

Northern Territory Supplementary Submission

This submission responds to questions on notice resulting from the Committee's hearings of 31 October 2008 in Darwin and 11 November 2008 in Canberra. The submission also provides further information on expenditure data in the Territory's Indigenous Expenditure Review and Commonwealth Grants Commission (the Commission) reports and responds to issues raised in selected other submissions that were provided to the Committee.

Questions on Notice

Clarification of figures:

- How much more it costs, on average, to provide a service to the average citizen of the Northern Territory compared with the average for the rest of Australia?
- How much greater than the national average does it cost to provide services to Indigenous Northern Territorians?

Based on Commission data, total expenses in the Territory between 2002-03 and 2006-07 were between 2.2 to 2.5 times national average expenses. After adjusting for user charges, net expenses were 2.4 to 2.7 times national average figures.

There is no data on Indigenous-related expenditure at a national level. In the Territory, per capita Indigenous-related expenses for 2006-07 are estimated at \$25 500 compared to national average expenses of \$6340 as reported by the Commission. Per capita, non-Indigenous expenses in the Territory are estimated at \$10 100.

Closing the gap funding – what percentage of the new growth is the \$286 million?

Around 70 per cent of available growth funding for new initiatives was directed to Closing the Gap initiatives.

Response to Tiwi Land Council submission – provision of information for school funding on Tiwi Islands.

See responses to each submission below.

How many public houses did the Northern Territory own 10 years ago and how many public houses does it own today?

Public housing stock has decreased from 8072 in 1998 to 5272 in 2008. The decline in part has been achieved through an active sales program of public housing to tenants. The Northern Territory has an ongoing process of matching dwelling types to client needs. Notwithstanding the decline, the Territory's public housing stock, as a percentage of all housing, is the highest of all jurisdictions at 8.3 per cent.

What increase has occurred as a result of your own state taxes in respect of that revenue since the last financial year?

In 2007-08 own-source taxation revenue was \$394.7 million, an increase of 7.2 per cent from 2006-07.

Response to the NTCOSS submission, Appendix 2.

See response to each submission below.

Commonwealth Grants Commission – Comparison of Actual and Assessed Expenditure

The Commission publishes financial data for all states and territories used in its assessment of relativities. The Commission's analysis is often misinterpreted as a measure of what each state or territory should spend compared with what it does spend.

The **actual** expenditure reported by the Commission is an estimate of the amount that each state spends on particular functions. States and territories provide services in different ways and responsibility for service delivery varies between agencies and sometimes between levels of government by jurisdiction.

State and territory budget data reflects the way services are delivered in each jurisdiction. There is a secondary allocation of this data to general purpose classifications (GPC) that are specified by the Australian Bureau of Statistics (ABS) according to international classification methods. This secondary classification is used by the Commission to produce the categories for its assessments. There are a number of issues associated with the quality of this disaggregated data that means comparisons such as those made by NTCOSS are not valid and cannot be directly used for the analysis of state budget expenditure. These include:

- the low-level GPC classifications are known to be applied inconsistently between jurisdictions, largely because of the difference in the way services are delivered between jurisdictions;
- it is also difficult to disaggregate some of the Territory's programs into Commission-based categories: for example, separating community health spending into aged and disabled services and mental services due to different methods of service delivery;
- the Commission also, on occasion, has to adjust GFS data to improve its consistency or because of the Commission's assessment methods (e.g. removing superannuation expenses from individual assessments); and
- there is a considerable lag between the end of a particular financial year and the release of ABS GFS data. The Commission's 2008 Update is based on ABS GFS data on state expenditures for each of the five years from 2002-03 to 2006-07, and therefore does not fully capture substantial funding increases by the Territory Government in recent years, particularly for health, education and law and order.

While considerable efforts have been made to improve the quality of GPC data between different categories, a difference between jurisdictions between the allocation of expenditures between one category or another does not have a material influence of the Commission's overall relativity assessment if the categories have similar disability factors applied. Most social service categories have similar disabilities.

