



Northern
Territory
Government

2006-07 Indigenous Expenditure Review



AUDITOR-GENERAL'S REPORT TO THE UNDER TREASURER ON THE INDIGENOUS EXPENDITURE REVIEW FOR 2006-2007

Scope

I have performed an independent audit of the Indigenous Expenditure Review (IER), being a special purpose report prepared on the Northern Territory's expenditures and revenues for the 2006-07 financial year and which are attributable to the indigenous residents of the Territory.

Northern Territory Treasury is responsible for preparation of the IER and for the fair presentation of data contained therein. Treasury's responsibility also includes establishing and maintaining internal controls relevant to the fair presentation of financial and statistical information in the Review.

Auditor's Responsibility

My responsibility is to express an opinion to the Under Treasurer on the IER based on my audit. My audit was conducted in accordance with Australian Auditing and Assurance Standards and was intended to provide reasonable assurance whether the financial and statistical information presented in the IER is free of material misstatement.

The audit involved performing procedures to obtain audit evidence about the disclosures of financial and statistical information in the IER. The procedures selected as part of an audit depend on the auditor's judgement, including the assessment of the risks of material misstatement of a report due to error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal controls themselves. An audit also includes an evaluation of the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Treasury and agencies, as well as evaluating the overall presentation of information in a report.

The audit of the IER involved the sampling of expenditure data across selected agencies and accompanying audit procedures included:

- a. examining the systems and methods used to allocate direct and indirect costs to indigenous programs;
- b. determining the extent to which service delivery to indigenous groups is identifiable;
- c. to the extent to which service delivery to indigenous groups is not identifiable, identifying the approach by which costs are determined as being related to indigenous activities and forming a view about the validity of the approach adopted;
- d. assessing the reliability of the systems used to capture, store and extract the relevant data; and
- e. forming a view about the validity and reliability of the approaches adopted.

In addition, revenue data and Commonwealth Grants Commission information held by Northern Territory Treasury were reviewed.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Auditor's Opinion

In my opinion, the Indigenous Expenditure Review for the financial year 2006-07 presents fairly, in all material respects, the financial and statistical information that is attributable to the indigenous residents of the Northern Territory.

F McGuinness

Auditor-General for the Northern Territory
1 September 2008

Darwin
Northern Territory

Contents

Auditor-General's Report	i
Executive Summary	2
Introduction	5
Part A: Expenditure	6
Results	7
Measuring Indigenous-related Expenditure	8
Sensitivity Analysis	9
Commonwealth Grants Commission Assessed and Actual Expenditure	12
Part B: Revenue	13
GST Revenue	13
Tied Grants	15
Own-source Revenue	16
Estimate of Indigenous-related Revenue	17
Part C: Summary of Results and Comparison Between 2004-05 and 2006-07	18
Summary of Results	18
Summary of Expenditure Incorporating Data and Methodological Revisions	19
Summary of Revenue Incorporating Data and Methodological Revisions	19
Summary	20

Note: Agencies referred to in this document are those in place as at 30 June 2007.

Executive Summary

Two years ago, Northern Territory Treasury undertook a review of the Northern Territory Government's Indigenous-related expenditure and revenue for the 2004-05 financial year. The Indigenous Expenditure Review (IER) was the first review of its type by any Australian government and was undertaken at a time when there was considerable scrutiny in relation to the Territory's spending priorities, including suggestions that money designated for Indigenous purposes was being redirected to other areas, including for non-Indigenous services in Darwin. The main purpose of the 2004-05 IER was to inform the debate by providing a robust, transparent measure of Indigenous-related expenditure and revenue. The Northern Territory has committed to regular reviews of its Indigenous-related spending. The 2006-07 IER has been audited by the Northern Territory Auditor-General.

The 2004-05 IER found that around half of the Territory's budget was spent on Indigenous-related services and this exceeded the level of Indigenous-related revenue. Notwithstanding this, the 2004-05 IER highlighted the considerable levels of disadvantage faced by Indigenous Territorians in a range of areas, including income level, health status, educational attainment, and arrest and imprisonment rates. It concluded that:

Despite the high level of expenditure, outcomes for Indigenous Territorians against a wide range of indicators remain poor relative to those of non-Indigenous Territorians. There is clearly a need for additional funding streams to the Territory, so that the social wellbeing of the Indigenous population can be improved, economic participation and productivity be enhanced, and all Australians can benefit from improved economic activity and social cohesion.

Since the 2004-05 IER was completed, a number of initiatives have increased Indigenous spending in the Northern Territory. In 2005, the Commonwealth and Northern Territory governments signed an overarching agreement that was intended to support ongoing improvements in services for Indigenous Territorians by pooling housing funding, boosting employment and economic growth, strengthening and supporting the Indigenous arts sector, and supporting effective arrangements for Indigenous representation at regional and local levels.

In 2007, the Commonwealth announced its Northern Territory Emergency Response (NTER) and increased levels of short-term funding in relation to child health and protection, community safety, education and housing in remote Indigenous communities. A review into the NTER, including future funding commitments, is currently under way. In August 2007, the Territory Government also announced further investment of \$286 million in its Closing the Gap of Indigenous Disadvantage initiative, a multi-tiered package seeking to improve the socio-economic wellbeing of Indigenous Territorians with achievable targets for 5, 10 and 20 years that address the child protection system, housing, unemployment, offender rehabilitation, health, alcohol misuse and education.

This second IER covers the 2006-07 financial year and predates the effect on Northern Territory finances of these initiatives but provides a baseline against which these initiatives can be compared, both in terms of investment and outcomes.

