

NORTHERN TERRITORY TREASURY AND DEPARTMENT OF HEALTH AND FAMILIES

JOINT SUBMISSION TO THE CHILD PROTECTION INQUIRY – MARCH 2010

Preamble

This submission, prepared by the Northern Territory Treasury and the Department of Health and Families, responds to the Board of Inquiry into the Child Protection System's request for information relating to child protection expenditure and funding. The request arises as a result of a submission made by the Northern Territory Council of Social Services (NTCOSS) that there is a pattern of Northern Territory Government underspending in the area of Child and Family Services.

The NTCOSS submission is based on the premise that government expenditure on particular services should be equivalent to the Commonwealth Grants Commission's (CGC) "assessed" expenditure as recorded in its 2009 Annual Update of Relativities and the difference between "actual" expenditure and "assessed" expenditure in this report is a measure of under-funding in child protection services in the Northern Territory.

The information presented by NTCOSS is an incorrect use of the CGC's data, as has been explained by the CGC on a number of occasions. Accordingly, the conclusions drawn are not based on sound analysis and are not correct.

Executive Summary

Use of Commonwealth Grants Commission Data to Assess Adequacy of Territory Spending

- Under the Australian federal system, the Commonwealth raises revenue that exceeds its expenditure requirements, while the opposite is the case for the states and territories. As such, the Commonwealth transfers revenue to the states and territories in order for them to meet their expenditure responsibilities. This is referred to as Vertical Fiscal Imbalance (VFI).
- Revenue is provided by the Commonwealth to the states and territories in two broad forms, general purpose grants and tied payments. General purpose grants or untied funds comprise funding to be used by the states and territories in line with their expenditure priorities taking into account revenue from other sources. Untied funds are also described as discretionary funds. Tied payments are allocated for a specific function and include performance and financial accountability requirements.
- GST revenue is the main component of general purpose grants. The GST revenue pool is distributed between the states and territories in a manner which aims to ensure that states have equal fiscal capacity to deliver services. The Commonwealth Grants Commission (CGC) is responsible for recommending each jurisdiction's share of the GST revenue pool. The principle used by the CGC in determining relativities between the states and territories is Horizontal Fiscal Equalisation (HFE).
- That GST revenue is untied revenue to be used by state and territory government. This full discretion is acknowledged throughout the CGC's processes and in the Intergovernmental Agreement on Federal Financial Relations agreed by COAG.

- The distribution of the GST revenue pool is based on the CGC's assessment of funds required to deliver average services across Australia on the basis that an average revenue effort is made by states and territories to raise revenue from their own sources. The aggregate of assessments in all categories of expenditure and revenue are combined to produce relativities. Assessed expenditures and revenues that the CGC derives through this process are not intended to represent recommended or benchmark levels of expenditure or revenue, but are elements of the formula used to determine each jurisdiction's GST revenue share.
- For example, unlike all other jurisdictions the Territory does not levy land tax, but the CGC includes the potential revenue that could be raised from the Territory's land tax base in its assessment of the Territory's GST revenue share. However, there is no explicit requirement for the Territory to levy the same taxes as other jurisdictions and raise revenues equivalent to the CGC's assessed amount.
- Service delivery environments and usage patterns also contrast significantly between the states and territories. The impacts of small scale, remoteness and demographic structure are significantly greater in the Territory than other states and result in the costs of service delivery, and demand for services being comparatively high. The CGC seeks to account for these impacts in determining the Territory's GST revenue share.
- To undertake its expenditure assessments, the CGC establishes what it calls a standard state budget to enable common assessments across eight very diverse jurisdictions. In line with its Terms of Reference, the Commission has completed a substantial review of its methodology for its 2010 Review of Relativities. Importantly, the Commission has reduced its expenditure assessment categories from over 70 in previous reviews to 12 for the 2010 Review.
- One of the reasons for the simplified approach in the 2010 Review is the high level of disaggregation used previously provided a less than robust allocation of expenditures to CGC's categories and reliable data to independently assess cost and demand influences was difficult to obtain. The NTCOSS submission quoted data from the 2009 Update of Relativities rather than data from the 2010 Review of Relativities because the category that it used to illustrate its arguments the *Family and Child Services* category no longer exists and has been absorbed into the broader category of *Welfare and Housing*.
- The CGC recognises that even with these larger categories, there will not be perfect comparability between jurisdictions. However, for the CGC's purposes, this is not important as it is concerned with the aggregate of expenditure and revenue categories to determine relativities, not the assessment within each category.
- The CGC has advised that caution needs to be exercised in comparing actual expenditure data and assessed expenditures for technical reasons including differences between timing of expenditure decisions and the CGC's assessments and data deficiencies.

