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The Secretary
Community Affairs Committee
Government Expenditure on Indigenous Affairs and Social Services in the NT
PO Box 6100
Parliament House
ACT 2600

Re: Territory Allocations and SPPs

7th November 2008

Dear Senators

I have been aware for some time that you have been investigating the matter of the expenditure of Commonwealth funds by the Territory. I have very recently become aware of some issues may be of interest to the Committee.

The thrust of my submission is aimed at the Territory's budgeting options and a impression that the Territory has been supplementing its own budgetary commitments with Specific Purpose Payments.

I have sought briefings from the Treasurer in the Territory in relation to this matter, however, no briefings have been forthcoming. I therefore acknowledge that the time demand in submitting to the Senate Committee hasn't allowed me time to investigate this matter further.

The Treasurer's Annual Financial Statement (TAFS) was recently released in the Territory along with other annual reports. It is important to note that the release of these documents occurred after your Committee held its public hearings in Darwin. It is also important to note that TAFS was tabled at the last possible moment of the last sitting day in the Territory.

The TAFS makes some important observations. Notably it identifies that the surplus in the 2007-08 year is as a result of the government holding Specific Purpose Payments (SPP) in the bank on the 30th of June 2008.¹ It goes on to say

"The operating balance (\$340 million), fiscal balance (\$198 million) and cash (\$211 million) surpluses for 2007-08 represent a significant improvement on both the original Budget and the Final

¹ TAFS 2007-08 page 9



Estimate. This is largely due to the increase of \$268 million in SPPs from the Commonwealth, with a large proportion of the funds received towards the end of the year.”²

It is clear from these comments that toward the end of the financial year substantial amounts of money were transferred to the Territory in the form of SPPs.

What is also notable in the Territory Budget is the reallocation of two particular amounts of money that had not been budgeted for in the 2007-08 budget, namely:

- The transfer of \$30,617,000 from the Department of Health via a ‘Transfer of Access Allocations’, out of the Department of Health to other departments including \$20 million into the Central Holding Authority³, and
- The sudden and unexpected repayment of \$51.5 million worth of loans by Territory Housing to Treasury Corporation in 2007-08.⁴

NT Health Transfer of Monies

The Territory’s Health Department has not returned a single balanced or surplus budget in 7 years. It is for this reason that the sudden removal of \$30 million of Territory allocations to the department was a cause for sufficient concern to motivate me to place a question on the NT Parliament’s notice paper. That question was posted on the 18th of September 2008 and remains unanswered.

It is notable that this year’s Health Department Annual Report shows, in its Cash Flow Statement,⁵ that it received Current Grants and Subsidies of \$247 million. This is substantially different to the predicted income in the original budget for the same line item \$179 million.⁶ This extra money in the budget is mostly sourced from SPPs.⁷

It is also important to note that as the SPPs were received late in the year as expressed by the TAFS.

The inexorable pull toward concluding that there was a decision to remove cash from the Health Budget as a result of unexpected SPPs is amplified by the final estimate for Health as expressed by TAFS.⁸ TAFS demonstrates that the

² ibid page 9

³ See ‘Transfer of Access Allocations’ signed by the Treasurer 30th June 2008 tabled NT Parliament

⁴ Treasury Corporation Annual Report 2007-08 page 11.

⁵ Department of Health and Families Annual Report 2007-08 page 206

⁶ Northern Territory Budget Paper Number Three 2007-08 page 146. It is important to note that there has been a restructure of the Department during the year however its output groups remain unchanged. Therefore this is a fair comparison.

⁷ NT Health Minister Chris Burns ABC Territory Radio 7/11/08

⁸ TAFS 2007-08 page 142

published budget in May 2007 was \$584 million from the Territory's own coffers. That then expanded to \$596 million by the time of the Final Estimate in May 2008 but suddenly drops to \$566 million within a month. This is a variation of \$30 million. It is clear that the decision to take out the extra money occurred after May 2008 or at the time that the extra SPPs became available and their value became known.

Without knowing what particular terms and conditions were imposed on the expenditure of those SPPs by the Commonwealth it needs to be presumed that the comments in the TAFS about this extra money being provided as a result of the Northern Territory Emergency Response (NTER).⁹

There is also another segment to this money trail. With the \$20 million that was transferred back to the CHA it appears that that money was transferred into the flagging Conditions of Service Reserve (COSR) which is the Territory's equivalent of the federal Future Fund.¹⁰ That fund has lost tens of millions of dollars over the past few years because that money is all on the stock market.¹¹

It appears, on the face of it, that the Territory has used money from SPPs to support its own budget allocations so that it could remove money from the Territory allocations and place them onto the stock market to support its haemorrhaging COSR.