The 2006-07 IER builds on the 2004-05 report and, as a result of improved data sources, has undertaken a more rigorous examination of expenditure, in some cases down to individual unit records (e.g. separations, police incidents) and sub-program level data. This review makes a number of methodological changes to provide a more contemporaneous assessment of goods and services tax (GST) revenue and own-source revenue, and incorporates results from the Australian Bureau of Statistics' (ABS) 2006 Census of Population and Housing. Indigenous persons comprise 30.4 per cent of the Territory's population. The 2004-05 results have also been reviewed to allow like-for-like comparisons with the 2006-07 IER.

Tables 1 and 2 show the key findings of the 2006-07 IER and can be summarised as:

- 52.4 per cent of the Territory's expenditure in 2006-07 was Indigenous-related;
- 44.4 per cent of the Territory's revenue in 2006-07 was Indigenous-related;
- Indigenous-related expenditure exceeds that of revenue by 8.0 per cent or around \$248 million; and
- on a per capita basis, spending on Indigenous Territorians is 2.5 times that of non-Indigenous Territorians.

The 2006-07 IER examined spending by service delivery agencies that primarily provide services to individuals. Table 1 shows 63 per cent of Northern Territory Government expenditure is by service delivery agencies that provide human services. Indigenous-related spending is 56.4 per cent of expenditure in these agencies and represents 3.0 times per capita spending compared to non-Indigenous persons. These agencies include the (former) Departments of Health and Community Services, and Employment, Education and Training, and Northern Territory Police, Fire and Emergency Services.

Table 1: Estimate of Northern Territory expenditure related to the Indigenous population 2006-07

	Agency expenditure	Agency share of NT total expenditure	Indigenous-related expenditure	
	\$M	%	%	\$M
Service agency – human services	1 950.2	62.8	56.4	1 099.2
Service agency – economic services	541.5	17.4	43.2	234.1
Support agency	142.3	4.6	50.9	72.5
Central agency	473.2	15.2	46.9	221.7
Total	3 107.2	100.0	52.4	1 627.5

Source: Northern Territory Treasury.

Table 2: Estimate of Northern Territory revenue related to the Indigenous population 2006-07

	Total revenue		Indigenous-related share	
	%	\$M	\$M	%
GST revenue	62.2	2 015.3	1 106.5	54.9
Tied grants	15.3	494.9	186.4	37.7
Own-source revenue	22.6	732.0	146.5	20.0
Total	100.0	3 242.2	1 439.5	44.4

Source: Northern Territory Treasury.

So that comparisons can be made between the 2004-05 and 2006-07 results, the 2004-05 data has been adjusted to incorporate methodological and data changes. Table 3 compares the updated data for 2004-05 with the original 2004-05 results.

Table 3: Adjusted and original published 2004-05 Indigenous-related revenue and expenditure

	2004-05 IER original data Indigenous-related share	2004-05 IER adjusted for methodology and population changes Indigenous-related share	Change
	%	%	percentage point
Revenue	43.2	45.9	2.7
Expenditure	49.7	50.1	0.4

Source: Northern Territory Treasury.

The increase in estimated revenue reflects the application of expense disabilities to actual GST revenue received and the adoption of 2006 Census figures.

The impact of the Census on expenditure was less pronounced as most service agencies used actual use and cost data (where available) that reflects contemporary population data.

Table 4 shows a summary of key results on a like-for-like basis between the two reviews. The key points arising from this review are that between 2004-05 and 2006-07:

- Indigenous-related revenue declined by 1.5 percentage points;
- Indigenous-related expenditure increased by 2.3 percentage points;
- the percentage point difference between Indigenous-related expenditure and revenue almost doubled, increasing from 4.2 to 8.0; and
- the per capita ratio of Indigenous expenditure to non-Indigenous expenditure increased from 2.3 to 2.5.

Table 4: Comparison of results between 2004-05 and 2006-07 Reviews

	Revised 2004-05	2006-07	Change
Indigenous-related revenue (per cent)	45.9	44.4	-1.5
Indigenous-related expenditure (per cent)	50.1	52.4	2.3
Difference (percentage points)	4.2	8.0	3.8
Per capita ratio – Indigenous : non-Indigenous expenditure	2.3	2.5	0.2

Source: Northern Territory Treasury.

The Indigenous share of total revenue fell primarily as a result of a decline in the Indigenous-related share of GST funding, and a decline in the contribution of GST to overall Territory revenue. The increase in expenditure, while significant, is in part likely to be as a result of improved data collection techniques in the 2006-07 IER.

The findings of the 2006-07 IER consolidate and strengthen those arising from the 2004-05 IER. The Northern Territory Emergency Response and Closing the Gap initiatives will progressively impact on results, from 2007-08 onwards, and represent increased focus and commitment from both the Territory and Commonwealth governments to address long-term disadvantage faced by Indigenous Territorians.

Introduction

This is the second review of Indigenous-related expenditure and revenue undertaken by Northern Territory Treasury, the first being undertaken in 2006. These reviews are intended to inform the ongoing and important debate about government spending on services for Indigenous people by providing a robust and transparent estimate of Northern Territory Government expenditure and revenue that is related to the Territory's Indigenous population. Indigenous people make up 30.4 per cent of the Territory's population.

Apportioning Government revenue and expenditure between population subgroups is difficult and has not been done by other jurisdictions. Government expenditure takes many forms and includes direct service delivery where types of users can be identified (e.g. hospital services, schools and public housing), services directed towards particular groups including industries (e.g. tourism marketing expenditure, work safety programs), and expenditure associated with the machinery of government (e.g. Treasury, Legislative Assembly).

Similarly, much of government revenue is not hypothecated to particular functions. However, in order to produce a complete assessment of government expenditure and revenue, the 2004-05 IER included an apportionment for Indigenous and non-Indigenous purposes for all types of Territory Government revenue and expenditure. The 2006-07 IER has continued with the comprehensive approach but, in addition, has separated service delivery expenditure primarily directed to individuals from that of economic-type or industry-based expenditure.