Assessed expenditure is the Commission's estimate of what states would need to spend on each function in order to provide average levels of service based on the average policies of states, after taking into account expenditure disabilities (e.g. demographics, remoteness, different health and education needs). This process works well when community needs and service provision is comparable. However, as the Commission has noted on a number of occasions, the Territory's circumstances are so different to the states that it presents some difficulty for the equalisation model because:

- the Commission's assessments reflect national average spending in each expenditure category, where the practices and priorities of the larger states have an overwhelming influence on the outcome;
- the Commission's model uses the average policies of states. These policies are not always appropriate for the Territory due to its unique characteristics. Therefore, comparing actual Territory spending (based on Territory-appropriate policies) and the Commission's assessed expenditure (based on average policies) is not useful or relevant; and
- the Territory provides many services differently to other states due to its unique circumstances and this can cause a divergence between the Territory's actual and assessed expenditures as determined by the Commission.

Where the Territory's expenditure is the dominant influence on the Commission's category, the standard methodology does not produce reliable results because the methodology is dependant on an average expenditure where all jurisdictions contribute to the average.

When the Territory's actual expenditure is less than its assessed amount in a particular expenditure category, it is sometimes interpreted as under-spending on that function. However, the Commission's equalisation model is designed to work on a broad scale and the analysis of individual categories can be misleading, since expenditure for a particular state or territory will be captured in other related categories.

The Commission's submission makes it clear that the detailed calculations it uses to produce relativities have no status outside the equalisation model and it is inappropriate to use the Commission's estimates and calculations as expenditure benchmarks.

Following its last major review in 2004 the Commission, the Commonwealth and states and territories agreed that not only were the categories too disaggregated but some of the data used to derive disability factors was not fit for purpose. Hence in the next major review in 2010, the Commission will have far less categories of expenditure than at present, recognising that the current levels of disaggregation are not appropriate or sufficiently reliable.

Family and Child Services

Assessed: \$178.69M

Actual: \$42.98M

This is a category where the service delivery and data classification issues mean that a comparison based on data contained in the Commission's report is not appropriate.

GFS classification issues impact the Territory's actual spend on family and child services. For example, the costs associated with the child abuse task force, which is a joint initiative between police and community services, may be captured across a range of categories including, police, administration of justice, and family and child services.

This is an area where in recent years there has been increased priority on and additional allocations provided to increases in services. However, the Territory's actual expenditure in family and child services category is hampered by the difficulties involved in recruiting qualified staff to the Territory in this small and specialised area. The difficulties in recruitment are amplified when trying to attract staff to remote and isolated areas.

In 2008-09 the Territory Government's estimated expenditure on families and children is double that reported in GFS data for 2006-07. This is the result of initiatives such as Closing the Gap, which is designed, among other things, to address child sex abuse.

The Commission's assessment in the family and child services category is largely determined by the number of people under 17 years of age and the national average rate of substantiated child abuse notifications and protection orders by the relevant sociodemographic group (Indigenous children and children from low socioeconomic families).

While the Territory has an above-average share of young persons, it has significantly lower rates of substantiated abuse notifications and care and protection orders than the national average, particularly for Indigenous children. For example, the 2008 Report on Government Services (RoGS) shows that the national average rate of substantiated abuse notifications for Indigenous children is around 32 substantiations for every 1000 Indigenous children, whereas in the Territory the rate is around 17 for every 1000. The Territory's actual expenditure reflects the lower level of reporting.

The Territory also has a number of initiatives in place that should increase the level of reporting although, as experienced in other jurisdictions, it will take some time before reporting rates increase.

The 2008 Update saw the replacement of 2001 Census data with 2006 Census data. The change increased the Territory's share of young and Indigenous persons, which compounded the issues discussed above.

Services to Indigenous Communities

Assessed: \$217.89M

Actual: \$110.33M

This is a category where the Commission's standard methodology, which is based on averaging the expenditure of all jurisdictions, cannot be readily applied. The Territory's expenditure is about one-third of the total expenditure nationally and so the Territory's expenditure dominates the national average.

The Commission's averaging methodology relies on the assumption that services are similar across Australia. This is not the case. The municipal services provided to remote communities are almost unique to the Territory.

