

## Terry Mills, MLA

### Leader of the Opposition

GPO Box 3700, Darwin NT 0801 Telephone: 08 8901 4188 Facsimile: 08 8901 4192 Email: [opposition.leader@nt.gov.au](mailto:opposition.leader@nt.gov.au)

The Secretary  
Senate Standing Finance and Public Administration  
PO Box 6100  
Parliament House  
CANBERRA ACT 2600

Re: Inquiry into Territory Government Financial Management

12<sup>th</sup> March 2008

Dear Secretary,

I am writing to you with regard to the Senate Standing Finance and Public Administration investigation in to state/territory financial management select committee.

This submission will not address itself to the all of the terms of reference of the committee but rather to those terms of reference that are relevant to the administration of the Northern Territory. This submission does not concentrate on the utilities aspect of the terms of reference

The rest of this submission deals largely with the unimaginative administration in the Northern Territory of the extra monies that this jurisdiction has received from the Commonwealth. This government has performed questionably, particularly in the areas of debt generally and debt arising out of unfunded superannuation liabilities.

This submission also addresses the outcomes that Territorians have seen for increased spending in the areas of health, law and order and education.

Consequently the submission will concentrate on terms of reference (a), (b), (d), (e) and (f).

#### Utilities

In the Territory there is only one utilities provider in the form of the Government Owned Corporation, PowerWater (PAWA). PAWA has a profitable history in terms of its service delivery in spite of a recent history of qualified audit opinions by the Territory's Auditor General. The audit issue has concerned the chosen accounting model PAWA has used and the consequential overstating of its assets by \$88 million.



Recent changes in the management of PAWA has seen the Auditor General soften his qualifications of PAWA's shortcomings but he still does not offer an unqualified audit to PAWA.<sup>1</sup>

The Auditor General notes in his report<sup>2</sup> that PAWA has not completed a comprehensive stock take of its assets for several years.

The Auditor General's audits heighten concerns about PAWA's capacity to meet rising demand in the future in a cost competitive capacity.

#### **Revenue terms of reference (a) and (b)**

The Territory's revenue has increased substantially in the past six years. GST and SPP revenues have seen Commonwealth income to the NT rise by 80% during that period. Own source revenue has also risen substantially by 70% during the same period. Similarly, the declaration of several roads in the Territory as roads of National Significance and population calculations has seen the Territory's relativity move from 4.36824 to 4.51835 in the current cycle.

The outcome for the year 2000-01 for in the area of revenue was a total of \$1.94 billion.<sup>3</sup> That has now grown to \$3.49 billion in 2007-08.

Further the Territory has repeatedly and substantially underestimated its revenue outcomes. In Budget Paper II for the year 2004-05 the projected income for the year 2007-08 was \$2.77 billion, compared with \$3.49 billion of the 2007-08 mid-year report.<sup>4</sup>

Nevertheless the NT Government has consistently managed to spend the extra income even before they were aware that they had it. For example, in 2005 employee expenses exceeded budget estimates by \$120 million (12%).<sup>5</sup>

The eventual budget surplus result was due to the unanticipated growth in revenue. This is indicative of an approach that is founded more in good luck than good management.

#### **The Territory's Superannuation Liability terms of reference (d) and (e)**

The Territory's Superannuation Liability has far exceeded projections and, other than Tasmania, the Territory is the most poorly positioned jurisdiction in terms of dealing with that debt.