The first review examined the Northern Territory's Indigenous-related expenditure and revenue in the 2004-05 financial year. It found that:

- 49.7 per cent of the Territory's expenditure was Indigenous-related;
- 43.2 per cent of the Territory's revenue was Indigenous-related;
- Indigenous-related expenditure exceeded revenue by 6.5 percentage points or approximately \$175 million; and
- despite high levels of expenditure, more funding was required to address long-term Indigenous disadvantage.

Since the publication of the first review, all governments through the Council of Australian Governments (COAG) have committed to improving Indigenous outcomes. It is expected that National Partnerships payments will be available to contribute towards closing the gap in Indigenous outcomes. COAG has also committed to a process whereby all governments will report on Indigenous spending in both targeted and mainstream programs. This will assist in providing greater transparency of Indigenous-related expenditure by all Australian governments.

The methodology for the 2006-07 IER is broadly consistent with that of the 2004-05 IER and is briefly outlined below. A more detailed explanation of the methodology is contained in the 2004-05 report. Changes to the methodology used in this review are also outlined.

Part A discusses the estimation of the Indigenous-related expenditure.

Part B discusses the estimation of Indigenous-related revenue.

Part C summarises results and compares the 2004-05 and 2006-07 results.

Part A: Expenditure

The majority of services provided by the Northern Territory Government to Indigenous Territorians are mainstream programs to individuals. Due to the breadth and depth of disadvantage experienced by Indigenous Territorians (measurable across a wide range of indicators, such as health status, educational attainment, incomes and arrest and imprisonment rates), Indigenous people are disproportionately high users, in some cases dominant users, of mainstream government services in the Territory.

The Territory also has services and programs that are specifically targeted to Indigenous people. Examples include Indigenous housing programs, services provided through the Indigenous Education Strategy, the Indigenous Economic Development Strategy and the Aboriginal Family Violence Strategy. These programs and related services are generally provided to individuals or a specific subgroup of the population.

In addition, there are a range of government programs and services where benefits accrue to the whole population but where the direct beneficiaries are a small number of people. Tourism marketing is a case in point. Tourism marketing expenditure directly benefits tour operators that receive bookings directly as a result of inclusion in promotional material. Indirect benefits accrue to most members of the community through purchasing by tourists of a wide range of goods and services. Tourism marketing of the Territory often features Aboriginal culture and experience and many tourists, both international and domestic, have direct experiences with and or purchase products from Aboriginal people and or enterprises.

Four methods of allocating Indigenous expenditure were considered in this and the 2004-05 IER:

- equal per capita;
- use of services;
- use and cost of services; and
- modified use and cost of services.

Equal per capita attribution assumes that services are available to, and are used by all Territorians at a similar unit cost. However an equal per capita approach does not take into account differential use rates, cost factors or Indigenous-specific programs.

A use of services approach is a more reasonable basis for attribution as it accounts for differential rates of accessing services by population subgroups. It does not, however, address differentials in the cost of delivering services to particular population subgroups.

Including both use and cost of services is a more robust measure that recognises differential costs in providing services to various population subgroups. Governments also provide a range of services where benefits accrue to the whole community. Examples of such investment include tourism, mining, fisheries and agriculture.

Using a use and cost measure in these circumstances is likely to significantly underestimate the benefits accruing to a range of population subgroups that are not direct beneficiaries of the government investment. Hence a modified use

and cost of services methodology has been adopted, as was the case in the 2004-05 IER. This accounts for programs and services that provide an indirect benefit to the whole community such as industry development or tourism.

Although the underlying methodology applied to estimating Indigenous expenditure is unchanged, improved data and recording methods enabled major service delivery agencies to take a more rigorous approach to the 2006-07 IER than the 2004-05 IER. This has included disaggregation of financial data to lower units (e.g. individual cost centres) and using unit use record rather than collated data (e.g. hospital separations, police activity data). In some cases, different data sources are used and, as such, direct comparisons cannot be made with the earlier review. The Territory Government has committed to preparing regular reports on Indigenous expenditure and further improvements to data collection and analysis are expected.

In order to estimate Indigenous-related expenditure, government agencies have been classified into four categories:

- service agencies that primarily provide services to individuals (such as Department of Health and Community Services (DHCS), Department of Employment, Education and Training (DEET), and Northern Territory Police Fire and Emergency Services (NTPFES));
- service agencies that provide economic-type services (Department of Business, Economic and Regional Development, Department of Primary Industries, Fisheries and Mines, and Tourism NT);
- support agencies that provide services for other government agencies (such as the Department of Corporate and Information Services (DCIS) and NT Fleet); and
- central agencies that provide general whole of government services to government, all agencies and in some cases direct services (such as the Department of the Chief Minister (DCM) and Northern Territory Treasury (NTT)).

Results

Service Agencies – Services to Individuals

Service agencies primarily providing services to individuals accounted for 63 per cent of the Territory's expenditure in 2006-07 and are listed in Table 5. Over two-thirds of this amount was expenditure by the two largest agencies, DHCS and DEET.

For these agencies, Indigenous-related expenditure has been estimated by applying use and cost factors at a program or sub-program level. Where use and cost data was not available, other third-party data sources and/or judgement from operational managers have been applied to determine the Indigenous-related expenditure. Equal per capita apportionment has been used where services are assumed to be available to, and used equally by, all Territorians. Corporate and administrative costs for each agency have been apportioned based on the average expenditure share of all the other program areas of each agency. This assumption reflects that Indigenous persons are a highly significant, and for some agencies a dominant, proportion of service users in the Territory and that mainstream services are specifically designed for the relevant population.

Table 5 shows that for these agencies, the Indigenous-related proportion of expenditure was 56.4 per cent.