The assessment in this category is based on the estimated resident populations in discrete Indigenous communities. As the majority of discrete Indigenous communities are located in the Territory, the Territory's disability factor is around 70 times higher than other states. However, because the Territory's expenditure has a disproportionate influence on state average, some of the Territory's disabilities are already reflected in the standard. The Commission's methodology is not as robust in these circumstances and is likely to be changed in 2010.

Use of General Purpose Classification Data in the Commonwealth Grants Commission Assessments

At the first hearing on Indigenous expenditure, Northern Territory Treasury officials outlined the process whereby the Territory allocates its expenditure by function and the basis for the Commonwealth Grants Commission's (Commission) calculation of states' 'actual' expenditure. Further detail of this process is provided below.

Under the Uniform Presentation Framework, the Territory is required to report its expenditure by government purpose classification (GPC). The GPC classifies general government transactions in terms of purposes for which they are made. The GPC is a three-level structure consisting of major groups (two-digit), groups (three-digit) and subgroups (four-digit). For example:

04 Education (major group)

041 Primary and secondary education (group)

0411 Primary education (sub group)

States and territories are required to report their expenditure at the four-digit GPC level. The requirement to report at the detailed GPC level can lead to reporting inaccuracies because of the difficulty of disaggregating broad programs, for example separating community health spending into aged and disabled, family and child services and other welfare services.

Each state has adopted different approaches to allocating expenditure to four-digit GPCs, which can lead to inconsistencies between states. Many services in the Territory are provided differently to other jurisdictions because of the Territory's unique circumstances and population demographics. Services to rural and remote areas are often provided quite differently to those in urban centres. While this is not a significant issue for the majority of states because such services represent a small proportion of their budget, it is a significant proportion for the Territory. States may allocate similar expenditures to different GPCs. An example is child protection services provided by police. This could be classified in either family and children welfare or policing-related GPCs.

It should be noted that GPC data does not allocate government expenditure by Indigenous or non-Indigenous purposes. This information is not collected or published by other states, ABS or the Commission. It has only been recently that the Territory has undertaken a comprehensive review in order to estimate the proportion of its general government expenditure that can be attributed to the Indigenous and non-Indigenous population. However this is external to the GPC process and the Territory is not required to do so by the ABS or for the purposes of the Commission's assessment.

The Northern Territory reports its expenditure by GPC annually in the Treasurer's Annual Financial Report (TAFR). The Territory provides the base data used for the TAFR to the Australian Bureau of Statistics (ABS) for the reporting of National Accounts data. The ABS may make adjustment to the Territory's data to improve consistency of the reporting of some transactions between states.

Commission methodology

The Commission's assessment of state relativities is based on a five-year average process with a two year lag. For example, the 2008 Update relativities, which is used to distribute the 2008-09 GST pool, is based on state financial data for the period 2002-03 to 2006-07 (the assessment period). The Commission's assessment relies on past expenditure level. The Commission does not use or provide budget or forward estimate figures.

The Commission relies on four-digit GPC data to determine states' expenditure by category by aggregating GPCs that relate to the same or similar function. The purposes of reporting GPC data for the Uniform Presentation Framework and for the Commission assessments are different, and therefore the figures may not be comparable.

The Commission uses different data sources to derive the 'actuals' for the most recent year and the preceding four years in the assessment period. This is because data for the most recent year is not finalised prior to the release of the annual update of relativities.

For the most recent year of the assessment period, the Commission relies on GPC data reported in the Territory's TAFR. The Commission will request information from the Territory in order to make the necessary adjustments to the TAFR data for its reporting requirements.

In relation to the preceding four years of the assessment period, the Commission uses data provided by the ABS. The ABS data is based on Territory data with adjustments made by the ABS. While the ABS consults with the Territory on these adjustments, the final decision lies with the ABS.

As previously stated, the Commission will make adjustments to the Territory's GPC data to suit the assessment needs. These include, but are not limited to:

- inclusion of Australian Government expenditure that does not have a direct impact on the Territory's budget, and therefore not reported in the Territory's GPC data;
- adjustments to estimate Territory expenditure on government and non-government schools. GPC data does not split education expenses between government and non-government as required by the Commission. The Commission makes this adjustment using other data sources as a guide;
- the Commission requests data from the Territory on its expenditure on services to Indigenous communities due to the difficulty of reporting this data in the GPC. Services to Indigenous communities does not relate to the total Territory government expenditure on Indigenous communities, but rather the estimated expenditure on Indigenous essential services (for example electricity, water, sewerage, etc) in remote areas only; and
- the Commission removes superannuation, depreciation and debt charges expenditure allocated to each GPC, taking into consideration advice from the Territory, to determine the expenditure in these areas separately. The Territory allocates these expenses to the function (GPC) to which they relate.