NT Housing Repayment of Debts

As outlined above there has also been an unexpected payment of \$51.5 million dollars to Treasury Corporation by Territory Housing.¹²

TAFS identifies that the repayment of this debt was unanticipated. TAFS notes that key non-discretionary variations to the original budget were caused in part by "...*Territory Housing repaying debt earlier than anticipated*,..."¹³ It is clear from this comment that the Territory did not budget for the payment to be made by Territory housing in that financial year.

It is important to note that there has been a deliberate contraction of the housing stock on foot in the Territory for several years. By way of example, more recently the 2007-08 budget anticipated the further elimination of 119 dwellings.¹⁴ It is also notable that the measure of the number of dwellings maintained in the Territory has disappeared as a measure in the 2008-09 budget. These houses are sold into the private market and are often purchased by long term tenants in those houses. Money from those sales do not appear to be channeling into constructing new

⁹ TAFS 2007-08 page 9

¹⁰ Treasury Corporation Annual Report 2007-08 page 14.

¹¹ Ibid page 14.

¹² Op cit Treasury Corp Annual Report page 11

¹³ TAFS 2007-08 page 13.

¹⁴ 2007-08 Budget Paper Number three 2006-07 dwellings 5,407 to 2007-08 5,288 dwellings

public housing which is why Territory Housing continues to shed dwelling numbers and is paying off its debts.

Further, in recent years houses on Remote Communities have become part of the housing stock maintained by Territory Housing, rather than it being a discrete organisation called the Indigenous Housing Association of the Northern Territory (IHANT).

It is my understanding that as part of the NTER SPPs are provided to the Territory to support indigenous housing. It is noteworthy that the Territory's definition of Indigenous spending is much broader than many would expect. In the recently tabled Indigenous Expenditure Review (IER) it was stated that an "...*apportionment process*..." was used to estimate indigenous expenditure in the Territory.¹⁵

By this definition there is a capacity for the Territory to use that SPP income on indigenous housing. It is conceivable that the Territory may well be proposing to spend some of those SPPs to replenish its housing stock in major centres. Using the IER definition a house merely has to contain an indigenous person to be termed "indigenous housing". The use of SPPs for housing in this instance would not match the public's and possibly the Commonwealth's expectations for the use of the SPPs granted to the Territory.

By way of example the Territory has now announced that a new sub-division near Darwin called Bellamack will have 15% public and affordable housing¹⁶. Under the Government's methodology it is conceivable that such public housing stock will be funded by Indigenous Housing Expenditure such as SPPs if they satisfy the extremely broad criteria used by the Territory to apportion money to indigenous housing.

It is also noteworthy that when the loan was repaid to the CHA that it immediately put the money into a fund called the Medium Term Investment Fund (MTIF).¹⁷

The Commonwealth has provided substantial Grants to the Territory for Indigenous Housing and the sudden disappearance of the measure of the number of houses managed by Territory Housing is a cause for concern. At the time of authorship of this submission the Territory Housing Annual Report for 2007-08 was not yet available.

The use of SPPs for building houses in urban centres may not be within the intention of the Commonwealth. Certainly, the focus of the public expectation is that such work be conducted in the remote communities that we regularly see in the media. This is especially true because there are already separate arrangements in place under the auspices of the Commonwealth/State Housing Agreement which provides \$75 million to the Territory for housing.¹⁸

¹⁵ Indigenous Expenditure Review 2008 page 5

¹⁶ Minister for Housing Rob Knight Hansard 22/10/08

¹⁷ Treasury Corp Annual Report page 13.

¹⁸ 2008-09 Budget paper three page 288.

Commonwealth Grants Commission

I do not wish to make any comments about payments made by the Commonwealth Grants Commission suffice to say that as the alternative treasurer of the Northern Territory I would urge that no attempt be made by the Commonwealth to make those payments in anyway tied grants. Whilst I appreciate that the case has been made that the approach used by the Grants Commission, in terms of calculating disabilities, is not necessarily reflected in Territory spending priorities, it is a formulaic approach applied by a Canberra based bureaucrat. Therefore it isn't the best expenditure model and it cannot replace local understanding and knowledge.

The Government of the day is answerable to its constituency only regarding such expenditure and consequently I would consider an attempt to tie Commonwealth Grants an attack on the Territory's sovereignty.

Conclusion

The use of SPPs to cover for Territory allocations is something that is not in the spirit of the intention of their delivery. It is almost an irresistible conclusion that in Health this already has appeared to have occurred and there is clearly a strong possibility that Territory Housing is positioning itself to do the same. The unbudgeted investment of \$70 million after the late receipt of extra money from SPPs should be a matter of great interest to your committee.

Yours faithfully,

John Elferink MLA