---

<sup>1</sup> page 142 Auditor General's February 2008 report

<sup>2</sup> page 145

<sup>3</sup> Budget Paper III 2001 mini-budget page 85

<sup>4</sup> page 108

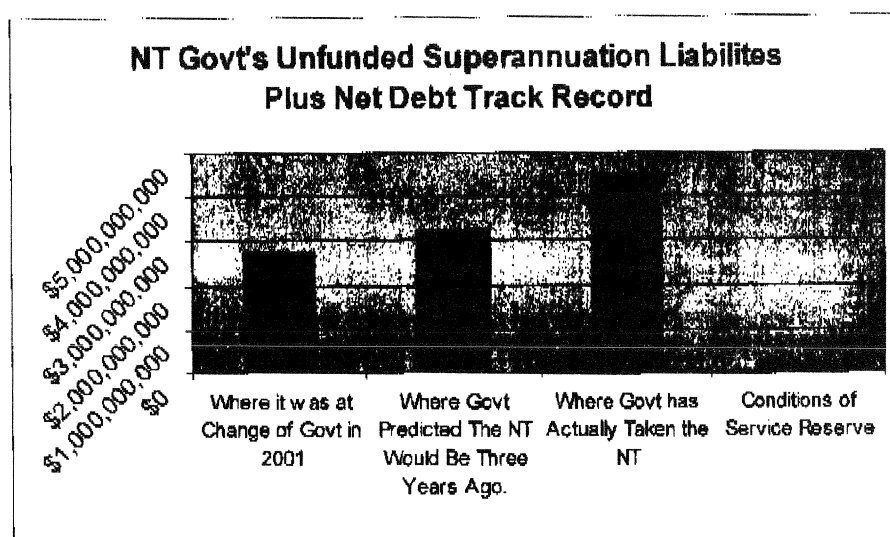
<sup>5</sup> Auditor General Feb 06

In Territory Budget Paper number II for the financial year 2002-03 the final estimate for the Territory's superannuation liability was nearly \$1.4 billion and was projected to grow to \$1.45 billion by the financial year 2005-06.

By the time that the final results for the year 2005-06 were tabulated in the Treasurer's Annual Financial Report the debt had expanded to \$1.8 billion dollars.<sup>6</sup>

In the 2007-08 Budget Paper number II<sup>7</sup> the superannuation debt had been calculated to be \$2.3 billion.

This reveals that outstanding superannuation liability has grown nearly \$1 billion dollars more than the Territory Government estimated five years ago.



On the 14<sup>th</sup> of October 2004 the Treasurer of the Northern Territory, Mr Stirling said that, *"The Territory's unfunded superannuation liability of \$1467m at 30 June 2004 is expected to peak sometime around 2006."*

By 2006 it had reached \$2.25 billion dollars. The evidence is now that the liability has not peaked at all and is continuing to grow and that on current projections that it will reach \$2.5 billion in 2010-11. I note that the Auditor General observes that the cash outflows for superannuation have now been pushed out to 2022-23.<sup>8</sup> These liabilities have prompted the Territory Government to put money into a Conditions of Service Reserve, a Territory version of the Federal Future Fund.

The defence that the Government had offered for the increases is that the actuary who did the NT Government calculations had died. The Government claimed that only after his death did it become revealed that his system of

<sup>6</sup> page 38

<sup>7</sup> page 131

<sup>8</sup> Auditor General February 2008 page 54

forward estimates produced a different result, reported to the Parliament on the 12<sup>th</sup> of October 2006 when Mr Stirling said, "*We have also been subject to a significant increase in the assessed superannuation liabilities as a result of the change in actuary.*" Yet the actuary died in 2004 and the superannuation reviews continue to throw up increasing amounts of debt.

The Territory Government has been at pains to blame the dead actuary as well as changes in actuarial benchmarks for these changes rather than their own contribution to these blowouts, not least of which is the incapacity to contain wages. As many public servants are still members of defined benefit superannuation schemes, every decision to raise wages resonates through the outstanding superannuation liability that the NT Government carries.

### **Wages terms of reference (e) and (f)**

The Auditor General has seen fit to repeat his observations about the incapacity of the government to deal with wages growth in the Territory. In the February 2006 Auditor General's report<sup>9</sup> the Auditor General pointed out that the wages budget for year ending June 30<sup>th</sup> 2005 employee costs had increased by 12% for that year adding \$120 million of unbudgeted wages expenditure to the budget. Again, in February 2008, the Auditor General returned to the theme outlining that employee expenses rose by a further 6% during the 2006-07 year. In Table 5<sup>10</sup> the Auditor General demonstrates how the employee expenses increased by \$63 million dollars of unbudgeted expenditure.

It is arguable from tracking the process of wage increases that there has been a direct effect on local inflation which has exceeded national rates. Because the Northern Territory Government is the largest employer in the Territory, (see below) its barely restrained expenditure on wages has led to poor outcomes in local inflation.<sup>11</sup>

The CLP accepts that in the case of front line public servants there will be occasions where unbudgeted wage increases may be necessary, however, proper planning should take into account increases in administrative public servant wages and those increases should be factored into the budget as part of the ordinary budget cycle. Treasurer's advances fulfil the role of dealing with unbudgeted expenditure. What has occurred in the Territory up until now

---

<sup>9</sup> page 23

<sup>10</sup> page 39

<sup>11</sup> In September 2006 the ABS reported in its CPI assessment that the Territory's CPI had reached 4.9% and that the "higher result for Darwin was driven by higher than average rises in recreation, housing and alcohol and tobacco." Data set 6401.0. It is clear from this comment that the extra money in wages was pouring not only into housing but into consumable services particularly in the areas of gaming, alcohol and tobacco. The substantial increases in gaming over the past few years in the Territory reflect the amount of disposable income available in the Territory. The Racing Gaming and Licensing Annual Report for 2005-06 reveals that total wagered in the Territory rose from \$2.38 billion in 2002 to \$4.54 billion in 2006. (page 20)

has far exceeded the capacity of the Treasurer's Advance and extended well beyond front line public servants.