Table 5: Estimate of Indigenous-related expenditure for service agencies that primarily provide services to individuals 2006-07

	Agency expenditure	Agency share of NT total expenditure	Indigenous-related expenditure	
	\$M	%	%	\$M
Service agencies – services primarily to individuals	1 950.2	62.8	56.4	1 099.2
Department of Health and Community Services	743.7	23.9	59.9	445.5
Department of Employment, Education and Training	598.7	19.3	46.2	276.7
Department of Local Government, Housing and Sport (including Territory Housing)	247.4	8.0	65.7	162.4
Northern Territory Police, Fire and Emergency Services	192.4	6.2	58.7	112.9
Department of Justice	144.6	4.7	64.0	92.5
Department of the Legislative Assembly	17.7	0.6	30.4	5.4
Aboriginal Areas Protection Authority	2.6	0.1	100.0	2.6
Ombudsman's Office	1.6	0.1	35.0	0.6
Northern Territory Electoral Commission	1.4	0.1	44.4	0.6

Source: Northern Territory Treasury.

Measuring Indigenous-related Expenditure

There is no accepted method for accounting for expenditure that is Indigenous-related. Accounting of this nature is complex and requires the exercise of judgement. Classification of Indigenous-specific programs and services where direct use by Indigenous persons can be measured is relatively uncontroversial. While cost differentials between population groups are difficult to estimate and are likely to vary significantly by location and between functional areas, these are generally acknowledged and are a key component of the assessment of state revenue share relativities by the Commonwealth Grants Commission.

However there are state expenditures that do not directly provide a service to the public, for example central agencies or support agencies, or are of an administrative or corporate nature, essential to the delivery of direct services. There are also expenditures that do not have a readily identifiable service population or where there may be little or no direct interaction with individuals but where benefits accrue to the whole population. The Indigenous-related proportion of these expenses is more problematic to identify.

The underlying methodology of the IER requires the allocation of every dollar of expenditure to either a non-Indigenous person or an Indigenous person. This requires specific allocation of expenditure, over and above that related to Indigenous-specific programs or direct use of services, to be made.

For the types of expenditure where a 'use and cost' measure is not applicable, the underlying purpose of the program or expenditure is the basis of the attribution.

Where population groups are significant, such as the Indigenous proportion of the Territory's population, a 'purpose of program' methodology is likely to be more robust than if applied to population minorities, for example, Indigenous persons in New South Wales. Examples of such programs include road safety, certain health prevention measures, invasive pest control and tourism.

Administrative functions, and the roles of support and central agencies can be regarded as back office functions that support the delivery of direct services by service agencies. On this basis, the expenditure is based on the average proportions of expenditure applying to the direct service elements. The actual structure of agencies constituting the administrative functions, support and central agencies is, to some extent, artificial as these structures could be contained within a shared service environment, internally within agencies or a hybrid approach.

By purpose of program, agencies providing economic-type services seek to benefit the population or population of a particular region more generally through promotion of economic growth. While there may be direct beneficiaries of certain investment, for example a pastoralist receiving drought assistance or a mango farmer receiving a small business grant, the whole population benefits through impacts such as employment, increased production and better quality product. Hence attribution of Indigenous expenditure based on a per capita distribution of the target population subgroup is consistent with program purpose.

Services Agencies – Economic-type Services

These agencies account for 17.4 per cent of Territory expenditure, with more than half this amount (9.7 per cent) contributed by Department of Planning and Infrastructure (DPI), primarily as a result of roads expenditure.

For these agencies, equal per capita apportionment of expenditure has generally been applied except for specific programs targeting Indigenous people. As discussed above, this approach has been adopted to reflect the broader economic benefits that accrue from government investment.

For roads expenditure, the location of users has also been used to attribute expenditure. This approach is required for consistency with the attribution of revenue to the Indigenous population on the basis of the Commission's assessment of the Territory's dispersion expense disability.

Table 6 shows that for these agencies, the Indigenous-related proportion of expenditure was 43.2 per cent.

Table 6: Estimate of Indigenous-related expenditure for service agencies that primarily provide economic-type services 2006-07

	Agency expenditure	Agency share of NT total expenditure	Indigenous-related expenditure	
	\$M	%	%	\$M
Service agencies – economic-type services	541.5	17.4	43.2	234.1
Department of Planning and Infrastructure (including Construction Division)	301.8	9.7	49.3	148.6
Department of Natural Resources, Environment and the Arts	110.8	3.2	35.3	39.2
Department of Primary Industry, Fisheries and Mines	61.0	2.0	35.5	21.7
Tourism NT	32.3	1.0	32.4	10.5
Department of Business, Economic and Regional Development	21.0	0.7	46.0	9.7
Territory Discoveries	6.7	0.2	30.4	2.0
NT Build	6.3	0.2	30.4	1.9
Land Development Corporation	1.6	0.1	30.4	0.5

Source: Northern Territory Treasury.

Sensitivity Analysis

There are a range of services provided by Government where use and cost by individuals can not be easily attributed to population subgroups. These services include tourism, land development and economic development.

This report has attributed these expenses to the Indigenous population based on the overarching program purpose, which is to benefit the total population or population of a particular region. This assumption has been made to provide consistency with the base assumption that GST revenue is distributed on an equal per capita basis prior to adjusting for disabilities.

However, given that many individuals are not directly affected by these services, an alternative approach could be to exclude attribution of this expenditure.

Using this approach, no Indigenous-related expenditure would be attributed to Tourism NT, the Department of Business, Economic and Regional Development, Territory Discoveries, NT Build and Land Development Corporation.

The effect of this approach would be to reduce the estimate of Indigenous-related expenditure by 0.8 percentage points to 51.6 per cent.

If these agencies were removed altogether, the Indigenous-related proportion of expenditure would increase to 52.7 per cent. Revenue should also be reduced by the amount of expenditure of these agencies. If the equivalent amount of revenue was attributed on an equal per capita basis, this would have the impact of increasing the Indigenous-related proportion of revenue to 44.7 per cent.