After making these adjustments the Commission consults with the Territory and may consider making changes in response to advice from the Territory.

Summary

In summary, while the Commission's assessed 'actuals' are sourced originally from Territory data, the purposes of reporting GPC data under the Uniform Presentation Framework and the Commission's assessments are different, and therefore are not comparable. The Commission will make adjustments to the Territory's GPC data in order to suit the needs of the assessment model.

GPC data represents an estimate for government expenditure by function as it is often difficult to split programs at the detailed GPC level required. This is particularly the case for the Territory because of its unique circumstances and population demographics, which often requires the Territory to deliver services differently to those in urban centres in the larger states. Importantly GPC data does not differentiate Indigenous and non-Indigenous expenditure. The Commission does not collect nor publish information on states' expenditure by Indigenous and non-Indigenous purposes.

Comments on Selected Submissions

Xstrata Zinc

The Northern Territory Government and Commonwealth Governments are working co-operatively to address Indigenous disadvantage. This was impacted to some degree by the Northern Territory Emergency Response, however prior to that, in 2005, both Governments had signed the Overarching Agreement into Indigenous Affairs that sought to achieve ongoing improvements in services 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.

All governments through COAG have recognised that the gap in outcomes between Indigenous and non-Indigenous must be closed. All jurisdictions have participated in the COAG Working Group on Indigenous Reform on the measures required to close the gap and specific outcomes to be included in each new National Agreement and relevant partnership agreements.

The Northern Territory Government considers that consultation with the Indigenous community and private enterprise is critical to ensuring optimal delivery of services.

Northern Territory Council of Social Services (NTCOSS)

The NTCOSS submission makes a number of comments in relation to the Northern Territory Treasury's 2004-05 Indigenous Expenditure Review. Treasury's responses are in italics below.

- Claim in the Indigenous Expenditure Review that the Government spends more on Indigenous citizens than it receives does not appear accurate. If the claim is current, the Northern Territory Treasury is remiss in not seeking additional funding. Further assertions are made about the Indigenous Expenditure Review.

The Indigenous Expenditure Review seeks to provide a robust transparent measure of Indigenous-related revenue and expenditure. The Review is the first of its kind published by any government (federal, state or local) and the methodology is outlined in the report.

- Purports to measure expenditure on Indigenous citizens using 'estimates' and 'judgements' by departments and agencies – therefore is not independent. Various distinguished people have 'signed-off' on the methodology, but have not affirmed the application of the principles in actual practice.

The Review is prepared by Northern Territory Treasury with extensive input from agencies. It does not purport to be an independent review but does use data from independent sources such as the Australian Institute of Health and Welfare to support usage and cost data. The 2004-05 Review was independently refereed by Professor Ken Wiltshire and Mr Saul Eslake. The 2006-07 Review has been independently audited by the Northern Territory Auditor-General.

- Figures have not been adjusted for the higher proportion of Indigenous population being under 16.

Indigenous proportions used in the report have been applied according to the nature of the service provided. For instance, attribution of expenses for schools uses school enrolments, health estimates are based on the profile of health clients and law and order estimates are based on the profile of offenders within the justice system.

- Query application of Trade and Major Projects and NT Railway to Indigenous on per capita basis. Do not accept per capita attribution for mining, tourism, primary industry as Indigenous participation in these industries is low.

Economic type services have generally been attributed on the basis of program purpose, which is to benefit the population as a whole. Significant government expenditure is incurred in attempting to achieve improved participation and outcomes for Indigenous people relating to major projects. This attribution balances the assumption that revenue is provided on a per capita basis prior to adjustments to reflect relevant disabilities or specific programs.

