

## Chapter 6 Indigenous Expenditure Review

**The Review** In recent years, the Northern Territory Government has been subjected to intense scrutiny regarding Indigenous disadvantage and its own Indigenous-related expenditure.

Around 80 per cent of the Territory's revenue is sourced from the Australian Government, with a significant proportion of this provided to the Territory as a result of disadvantage associated with its large Indigenous population. Doubts have been raised in various forums as to whether the Territory is justified in claiming the level of funding received because of its Indigenous population and whether sufficient funds have been directed towards improving outcomes for Indigenous Territorians. Some commentators have criticised the Territory for supposedly using these funds to support programs and infrastructure primarily accessed by the non-Indigenous population, particularly in Darwin. It has been alleged that this is perpetuating and exacerbating Indigenous disadvantage.

Prior to the *Indigenous Expenditure Review* (the Review), there had not been any robust, whole of government analysis of the Territory's expenditure and revenue related to the Indigenous population. The Territory's Chief Executive Taskforce on Indigenous Affairs directed the Northern Territory Treasury to prepare a report analysing the Territory Government's expenditure and revenue attributable to the Indigenous population. The Review was completed in September 2006 and was based on 2004-05 budget data.

The Review was refereed by Professor Kenneth Wiltshire, JD Story Professor of Public Administration at the University of Queensland Business School and former member of the Commonwealth Grants Commission, and Mr Saul Eslake, Chief Economist ANZ. Northern Territory Treasury also held discussions with Commonwealth Grants Commission staff concerning the Commission's assessments.

### Methodology and Results

The broad methodological basis of the Review involved measuring revenue from all sources, received as a result of the Territory's Indigenous population, and comparing this to the expenses related to this population group. The objective was to determine whether an appropriate amount of revenue was being spent for Indigenous-related purposes.

### Expenditure

Indigenous people are major users of mainstream Territory Government services. It is widely accepted that Indigenous people have poorer outcomes across virtually all measures compared with the non-Indigenous population. Indigenous disadvantage is multidimensional and complex. The long-term interplay of social, cultural and economic factors means that disadvantage is entrenched in the lives of many Indigenous people. High levels of Indigenous disadvantage result in a greater reliance on government services, the cost of which is increased by remoteness and lack of economies of scale. For example, while around 29 per cent of the population is Indigenous, more than 60 per cent of hospital separations are Indigenous. Around 40 per cent of school children are Indigenous. This necessarily means

that many mainstream services are Indigenous-focused, which is unique among Australian states. Because of this, attempting to separate Indigenous-specific program funding from other program funding is not appropriate or relevant for the Territory. Attempting to construct an estimate of Indigenous-related spending based solely on the identification of Indigenous-specific programs would result in a significant underestimation of relevant expenditure.

The methodological approach adopted by the Review to estimate Indigenous-related expenditure reflected this consideration and took into account both direct and indirect use and cost rates of all government services. Agencies were categorised in three distinct groups: service agencies that provide services directly to the Territory public (such as the Department of Health and Community Services); support agencies that provide services directly to other government agencies (such as the Department of Corporate and Information Services and NT Fleet); and central agencies that provide general, whole of government services to all agencies (such as the Department of the Chief Minister and Northern Territory Treasury).

Service agencies estimated Indigenous-related expenditure by examining: spending on Indigenous-specific programs; Indigenous use rates for other programs; and functions and cost differentials between provision of services to the Indigenous and non-Indigenous populations. Where service agencies provided a service that generates broader economic and social benefits arising from government investment (for example, tourism promotion and industry development) but that has limited direct beneficiaries, consideration was given to the indirect benefits accrued to the whole population. These indirect benefits may include availability of employment, access to the goods and services of production, and the advantages gained from taxation revenue raised from the relevant industry. Expenditure by these agencies was generally attributed to the Indigenous population on an equal per capita basis using the Indigenous population proportion of 28.8 per cent.

The estimation of Indigenous-related expenditure for support agencies was based on the premise that these agencies exist only to provide services to other agencies. Thus, support agencies' expenditure was treated as though it was a corporate cost for service agencies. The estimates for support agencies' shares of Indigenous-related spending were therefore based on the average Indigenous-related expenditure for all service agencies. Where data was available, the support agencies' expenditure was apportioned to each service agency and weighted accordingly.

Similar to support agencies, the estimates for central agencies were based on the average expenditure related to the Indigenous population of all service agencies, because central agencies predominantly provide functions that support service agencies. Exceptions were made for programs that are a direct service to the general population, such as those that were provided under Treasury's output group in 2004-05, 'Gambling, Liquor and Other Regulation'. The functions of central and support agencies directly complement the activities of service agencies.

Data on usage rates and relative costs of government service provision related to the Indigenous population was collated from available external sources. Data sources included the Australian Bureau of Statistics, the Australian Institute of

Health and Welfare, the Australian Institute of Criminology and internal Northern Territory Government agencies.