Nothing in this submission should be read as to suggest that the CLP in any way supports cuts to wages or conditions of front line public servants.

#### **Debt terms of reference (e)**

In the financial year 2000-01 the Territory's net debt was \$1.29 billion dollars<sup>12</sup>. The projected net debt for the current financial year is \$1.25 billion.<sup>13</sup>

Over the past seven years and in spite of enormous increases in revenue the Territory Government has barely reduced net debt and when added to unfunded superannuation liabilities the situation in the Territory has deteriorated substantially.

#### **Infrastructure terms of reference (f)**

Although there has been an increase in infrastructure spending in recent years, much of this spending has been aimed at repairing an ageing asset base. After Self Government in 1978 the Territory borrowed substantially to build infrastructure. Much of that infrastructure is reaching its use by date. Increasing population has also created capacity constraints. Many roads, schools, hospitals and other assets now need work. There will be a need to borrow substantially for infrastructure augmentation into the future.<sup>14</sup>

#### **Effects of Aboriginal Freehold Title terms of reference (a)**

Another overlooked aspect of Federal Policy in the Territory specifically is the operation of the *Northern Territory Land Rights Act 1976* (Cth) and the drag that has upon the common wealth of the Territory.

More than half of the Territory's land mass is owned under the Land Rights Act but there is very little mainstream economic activity on those lands. The lack of productivity on these lands will continue to hamstring the future economic development of the Territory as well as the economic development for the owners.

It is becoming less sustainable for Aboriginal Land to lie idle while the people who live there, who are incidentally some of the largest land owners in the world, draw down so significantly on the Territory's budget. (Aboriginal

---

<sup>12</sup> Budget Paper III 2001 mini-budget page 85

<sup>13</sup> Mid Year Report 2007-08 page 27

<sup>14</sup> Many roads, schools, hospitals and other buildings now need work. On page 31 of the February 2008 report the Auditor General alludes to this issue by pointing out that there will be a need to borrow for infrastructure augmentation into the future.

Territorians comprise approximately 30% of the Territory's population and are the subject of some 50% of the Territory's budget expenditure <sup>15</sup> equalling \$25,000 for each indigenous individual) <sup>16</sup>

Without entering into a lengthy dissertation on the nature of Land Rights, in its current form it will continue to produce poor outcomes for Aboriginal Territorians until the rules, expectations and systems of management are substantially changed.

### Outcomes

Using the yardsticks of the 'big three' areas of state/territory responsibility, namely, health, education and law and order, outcomes have been disappointing. The Territory Government has been at pains to point out that they are increasing the funding to each of these areas to record levels. This is not at all disputed; however, the Territory Government appears to be of the opinion that spending is an outcome in its own right.

	2002-03	2007-08
Health <sup>17</sup>	\$525 m	\$838 m
Education	\$478 m	\$658 m
Police	\$134 m	\$226 m

In spite of the substantial increases in these areas outcomes have been less impressive.

The numbers of Public Servants employed since 2002 has risen from 14,400 to 16,100 in 2007 representing an increase of 12% in five years.<sup>18</sup> These extra public servants are supposed to be providing better outcomes for Territorians however as outlined below those services aren't flowing.

This is in no way a criticism of the individual public servants, rather the NT Government's lack of leadership.

The experience described by serving police officers, for example, is that the number of steps in processing an arrest have increased substantially, hence time than ever is dedicated to recording statistical information than actual policing.

<sup>15</sup> Budget Paper II 2007-08 page 65

<sup>16</sup> Without having researched the Commonwealth's contribution it would be reasonable to assume, if welfare payments are included that the Commonwealth would be contributing at least as much, particularly in remote areas.

<sup>17</sup> Sources Treasurers Annual Financial Report 2002-03 and 2007-08 Budget Paper III. These figures include SPPs and Territory Appropriations.

<sup>18</sup> State of the Service Report (Office of the Commissioner for Public Employment) 2006-07 report page 25

In the area of health elective surgery waiting lists results are very poor. The *Report on Government Services 2007* pointed out that the Territory had the poorest response to category 1 patients on waiting lists in the Nation.