The 2006-07 Indigenous Expenditure Review tests the sensitivity of this assumption (program purpose) in relation to the activities of Tourism NT, the Department of Business, Economic and Regional Development, Territory Discoveries, NT Build and Land Development Corporation. This shows that the effect of removing any Indigenous attribution from these agencies' expenditure would be to reduce the Indigenous-related expenditure across government by 0.8 percentage points to 51.6 per cent. If these agencies were removed from the analysis, the impact would be to increase both Indigenous-related revenue and expenditure proportions by 0.3 percentage points.

- Ratio of expenditure in service and support agencies is double dipping – do not accept figures for Department of the Chief Minister other than for Office of Indigenous Policy.

Each dollar of expenditure is attributed once only to either Indigenous or non-Indigenous population groups. The Department of the Chief Minister provides services to government, services to agencies and services in its own right. Services to government are for the benefit of the whole population and have been attributed on a per capita basis. Services to agencies are essential for the delivery of direct services and have been attributed based on the average percentage of service agencies. Direct services have been attributed based on the use and cost by Indigenous persons.

- Office of Commissioner for Public Employment estimated its Indigenous-related expenditure at 7 per cent, the review altered this to 28.8 per cent.

This statement is incorrect. Certain components of the OCPE return were assessed as benefiting employees only and these were assessed based on the Indigenous proportion of public sector employees, i.e. 7 per cent. The 2004-05 data is consistent with the return provided by OCPE in 2006-07.

- The Indigenous component of Northern Territory source revenue has been less favourable to Indigenous – Indigenous share of gambling and insurance taxation based on urban area population is unrealistic.

The methodology applied to the attribution of own-source revenue is based on proxies that seek to measure Indigenous participation in the relevant activities that are taxed. The methodology was developed in consultation with the referees for the 2004-05 report.

- Unexplained other factors item reduces Indigenous share by \$131.4 million.

The weighting applied to this factor was that of all other factors combined and was determined following discussions with the Commonwealth Grants Commission.

- No basis for adjustment for SPPs after Indigenous share of Commission redistributions is determined.

The Commission's assessment includes expenditure needs, specific purpose payment needs and revenue needs. The adjustment referred to in the NTCOSS paper reflects that of specific purpose payment needs, which adjusts GST revenue to reflect the level of specific purpose payments received by a state.

Northern Territory Shelter

The Northern Territory Shelter submission makes a number of comments in relation to the Northern Territory Treasury's 2004-05 Indigenous Expenditure Review. Treasury's responses are in italics below.

- The Territory's Indigenous Expenditure Review is based on estimates rather than actual expenditure.

The Territory's Indigenous Expenditure Review allocates each dollar of actual revenue or expenditure to either Indigenous or non-Indigenous. In some cases it is necessary to estimate Indigenous-related proportions due to the lack of available third party data in relation to use or cost of service.

- Current reporting against levels of funding received is not demonstrating where funds are going.

The Territory is the only jurisdiction to publish estimates of Indigenous-related revenue and expenditure to this level of detail. All assumptions used in the report are clearly outlined. Additional information is available in annual reports and third-party provider reports such as the Productivity Commission, Australian Bureau of Statistics and the Australian Institute of Health and Welfare.

- Clear need for additional consideration and funding streams for the Territory.

This is a key conclusion of both the 2004-05 and 2006-07 Indigenous Expenditure Reviews.

Tiwi Land Council

The Tiwi Land Council submission asserts that "other than service delivery funding to Health, Police and Local Government, landowners could not readily identify any project or development program of any description that had in fact been supported by the Northern Territory Government over the past decade". Particular areas of concern identified in the submission include road funding, land and sea management, education, housing, swimming pools, oversight of expenditure through local government.