The assumption was made that all Territory Government programs are expended at national average levels of efficiency. Judgements were not made on how effective or appropriate the programs were, as this was outside the scope of the Review.

The Review estimated that 49.7 per cent of the Territory's total expenditure can be directly or indirectly attributed to the Indigenous population. If support and central agencies were removed from the analysis, the share of the Territory's total expenditure related to the Indigenous population increased to 50.9 per cent. The service agency estimate reflects the proportion of expenditure related to services directly accessible by Indigenous Territorians, rather than the indirect effect of expenditure related to administrative and corporate functions. Service agencies spent an estimated 50.9 per cent on Indigenous-related purposes, support agencies spent 46.5 per cent and central agencies spent 45.6 per cent.

**Table 6.1: Estimate of Northern Territory Government Expenditure Related to the Indigenous Population 2004-05**

| Agency Type         | Share of Total Expenditure | Indigenous-related Expenditure Share |
|---------------------|----------------------------|--------------------------------------|
|                     | %                          | %                                    |
| Service agency      | 77.3                       | 50.9                                 |
| Support agency      | 5.5                        | 46.5                                 |
| Central agency      | 17.2                       | 45.6                                 |
| <b>All agencies</b> | <b>100.0</b>               | <b>49.7</b>                          |

Source: Northern Territory Treasury.

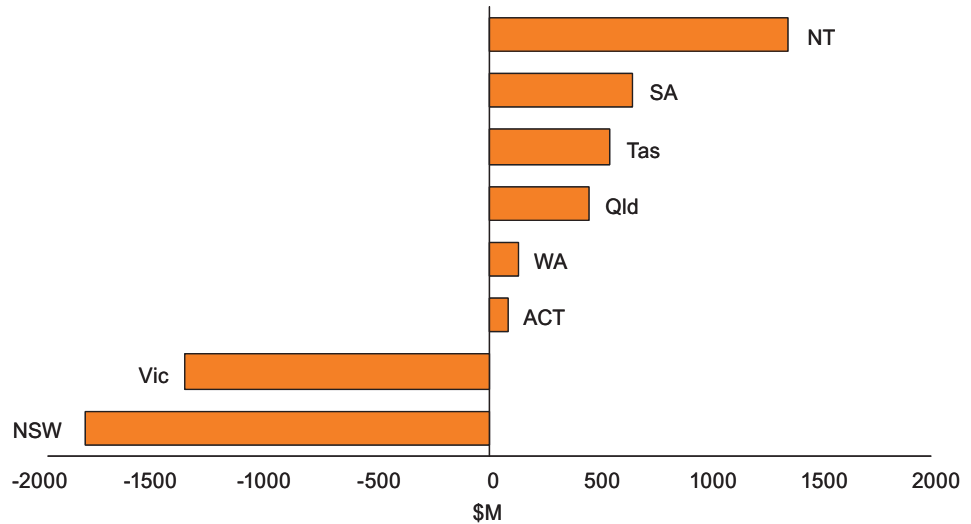
## Revenue

The Territory's revenue was analysed to determine what proportion was Indigenous related. Like other states, the Territory has three main revenue sources: own-source revenue (state taxes, interest and sales of goods and services), specific purpose payments (SPPs) and goods and services tax revenue (GST). GST and SPPs are provided by the Australian Government.

The Territory's main source of revenue is GST, which accounts for about two-thirds of total revenue. This share is much higher than in other states due largely to the higher need for, and costs of, service delivery and lower relative capacity to raise own-source revenue. The Territory's relativity for the distribution of GST revenue is the highest of all states and reflects differences in socio-demographic composition, Indigenous influences, wage levels, scale, dispersion, economic development and the physical environment. Charts 6.1 and 6.2 show the extent of the redistribution to the Territory and the factors contributing to the Territory's GST relativity.

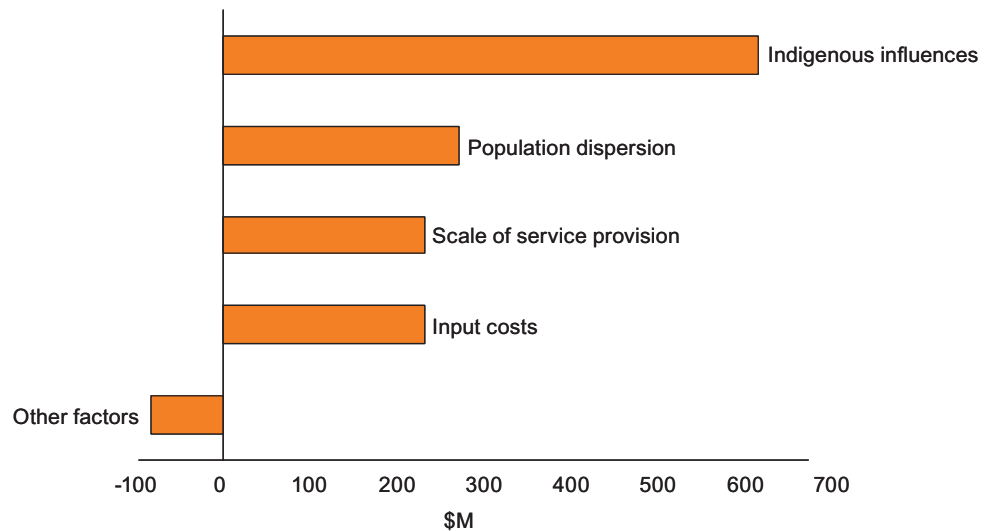
Tied funding such as SPPs and other Australian Government grants comprises another 15 per cent of the Territory's total revenue. The remaining 20 per cent of the Territory Government's income is from own-source revenue.