Support Agencies

Support agencies comprise 4.6 per cent of the Territory's budget, the most significant support agency being DCIS, which contributes 2.9 per cent.

Indigenous-related expenditure on support agencies has been apportioned in the same way as corporate and administrative costs by adopting the weighted average Indigenous-related expenditure for each service agency.

For example, DCIS provides human resource, payroll and communications services to other agencies. DCIS's expenditure has been allocated to each agency with the Indigenous-related proportion of DCIS expenses weighted according to each agency's contribution to DCIS's total expenditure.

Table 7 shows that the Indigenous-related share of support agency expenditure is 50.9 per cent.

Table 7: Estimate of Indigenous-related expenditure for support agencies 2006-07

	Agency expenditure	Agency share of NT total expenditure	Indigenous-related expenditure	
	\$M	%	%	\$M
Support agencies	142.3	4.6	50.9	72.5
Department of Corporate and Information Services	90.6	2.9	53.2	48.3
NT Fleet	22.9	0.7	50.6	11.6
Data Centre Services	14.5	0.5	50.6	7.3
Office of the Commissioner of Public Employment	5.8	0.2	30.6	1.8
Government Printing Office	5.3	0.2	48.0	2.6
Auditor-General's Office	3.1	0.1	30.4	1.0

Source: Northern Territory Treasury.

Central Agencies

Central agencies contribute 15.2 per cent of the Territory's expenditure with the Central Holding Authority accounting for 10.4 per cent.

The role of central agencies is threefold, acting like support agencies in providing services to other agencies, providing services directly to government (and indirectly to the general population) and as service providers in their own right. For support services provided to service agencies, the average expenditure related to the Indigenous population of all service agencies has been applied. For services provided directly to government, equal per capita apportionment has been used. Where services are provided to the general population or a specific group of the population, usage rates or appropriate population shares based on ABS data have been applied.

Table 8 shows the proportion of Indigenous-related expenditure for central agencies is 46.9 per cent.

Table 8: Estimate of Indigenous-related expenditure for central agencies 2006-07

	Agency expenditure	Agency share of NT total expenditure	Indigenous-related expenditure	
	\$M	%	%	\$M
Central agencies	473.2	15.2	46.9	221.7
Central Holding Authority	323.0	10.4	53.5	172.9
Northern Territory Treasury	93.2	3.0	30.3	28.2
Department of the Chief Minister	56.9	1.8	36.3	20.6

Source: Northern Territory Treasury.

Estimate of Indigenous-related Expenditure

Table 9 summarises the proportion of expenditure related to the Indigenous population by agency, by category of service, support and central agencies. The total Indigenous-related expenditure includes both direct and indirect expenditure. Indigenous-related expenditure is estimated at 52.4 per cent of the Territory's total expenditure. For all service agencies, the Indigenous-related proportion of expenditure is 53.5 per cent and, for service agencies primarily providing human services to individuals, the proportion increases to 56.4 per cent.

Table 9: Estimate of Northern Territory expenditure related to the Indigenous population 2006-07

	Agency expenditure	Agency share of NT total expenditure	Indigenous-related expenditure	
	\$M	%	%	\$M
Service agency – human services	1 950.2	62.8	56.4	1 099.2
Service agency – economic services	541.5	17.4	43.2	234.1
Support agency	142.3	4.6	50.9	72.5
Central agency	473.2	15.2	46.9	221.7
Total	3 107.2	100.0	52.4	1 627.5

Source: Northern Territory Treasury.

Commonwealth Grants Commission Assessed and Actual Expenditure

There are a number of common misconceptions about data published by the Commonwealth Grants Commission and how this relates to individual jurisdictions' spending on functional areas or spending that is related to Indigenous people.

The purpose of the Commission's assessment is to recommend to the Commonwealth Treasurer distribution of GST revenue between states such that each can provide an 'average' level of service to its citizens after assessment of states' relative fiscal capacities.

GST revenue is provided to states as untied revenue. This means that each state is able to determine how this revenue is expended. The Commission's assessment is not intended to compare state policies and expenditure or to evaluate the efficacy of state policies.

The Commission publishes information on assessed and actual expenditure by functional area and this is often misinterpreted as an expenditure benchmark.

The 'Actual' expenditure reported by the Commission is an estimate of the amount that each state spends on particular functions. The Commission's assessments are based on ABS Government Finance Statistics (GFS) data over the preceding five years (i.e. the Commission's 2006 Update uses data from 2000-01 to 2004-05). Thus the data does not necessarily represent current government expenditure patterns.

There are significant difficulties obtaining GFS data at the detailed level required by the Commission, particularly where programs have significant overlap with other functions. For example, police expenditure on child protection in the Territory is captured in the police category rather than the family and children's services category. Expenses related to depreciation, debt and superannuation are allocated to general public services

and not to the functional area to which the expenses apply. Costs for a health clinic in a remote community would be captured in a health assessment rather than categorised in services to Indigenous communities.

Due to the difficulties in categorising expenditure, GFS data is divergent between states as states do not classify expenditure in the same way. This means that similar expenditure may be reported in different categories between states. Analysis of individual categories is therefore misleading. All governments and the Commission have recognised that using data at this level of disaggregation and in this way is not as robust as required and hence the Commission's next Review of Relativities in 2010 will rely on far less disaggregated data and will be based on greater simplicity and transparency.

Importantly the Commission does not estimate or report on Indigenous expenditure by states.

'Assessed' expenditure is the Commission's estimate of what states would need to spend on each function in order to provide an 'average' level of service based on the 'average' policies of all states, after taking into account the particular characteristics of each state including its demography, geography and needs such as health and education. 'Average' policies or costs are unlikely to apply to any particular state and this is especially so for the Territory, which has circumstances markedly different to other states. To use the Commission's assessed expenditures as benchmarks would imply that all state policies and priorities are the same.

