.1	117.1	62.2	211.5	100.0
Transport <sup>(a)</sup>	102.3	92.2	96.8	119.4	91.3	81.9	85.4	218.5	100.0
General public services <sup>(b)</sup>	98.0	94.8	98.0	104.4	101.6	118.1	116.5	204.3	100.0
Debt charges and depreciation	97.9	92.6	102.7	103.9	96.7	124.3	104.0	219.3	100.0
<b>Total</b>	<b>98.5</b>	<b>92.1</b>	<b>100.2</b>	<b>107.9</b>	<b>99.3</b>	<b>108.0</b>	<b>99.7</b>	<b>250.0</b>	<b>100.0</b>

- (a) Includes urban transit and roads.  
 (b) Includes general public services, superannuation, and GST administration.

**Table E-7 Contribution of expense disabilities to redistribution**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total <sup>(a)</sup>
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Indigenous influences <sup>(b)</sup>	- 394.9	- 852.2	291.9	251.0	- 121.3	6.3	- 39.6	858.7	1 407.9
Other socio-demographic composition influences <sup>(c)</sup>	- 107.5	- 397.9	252.8	- 23.4	125.3	148.4	- 105.4	107.6	634.2
Wage levels	805.3	- 66.7	- 470.2	- 128.7	- 141.1	- 76.1	32.6	44.9	882.8
Other input costs <sup>(d)</sup>	- 10.8	- 224.4	- 49.9	71.0	- 21.7	17.4	- 17.0	235.3	323.7
Administrative scale of service provision	- 349.4	- 202.4	- 114.6	45.1	79.3	160.4	176.2	205.5	666.4
Delivery scale of service provision	- 74.6	- 52.3	- 3.3	15.5	15.4	15.3	- 9.3	93.3	139.5
Urban influences (e)	210.8	138.8	- 105.7	- 69.5	- 65.2	- 59.7	- 9.9	- 39.6	349.6
Population dispersion <sup>(f)</sup>	- 303.7	- 373.0	157.4	213.4	- 15.4	- 44.6	- 38.5	404.3	775.1
Economic environment <sup>(g)</sup>	- 236.1	- 22.8	- 52.5	245.8	9.2	16.6	- 3.6	43.3	315.0
Physical environment <sup>(h)</sup>	- 94.1	- 429.7	18.6	299.5	37.5	14.3	- 15.5	169.4	539.3
Expenses – others <sup>(i)</sup>	- 59.4	58.1	116.0	52.0	26.2	30.3	22.7	- 246.0	305.4
<b>Total expenses</b>	<b>- 614.3</b>	<b>-2 424.4</b>	<b>40.5</b>	<b>971.8</b>	<b>- 71.7</b>	<b>228.7</b>	<b>- 7.3</b>	<b>1 876.7</b>	<b>3 117.7</b>

- (a) Total movement from EPC, calculated as the sum of total positive (or negative) components.
- (b) Includes the effects of the use of services by Indigenous people and higher costs of servicing them, including the effects of land rights and native title legislation.
- (c) Includes the effects of age, sex, cultural and linguistic diversity, income and the cross-border use of services.
- (d) Includes costs of office rent and electricity, interest rates; the isolation of some States from major sources of supply in south-east Australia; and accrued expenses and historical costs of superannuation.
- (e) Includes effects of urban complexity, urban traffic management, and urban transit capital and pricing subsidies.
- (f) Includes the net effects of population dispersion and of geographic location on hospital costs and patient transport.
- (g) Includes effects of structure and nature of State economies, road use, availability of private medical services, and the ACT's status as the national capital.
- (h) Includes the effects of climate, natural hazards, conservation task, water availability, other aspects of the physical environment, and road and bridge length.
- (i) Includes some miscellaneous small factors and interactions between factors.