Chart 6.1: GST Revenue Distribution, Difference from Equal per Capita, 2004-05



Source: Commonwealth Grants Commission (2004), Report on State Revenue Sharing Relativities: 2004 Review.

Chart 6.2: Major Influences Causing GST Redistribution to and from the Northern Territory



Source: Commonwealth Grants Commission (2004), Report on State Revenue Sharing Relativities: 2004 Review.

Calculation of the Territory’s Indigenous-related revenue was based on the following:

- the Commonwealth Grants Commission’s estimates of the redistributive effect of Indigenous influences, native title, land rights and other relevant disabilities in determining GST relativities;
- SPP revenue targeted at Indigenous-specific purposes;
- the indirect impact on GST revenue of Indigenous SPP funding;
- estimates of the proportion of own-source taxes attributable to the Indigenous population; and
- an equal per capita (EPC) share of remaining revenue.

Table 6.2 shows the Indigenous-related share of each type of revenue. Overall, the Review estimates that 43.2 per cent of the Territory’s total revenue was related to the Indigenous population.

Table 6.2: Estimation of Northern Territory Revenue Related to the Indigenous Population, 2004-05

| Source of Revenue            | Share of Total Revenue | Revenue        | Indigenous-Related Share | Indigenous-Related Share |
|------------------------------|------------------------|----------------|--------------------------|--------------------------|
|                              | %                      |                | \$M                      | %                        |
| GST                          | 64.1                   | 1 739.6        | 916.1                    | 52.7                     |
| Tied grants (including SPPs) | 15.1                   | 411.3          | 148.4                    | 36.1                     |
| Own-source revenue           | 20.8                   | 565.3          | 108.0                    | 19.1                     |
| <b>Total</b>                 | <b>100.0</b>           | <b>2 716.2</b> | <b>1 172.5</b>           | <b>43.2</b>              |

Source: Northern Territory Treasury.

## Conclusion and Implications for Governments

The Review estimated that in 2004-05, 49.7 per cent of the Territory's expenditure and 43.2 per cent of total revenue was Indigenous related. This compares to a population share of 28.8 per cent. This result shows that, in 2004-05, the Territory spent more money than it received for Indigenous-related purposes by 6.5 percentage points, or \$175 million.

Indigenous-related expenditure was 73 per cent higher than would be the case if it was spent on an equal per capita basis. Spending per capita related to Indigenous persons was 2.44 times higher than for non-Indigenous persons.

Despite the high level of expenditure and recent improvements in life expectancy, educational attainment and infant mortality rates, outcomes for Indigenous Territorians across a wide range of indicators remain poor relative to those of non-Indigenous Territorians.

Population projections for the Territory, developed in collaboration with Charles Darwin University, predict that by 2027 the Indigenous population will have increased by 34 per cent compared to growth in Australia of 21.2 per cent (see Chapter 5 *Demographic Change and Its Implications for the Territory's Future*).

Chapter 5 demonstrated that, based on demographic change alone, the impact on services for the Territory's Indigenous population will be significantly higher than in Australia as a whole. This analysis does not take into account such factors as the high level of unmet housing need, poor education attainment or rising prevalence of chronic disease, all of which have significant implications for the future costs of delivering services in the Territory.

The Productivity Commission, in its 2005 report *Economic Implications of an Ageing Australia*, demonstrated that the Territory's budget would suffer more than most jurisdictions because of expected growing costs associated with services to its Indigenous population.

It is clear that current levels of funding are insufficient to close the gap in outcomes between the Indigenous and non-Indigenous population groups in the foreseeable future. There is a need for more funding and intensive intervention if Indigenous disadvantage is to be eliminated within a generation.

This intensive intervention will need to focus on each of the main service areas of housing, employment, education and training, law and order and health. Intervention in only a subset of these areas may not be sufficient to provide the much-needed circuit breaker to improving outcomes and reducing welfare dependency for Indigenous persons in the Territory.

Therefore, maintaining the status quo of funding will not apparently reduce levels of disadvantage. Delivery of new funding streams to the Territory, in addition to those delivered through horizontal fiscal equalisation and the interrelated SPPs, is required so that social wellbeing of the Indigenous population can be improved, along with economic participation and productivity, and so that all Australians can benefit from improved economic activity and social cohesion.