The detailed calculations used by the Commission are specific to the equalisation model to which they contribute and it is inappropriate to use the Commission's 'actual' or 'assessed' expenditure as benchmarks.

Part B: Revenue

The Territory has three main types of revenue:

- GST revenue;
- tied grants (including specific purpose payments (SPPs); and
- own-source revenue comprising Territory taxes, interest and other income.

GST Revenue

GST revenue accounts for over 62 per cent of the Northern Territory's budget. The distribution of GST revenue among states is determined by the Commonwealth Treasurer, taking into account recommendations of state revenue-sharing relativities as assessed by the Commission.

The principle underpinning the Commission's recommendations of relativities is horizontal fiscal equalisation, which is defined as:

State governments should receive funding from the pool of goods and services tax revenue and health care grants 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.

The relativities are based on assessments of per capita revenue and expenditure needs for each state. The term 'need' is used to describe the financial effect on each jurisdiction of:

- unavoidable influences on revenue-raising capacities (revenue needs);
- unavoidable influences on the use or cost of providing services (expenditure needs); and
- its per capita level of SPPs in relation to the national average (SPP needs).

In 2006-07, the Territory's relativity was 4.32755, reflecting the higher costs and greater expenditure requirements of the Territory population, combined with a lower relative capacity to raise own-source revenue compared to the average of state jurisdictions. The Territory receives a higher than per capita level of SPP funding from the Commonwealth and this offsets its GST share. The Territory's needs-based share of the \$39.6 billion GST pool in 2006-07 was \$2.0 billion.

The Northern Territory's overall disability is around 2.5. This means that, after taking into account revenue and expenditure differences, it costs 2.5 times more to deliver standard services in the Territory. The additional capacity to provide standard services is limited to the GST pool, which represents about 55 per cent of state revenue. Thus, the Territory needs over four times per capita more from the GST pool to meet its overall disability factor of 2.5.

The Commission assesses the additional amount in excess of a per capita allowance that is required to provide services in the Territory. Table 10 shows the contribution of various categories, called expense 'disabilities' by the Commission, to the Territory's above equal per capita share of GST based on the 2005-06 GST revenue and health care grants pool. The Commission identified \$706 million of redistribution as being wholly Indigenous-related (Indigenous influences, native title and land rights disabilities). A further \$288 million can be identified as Indigenous-related based on other disability factors and an assessment of the relevant Indigenous population to which the disability applies.

Table 10: Influences on GST revenue redistribution

	Redistribution amount	Indigenous-related share	Comment	
	\$M	%	\$M	
Indigenous influences	691.2	100.0	691.2	
Native title and land rights	14.9	100.0	14.9	
Other socio-demographic influences	79.5	41.1	32.7	Weighted by percentage of school students that are Indigenous
Administrative scale	194.5	32.1	62.5	Equal per capita plus adjustment for Indigenous-specific influences
Service delivery scale	68.4	79.9	54.7	Indigenous proportion outside major centres
Population dispersion	331.6	53.4	177.1	Weighted by Indigenous proportion outside Darwin
Urban influences	-32.8	53.4	-17.5	Weighted by Indigenous proportion outside Darwin
Input costs	251.1	30.4	76.3	Equal per capita
Economic environment	49.4	30.4	15.0	Equal per capita
Physical environment	70.9	30.4	21.6	Equal per capita
Other factors	-204.0	65.7	-133.9	Scaled proportionately across other identified disabilities
Total	1 514.7	65.7	994.5	

Source: Northern Territory Treasury, Commonwealth Grants Commission (2006 Update), Australian Bureau of Statistics.

The Commission also takes into account the distribution of SPPs in estimating the financial capacity required to achieve fiscal equalisation. If a state receives a higher level of SPPs, it will result in less GST and vice versa. In 2006-07, the Northern Territory was assessed as receiving \$84 million more than its share of Indigenous-related SPPs. This amount is offset against the Commission's assessed Indigenous needs shown above in Table 10. This effect is shown in Table 11.

Table 11: Indigenous-specific GST funding 2006-07

	\$M
Total disabilities	1 514.7
Indigenous-specific GST funding	994.5
Less indirect effects of Indigenous-specific SPPs	84.1
Net Indigenous-specific GST funding	910.4

Source: Northern Territory Treasury, Commonwealth Grants Commission (2006 Update).

The Commission's published expense disabilities are based on estimates of the preceding year's GST revenue and health care grants pool, that is 2005-06. To provide a more contemporaneous assessment of Indigenous-related revenue, the Commission's assessment of expense disabilities and Indigenous-specific SPPs has been applied to the 2006-07 pool. This is a variation in the methodology from the 2004-05 IER. Table 12 sets out the calculation.

Table 12: Adjusted Indigenous-specific GST funding 2006-07

Net Indigenous-specific GST funding from Table 11 (\$M)	910.4
NT equalisation distribution of the estimated 2005-06 GST revenue and health care grants pool (a) (\$M)	1 921.0
NT actual 2006-07 GST revenue and health care grants (b) (\$M)	2 108.8
Growth factor (b/a-1) (%)	9.77
Adjusted net Indigenous-specific GST funding (\$M)	999.4

Source: Northern Territory Treasury.

The remaining GST revenue has been allocated to the Indigenous population on an equal per capita basis, as shown in Table 13.

Table 13: Indigenous-related GST funding 2006-07

	\$M
Remainder of GST revenue	352.5
Indigenous equal per capita share of remainder	107.2
Plus net Indigenous-specific funding from Table 12	999.4
Indigenous share of GST revenue based on 2006-07 GST and health care grants pool	1 106.5

Source: Northern Territory Treasury.