- In its submission to the Senate Standing Committee on Community Affairs' Inquiry on Government expenditure on Indigenous affairs and social service in the Northern Territory 2008, the CGC noted that its "...formula does not contain any expected, or target, or ideal level of expenditure by State, program, location or intended service recipient consistent with the recommended distribution of the GST pool...The states have discretion as to how they use their share of the pool".¹

Spending on Child Protection and Related Services in the Northern Territory

- The Territory Government has increased funding for child and family protection services by 128 per cent between 2002-03 and 2008-09, from \$36.5 million to \$83.2 million. The funding has been used to strengthen both preventative and protection services.
- The CGC actual data used in the NTCOSS submission shows that in 2007-08, the Territory spent \$331 per capita on this function. This is higher than any other jurisdiction and the Australian average expenditure of \$133 per capita.
- The increase in Territory funding has been biased towards additional support for families, additional program expenditure including in remote areas and additional funding support of foster carers.

Background – Commonwealth Funding to the States and Territories

The Northern Territory, like all Australian states and territories, has greater expenditure responsibilities than capacity to raise revenue. The reverse is true for the Commonwealth. This is termed vertical fiscal imbalance. In recognition of this imbalance, and in accordance with the Australian constitution, the Commonwealth makes revenue grants to the states and Territories. The current Commonwealth funding arrangements for the states and territories are established by the Intergovernmental Agreement on Federal Financial Relations (IGA).

The Territory is more reliant on Commonwealth grants than the other jurisdictions, with around 80 per cent of its revenue sourced from the Commonwealth. In other states, Commonwealth grants account for less than 50 per cent of revenue. This greater reliance on Commonwealth grants reflects the higher cost of, and demand for, government services and the low revenue-raising capacity of the Territory relative to other states.

There are two broad types of Commonwealth grants to states and territories:

- *General purpose grants - predominantly GST revenue.* GST revenue represents the largest component of Commonwealth transfers to the states and territories. Under the IGA, these revenues are provided to the states and territories on an untied basis. In other words, the use of GST revenue grants is at the discretion of the states and territories. In 2009-10, the Territory is expected to receive around \$2 273 million in GST revenue grants, or about 5.1 per cent out of a total GST pool of \$42.3 billion².

¹ Commonwealth Grants Commission submission to the Senate Standing Committee on Community Affairs' Inquiry on Government expenditure on Indigenous affairs and social service in the Northern Territory 2008.

² Commonwealth 2009-10 Mid-Year Economic and Fiscal Outlook, released 2 November 2009

- *Tied payments - predominantly specific purpose payments.* These grants are usually tied to a specific sector, program or function against which they must be acquitted and performance against agreed outcomes reported. The payments cover most functional areas of state activity including health, education, community services, housing, infrastructure and the environment. In 2009-10, the Territory is expected to receive \$1 012 million in Commonwealth payments for specific purposes³.

Under the provisions of the IGA, untied GST revenue is distributed between the states and territories in accordance with the principle of Horizontal Fiscal Equalisation (HFE), which aims to ensure that states and territories have equal fiscal capacity to provide services. More specifically, HFE is currently defined as:

"State governments should receive funding from the pool of goods and services tax revenue such that, after allowing for material factors affecting revenues and expenditures, each would have the fiscal capacity to provide services and associated infrastructure at the same standard, if each made the same effort to raise revenue from its own sources and operated at the same level of efficiency."

Commonwealth Grants Commission Report on GST Revenue Sharing Relativities – 2010 Review Volume 1 (pg 34)

Role of Commonwealth Grants Commission

The CGC is responsible for making recommendations to the Commonwealth on the distribution of the GST revenue pool consistent with the HFE principle. It does so by calculating GST revenue sharing relativities, which determine each state and territory's population based share of the GST revenue pool for a given year.

In calculating relativities the CGC considers the factors that influence demand for and costs of service delivery that are outside of state and territory control. These include the impacts of socio-demographic structure and geographic location. The CGC assesses these impacts across the range of services that states and territories deliver, then aggregates them to determine a single relativity for each jurisdiction.

The focus of the CGCs recommendations is capacity equalisation. It is not responsible for equalising outputs or outcomes. This recognises that state and territory governments are democratically elected and have full discretion in the actual allocation of GST revenue grants.

On this basis, the CGC does not recommend expenditure by program, location or intended service, nor does it report what funding should be allocated to a specific service in order to achieve a defined outcome. It has repeatedly stated that its assessments cannot be used to interpret whether a government is under or over spending on a given service. The detailed calculations it undertakes are the building blocks for the purpose of determining a relativity which determines the overall amount each jurisdiction receives out of the GST pool.