Sources of funding in remote areas can be difficult to identify given that services are delivered through a range of organisations, which may include all levels of government, not-for-profit government organisations and private enterprises. Expenses related to government activity for private enterprises are not necessarily attributed directly to regional area outputs or the like. The Northern Territory Government expenses related to the Tiwi Islands include almost all areas of government expenditure including health and welfare, education, housing, Indigenous essential services, police and other justice services. Selected examples of Northern Territory Government expenditure outside of the areas identified above include:

- *provision of Government schools at Milikapiti and Pirlangimpi, recurrent support for non-Government schools at Nguiu (2) and Pickertaramoor. Recurrent support was estimated at \$3.4 million in 2007-08. Capital and repairs and maintenance expenditure from 2003 to 2008 is estimated at over \$10 million;*
- *the Northern Territory Government funded the Catholic Education Office (CEO) to deliver education at five Territory schools including the two at Nguiu until 2007-08.*

Following a consultation process with the communities, these schools were transferred to operate as independent Catholic schools in July 2007;

- *transition arrangements for the transfer of five schools (including Xavier CEC and Murrupurtiwanuyu) to the Catholic system on 1 July 2007 included:*
 - *\$0.7 million for higher than anticipated 2007 attendance;*
 - *\$0.5 million to cover outstanding claims to 30 June 2006;*
 - *\$10 million one-off capital contribution by the Territory Government for infrastructure upgrades, in conjunction with a \$5 million Commonwealth Government contribution to the transfer arrangements through the Block Grant Authority (at the time the Catholic Education Office identified upgrade needs – including support and administration project on-costs of \$2.98 million for Xavier CEC and \$5.619 million for Murrupurtiwanuyu);*
 - *transfer of two dwellings under construction at Nguiu Lot 461 (1x2 bedroom house) and Lot 462 (1x2 bedroom house);*
 - *ongoing funding at equivalent level to government preschools (including Xavier CEC and Murrupurtiwanuyu) for as long as the Territory Government is not providing a full preschool service at these communities; and*
 - *funding of \$225 000 was paid to repair fire damaged properties at Xavier CEC in 2006.*
- *essential services infrastructure at Nguiu, Milikapiti and Pirlangimpi;*
- *maintenance of three airstrips at Nguiu, Milikapiti and Pirlangimpi (expenditure of \$217 000 from 2006 to 2008) and barge landing at Nguiu;*
- *support of plantation forestry enterprise through Great Southern;*
- *coordination of government agencies around development of forestry plantation;*
- *maintenance of a trial site of high value tropical hardwood on Melville Island;*
- *approval processes for various primary industry projects (forestry, fishing, mining);*
- *various levels of support for aquaculture farming, including production of barramundi juveniles including seeking an alternative operator following the exit of Marine Harvest, provision of industry development and regional economic development fund grants;*
- *contribution to Indigenous Marine Rangers (\$60 000 per year); and*
- *contribution to upgrading of Pirlangimpi to Paru Road – \$0.8 million (including Auslink funding)*

Central Land Council

In its submissions, the Central Land Council refers to two papers published by the Centre for Aboriginal Economic Policy Research.

It should be noted that the Territory's Indigenous Expenditure Review differs from these studies in that it allocates every dollar of expenditure and revenue to Indigenous or non-Indigenous population groups. In this context, the Indigenous Expenditure Review seeks to measure the full cost of providing services.

The submission also asserts that Northern Territory Government annual reports do not contain analysis of spending and outcomes.

There is a wide range of information published on outcomes and expenditure including Annual Reports, the Northern Territory's Indigenous Expenditure Review, the Productivity Commission's Report on Government Services and Overcoming Indigenous Disadvantage publications and various Australian Bureau of Statistics

and Australian Institute of Health and Welfare publications. A considerable proportion of data supporting these publications is provided by the Northern Territory Government.

Central Australian Aboriginal Congress Inc

The Central Australian Aboriginal Congress Inc submission highlights a distinction between Indigenous-related expenditure, as used in the Indigenous Expenditure Review, and expenditure on Indigenous people.

The differences between the two could be interpreted as measuring total expenditure against direct expenditure.

The Indigenous Expenditure Review seeks to measure the full cost of delivering services to the Indigenous and non-Indigenous population subgroups. It is acknowledged that many services to Indigenous people will be delivered by non-Indigenous persons. However, in order to match assumptions on the revenue side, which are driven by use and cost factors, an approach that attributes the expenditure on the basis of service was adopted.

Use of direct expenditure only is a partial analysis and in the context of the Indigenous Expenditure Review would effectively assume that any non-direct expenditure is either wholly related to the non-Indigenous people or is unrelated to any population group.