As noted above, the Indigenous-related GST revenue share in the 2004-05 IER was determined by applying the expenditure disabilities identified by the Commission and applying them without adjustment to the expected 2004-05 distribution of GST revenue. The 2006-07 IER modifies this methodology to scale the factors upwards to reflect actual GST revenue received in 2006-07. This results in a higher share of revenue being classified as Indigenous-related. The impact of adopting the revised methodology is to increase Indigenous-related revenue by 1.3 percentage points in 2006-07 and 1.6 percentage points in 2004-05.

Tied Grants

Tied grants make up about 15 per cent of the Territory's budget and comprise mainly SPP grants from the Commonwealth that must be acquitted against a specific program or function.

SPPs reflect Commonwealth policy priorities and negotiated agreements between the Commonwealth and the Northern Territory. The method of distribution of SPPs among the states varies between grants.

There are two financial impacts relating to SPPs and other tied grants. The first impact is the direct amount received by the Territory in tied grants. In 2006-07, tied grants of \$495 million were received by the Territory. Of this amount, \$53.4 million was directed as either Indigenous-specific grants or to remote and very remote areas (where the population is predominantly Indigenous). Indigenous-specific grants (Aboriginal Rental Housing Program and Indigenous Education Strategic Initiatives Program) have been wholly attributed to the Indigenous population, while those grants directed to remote and very remote areas have been attributed according to the Indigenous proportion of the population living in the relevant areas. Non-Indigenous-specific tied grants have been distributed on an equal per capita basis. This results in an Indigenous-related share of tied grants of 37.7 per cent or \$192 million. Table 14 outlines the calculations.

Table 14: Indigenous and non-Indigenous SPPs 2006-07

	\$M
Total tied grants	494.9
Indigenous-specific SPPs	47.4
Remote/very remote area SPPs (79.9% attribution of \$6.0M)	4.8
Total Indigenous-specific/remote SPPs (a)	52.2
Remaining tied grants	441.4
Equal per capita of remaining tied grants (b)	134.2
Total Indigenous tied grant revenue (a+b)	186.4

Source: Northern Territory Treasury, Commonwealth Government.

Own-source Revenue

Own-source revenue makes up 22 per cent of the Territory's budget and comprises Territory taxes, interest received and sales of goods and services. For Territory taxes, the proportion of revenue contributed by the Indigenous population has been calculated using proxies as shown in Table 15. Other own-source revenue has been treated on an equal per capita basis.

Table 15: Estimated proportion of own-source taxes contributed by the Indigenous population 2006-07

	Revenue	Indigenous-related share	Proxy	
	\$M	%	\$M	
Payroll tax	124.3	7.0	8.7	Indigenous employment share less Community Development Employment Projects (CDEP)
Stamp duty on conveyances	106.8	7.4	7.9	Proportion of Indigenous persons aged 18 years or older living in homes where a resident owned, or was purchasing, the home
Gambling taxes	64.5	14.6	9.4	Proportion of Indigenous persons living in main urban centres
Stamp duty on insurance	23.1	14.6	3.4	Proportion of Indigenous persons living in main urban centres
Stamp duty on motor vehicle registrations and transfers	19.8	12.0	2.4	Proportion of Indigenous households with one or more vehicles
Light vehicle registration fees and taxes	11.8	12.0	1.4	Proportion of Indigenous households with one or more vehicles
Heavy vehicle registration fees and taxes	10.3	12.0	1.2	Proportion of Indigenous households with one or more vehicles
Hiring duty	5.0	14.6	0.7	Proportion of Indigenous persons living in main urban centres
Other	2.4	31.6	0.8	Equal per capita
Total	368.0	9.7	35.9	

Source: Northern Territory Treasury, Australian Bureau of Statistics.

Table 16 shows the overall treatment of own-source revenue.

Table 16: Summary of overall treatment of own-source revenue 2006-07

	Total Revenue		Indigenous-related share	
	%	\$M	\$M	%
Own-source taxes	50.3	368.0	35.9	9.7
Other own-source revenue	49.7	364.0	110.7	30.4
Total	100.0	732.0	146.5	20.0

Source: Northern Territory Treasury.

In this review, the methodology for apportioning own-source revenue was revised to reflect more appropriate proxy indicators, mainly in respect of motor vehicles. Table 17 compares 2004-05 and 2006-07 results using the proxies used in this review. The change in proxy indicators results in a minor reduction in the share of own-source revenue classified as Indigenous-related.

Table 17: Comparison of 2004-05 and 2006-07 methodology for calculating Indigenous-related share of own-source revenue

	2004-05 methodology	2006-07 methodology	Change
	Indigenous-related share of own-source revenue	Indigenous-related share of own-source revenue	
	%	%	percentage point
2004-05	19.1	18.6	-0.5
2006-07	20.5	20.0	-0.5

Note: Includes component arising from changes in population share between 2001 and 2006 Census.

Source: Northern Territory Treasury.

Estimate of Indigenous-related Revenue

Table 18 combines the revenue components to total the estimate of Indigenous-related revenue in 2006-07. Indigenous-related revenue is estimated at \$1439.5 million or 44.4 per cent of total revenue.

Table 18: Estimation of Northern Territory revenue related to the Indigenous population 2006-07

	Total Revenue		Indigenous-related share	
	%	\$M	\$M	%
GST revenue	62.2	2 015.3	1 106.5	54.9
Tied grants	15.3	494.9	186.4	37.7
Own-source revenue	22.6	732.0	146.5	20.0
Total	100.0	3 242.2	1 439.5	44.4

Source: Northern Territory Treasury.

Part C: Summary of Results and Comparison Between 2004-05 and 2006-07

Summary of Results

This report provides an estimate of the Indigenous-related expenditure, and revenue received by, the Territory Government in 2006-07. The key results are:

- 52.4 per cent of the Territory's expenditure in 2006-07 was Indigenous-related;
- 44.4 per cent of the Territory's revenue in 2006-07 was Indigenous-related;
- Indigenous-related expenditure exceeds that of revenue by 8.0 per cent or approximately \$248 million; and
- on a per capita basis, spending on Indigenous Territorians is 2.5 times that of non-Indigenous Territorians.