Where the ACT reported that they had no category 1 patients on extended waiting lists and NSW only had 0.7% of category 1 patients on extended waiting lists, the Territory had 61.4% of its category 1 patients on those lists. The next worst performer was WA at 40.9%.<sup>19</sup>

The 2006-07 Health Annual reported that over the same period the number of separations in the area of inpatient separations was 6.69% over the 2002 to 2007 period.<sup>20</sup> This exceeds population growth over the same period substantially and indicates that greater demand may be a product of a less healthy community. Attendances at emergency departments have increased from just fewer than 95,000 in 2000-01 to over 110,000 in 2006-07 and appear to reflect the poorer health outcomes in the Territory and the incapacity of Territory Health to move from a secondary to a primary health focus.<sup>21</sup>

Crime statistics for comparative December quarters reveal that since the December Quarter 01 to the December Quarter 07 there has been a steady increase in crimes against the person in the Territory, from 4,150 to 6,130 respectively for each of the years, an increase of 48%.<sup>22</sup> The abuse of Alcohol over the period is reflected in increased sales of liquor equivalent of 8.9 million litres of liquor between the comparative years of 2001 and 2007 and the link between alcohol and crime cannot be overstated.<sup>23</sup>

Education also is producing unremarkable results. MAP testing results across the board in education are showing little in terms of improved outcomes and in

<sup>19</sup> Report on Government Services 2007 page 9.27

<sup>20</sup> DCHS Annual Report 2006-07 page 52

<sup>21</sup> DCHS Annual Report 2006-07 page 60.

<sup>22</sup> These are the very latest long term published figures by the NT Dept of Justice located at:

<http://www.nt.gov.au/justice/policycoord/researchstats/index.shtml>

<sup>23</sup> NT Govt Liquor statistics:

[http://www.nt.gov.au/justice/licenreg/statistics/substance\\_stats/liquor\\_sales\\_stats/LiquorGraphs\\_2007\\_Dec.htm](http://www.nt.gov.au/justice/licenreg/statistics/substance_stats/liquor_sales_stats/LiquorGraphs_2007_Dec.htm)

This evidence reflects a wash over effect from the area of Policing and community safety. The Territory has a unique law which allows a person to be taken into custody, without charge, because they are intoxicated, (section 128 of the Police Administration Act) A person arrested in such circumstances is released within six hours when they sober up. Since 1999 the numbers of people apprehended have been, (NTPF Annual Report addendum 2006-07 and NTPF Annual Report 2004-05 page 147):

Year	Number of Drunks
1999-00	11395
2000-01	13779
2001-02	15739
2002-03	16450
2003-04	19475
2004-05	21862
2005-06	24927
2006-07	26448

other areas results are poorer.<sup>24</sup> The combined results between the years 2002 and 2006 for years three, five and seven among indigenous students were:

	Reading	Numeracy	Writing
2002	40.50%	46.90%	35.60%
2006	38.00%	41.20%	28.70%

Government has claimed that there are more indigenous students enrolled that have the effect of dragging down the overall results to explain away the poorer outcomes and while that is true page 19 of the 2006-07 Annual Report demonstrates that indigenous students have increased in numbers non-indigenous students have decreased correspondingly.

It is much more likely that more part-Aboriginal students are simply choosing to identify as Aboriginal as time passes and therefore the mix in reality isn't substantially altered. The table on that page in the Annual Report shows that the overall student population has remained essentially static since 2002. Consequently MAP testing results are not being dragged down by increased numbers of indigenous students but rather government is just not increasing results because they are not improving outcomes.

## Conclusion

Notwithstanding the substantial increases in money spent, the Territory Government has not markedly improved outcomes for the people of the Territory, particularly in the major areas of law and order, health and education.

Personal crime is at record levels, health outcomes are not showing signs of improvement and educational outcomes remain static in spite of massive amounts of extra spending.

The Country Liberal Party believes NT Government is more interested in style than policy substance.

It would be generous to describe the fiscal management of the Territory over recent years as pedestrian.

No Territory Government has been in a better position to deal with debt. The Territory Labor Government has failed to take this excellent opportunity to inoculate the Territory against the boom/bust economic cycle, which is so pronounced in the Territory's economic history.

---

<sup>24</sup> DEET 2006-07 Annual Report pages 34 to 45. The Annual Report can be found at: [http://www.deet.nt.gov.au/corporate/annual\\_report/2006-2007/](http://www.deet.nt.gov.au/corporate/annual_report/2006-2007/)



Rather it has chosen to spend the increased income on recurrent spending. This has seen Government feeding economic growth during the boom, and amplifying a skills shortage in Darwin and placing greater upward pressure on wages and prices.

The NT Government is frittering away the benefits of Australia's longest period of economic growth.

.....  
Terry Mills MLA  
Leader of the Opposition  
th March 2008