The 2006-07 results show a significant variation in both revenue and expenditure from the published 2004-05 IER. However, as noted above, methodological changes between the reviews mean that the results are not directly comparable and do not reflect key changes in data parameters relating to population. The impact of the 2006 Census estimate of the Indigenous population is discussed below.

Population

The Australian Bureau of Statistics (ABS) released its 2006 Census in June 2007. The proportion of the Northern Territory's population that is Indigenous is estimated at 30.4 per cent compared to 28.8 per cent at the 2001 Census. Other population proxies have also been updated and include urban and remote populations and age distributions.

The 2006-07 IER uses the 2006 Census proportions while the 2004-05 IER used the 2001 Census proportion. As a result, where per capita apportionment of either revenue or expenditure has been used, differences between the 2004-05 IER and the 2006-07 IER are likely to be exaggerated. It is generally agreed that the 2006 Census improved Indigenous population estimation, particularly in rural and remote areas as a result of a remote area post enumeration survey (PES). Thus, Northern Territory Treasury considers that the change in population share reflects both actual population change and an element related to improved enumeration by the ABS in the 2006 Census. The changes impact on both revenue and expenditure.

In order to adjust for these differences, results from the 2004-05 IER have been adjusted to reflect the higher Indigenous population share identified in the 2006 Census. This provides a more appropriate comparison. This has been combined with the methodological changes outlined in Parts A and B to show a like-for-like comparison of expenditure and revenue between 2004-05 and 2006-07.

Summary of Expenditure Incorporating Data and Methodological Revisions

The impact of the population changes on expenditure percentages is relatively minor. This is because the use and cost methodology adopted by agencies factors in actual use of services by the Indigenous population. The most significant impacts occur for those agencies providing whole of population services or where economic benefits accrue to the whole community. These agencies account for a relatively small component of overall Territory Government expenditure.

Updating the 2004-05 IER to reflect the 2006 Census data shows an increase in the proportion of expenditure that is Indigenous related from 49.7 per cent to 50.1 per cent, an increase of 0.4 percentage points.

Comparing the 2006-07 IER with the 2004-05 IER on a like-for-like basis shows a 2.3 percentage point increase in Indigenous-related expenditure. However, due to the increased rigour applied by agencies in the latest review, part of this difference is likely to reflect improved reporting rather than increased levels of expenditure.

Table 19: Impact on Indigenous-related expenditure of methodological and data changes between 2004-05 and 2006-07 Reviews

	2004-05 IER original data Indigenous-related share of revenue	2004-05 IER adjusted for methodology and population changes Indigenous-related share of revenue	2006-07 IER Indigenous-related share of revenue	Change
	%	%	%	percentage point
Service agencies	50.9	51.2	53.5	2.3
Support agencies	46.5	47.1	50.9	3.8
Central agencies	45.6	46.1	46.9	0.8
Total	49.7	50.1	52.4	2.3

Source: Northern Territory Treasury.

Summary of Revenue Incorporating Data and Methodological Revisions

Table 20 shows that after combining methodological changes shown above with the use of the 2006 Census results, Indigenous-related revenue for 2004-05 would need to be revised by 2.7 percentage points to 45.9 per cent to be comparable with the 2006-07 data and methodology.

Based on a comparison with the 2006-07 IER and revised 2004-05 data, the share of Territory revenue that is Indigenous-related has declined from 45.9 per cent in 2004-05 to 44.4 per cent in 2006-07.

The decline shown in the 2006-07 IER reflects both a fall in the share of total revenue contributed by GST and a reduction in the share of GST revenue that is Indigenous-related. The latter component reflects that the proportion of the Commission's equalisation distribution (i.e. that above a per capita distribution) allocated to Indigenous influences, native title and land rights declined from 48.4 per cent to 46.6 per cent. This fall was only partially offset by an increase in the Indigenous-related component of the Commission's dispersion assessment which increased from 21.4 per cent to 21.9 per cent.

Table 20: Impact on Indigenous-related revenue of methodological and data changes between 2004-05 and 2006-07 Reviews

	2004-05 IER original data Indigenous-related share of revenue	2004-05 IER adjusted for methodology and population changes Indigenous-related share of revenue	2006-07 IER Indigenous-related share of revenue	Change
	%	%	%	percentage point
GST revenue	52.7	56.4	54.9	-1.7
Tied grants	36.1	37.6	37.7	0.1
Own-source revenue	19.1	19.5	20.0	0.5
Total	43.2	45.9	44.4	-1.5

Source: Northern Territory Treasury.

Summary

Table 21 shows a summary of key results on a like-for-like basis between the two reviews. The key points arising from this review are:

- Indigenous-related revenue declined by 1.5 percentage points between 2004-05 and 2006-07;
- Indigenous-related expenditure increased by 2.3 percentage points over the same period;
- the percentage point difference between Indigenous-related expenditure and revenue almost doubled between the two reviews increasing from 4.2 to 8.0; and
- the per capita ratio of Indigenous expenditure to non-Indigenous expenditure increased from 2.3 to 2.5.

Table 21: Comparison of results between 2004-05 and 2006-07 Reviews

	Revised 2004-05	2006-07	Change
Indigenous-related revenue (per cent)	45.9	44.4	-1.5
Indigenous-related expenditure (per cent)	50.1	52.4	2.3
Difference (percentage points)	4.2	8.0	3.8
Per capita ratio – Indigenous expenditure: non-Indigenous expenditure	2.3	2.5	0.2

Source: Northern Territory Treasury.

Northern Territory Treasury
38 Cavenagh Street
GPO Box 1974, Darwin NT 0801
Telephone: (08) 8999 7406
Facsimile: (08) 8999 7150
Website: www.nt.gov.au/ntt