For example, unlike other jurisdictions, the Northern Territory does not impose a Land Tax. The Commission's assessment takes into account what the Territory would have raised had it imposed such a tax and this revenue capacity is taken into account in determining its relativity and GST share. There is no requirement through the application of HFE for the Territory or any other jurisdiction to impose the same taxes at the same level. The diversity

³ Ibid.

that results from state and territory policy choices are acknowledged by the CGC through its assessment processes.

Expenditure assessments can be more complex than revenue assessments. Expenditure patterns vary markedly between jurisdictions and particularly in the Territory. Service patterns are necessarily quite different in the Territory compared with the states on average with costs significantly affected by distance from main centres in Australia and between centres in the Northern Territory, the lack of economies of scale in all areas of service provision, and the Territory's demography which differs markedly from the states.

Consequently, assessed expenditures and revenues, as determined by the CGC, cannot be and is not intended to be used as a benchmark for state and territory expenditure and revenue raising requirements.

In its submission to the Senate Standing Committee on Community Affairs' Inquiry on Government expenditure on Indigenous affairs and social service in the Northern Territory 2008, the CGC noted that its "...formula does not contain any expected, or target, or ideal level of expenditure by State, program, location or intended service recipient consistent with the recommended distribution of the GST pool. The states have discretion as to how they use their share of the pool"⁴.

Commonwealth Grants Commission Data

In addition to the above, there are a number of other reasons why the data comparison which NTCOSS makes to arrive at its conclusions are invalid.

First, the actual expenditure reported by the Commission is an estimate of the amount that each state has spent on particular functions, based on Australian Bureau of Statistics (ABS) Government Finance Statistics (GFS) data. The GFS data is disaggregated differently and difficulties exist in aligning expenditure data to the detailed level required by the CGC, particularly where programs have significant overlap with other functions.

Second, states classify information in different ways, resulting in similar expenditure being reported in different categories between states. Analysis of individual categories is therefore misleading. The CGC's shift to reducing the number of categories it assesses arising from the 2010 Review reflects in part the difficulties in determining expenses in discrete service sectors. This also undermines the validity of comparisons of actual expenditure levels between states and territories.

For example, the costs associated with the Territory's Child Abuse Task Force, which is a joint initiative between police and NT Families & Children, may be captured across a range of GFS categories including police, administration of justice and family and child services. This would result in the Territory's actual expenditure for child protection services reported by the CGC being understated.

The data which NTCOSS has presented has been sourced from the CGC's 2009 Update of Relativities Update and not from the most recent 2010 Review report. As part of the 2010 review, the CGC aggregated about 70 expenditure categories into 12 categories on the basis that the high level of disaggregation pre-2010 provided unrealistic results. The 'Child

⁴ Commonwealth Grants Commission submission to the Senate Standing Committee on Community Affairs' Inquiry on Government expenditure on Indigenous affairs and social service in the Northern Territory 2008.

and Family Services' category which NTCOSS has used is one such disaggregation. In the 2010 Report, it has been amalgamated into the new 'Welfare and Housing' category. This further undermines the validity of comparisons of actual and assessed expenditures and assertions of under spend, as the CGC has recognised the inappropriateness of comparisons at the lower level.

Nonetheless, while the higher level of aggregation diminishes to some extent the degree of comparability of data between jurisdictions, its primary focus is the overall level of expenditure and revenues in order to determine GST revenue sharing relativities, rather than individual category assessments.

Northern Territory Government Expenditure on Child Protection Services

Using the actual rather than the assessed data from the CGC 2009 Update of GST Revenue Sharing Relativities, the Northern Territory spent significantly more than the national average on family and child services. Spending on this function in the Northern Territory represents 2.1 per cent of total expenditure included in the CGC's standard budget, compared with the national average of 1.8 per cent of total expenditure. The data shows that the Territory spent \$331 per capita on this function, which is higher than any other jurisdiction and the Australian average expenditure of \$133 per capita.

Table 1 below outlines Territory Government expenditure on Families and Children's Services between 2002-03 and 2008-09. It shows that the Territory Government has increased spending on family and children's services (including child protection) by 128 per cent between 2002-03 and 2008-09, from \$36.5 million to \$83.2 million.

The additional funding has been used to enhance services for child protection and welfare, with significant investments being made in preventive initiatives, support services and to enhance the protection of children. Expenditure for out of home care and family violence and assault services which protect children has grown significantly.

Table 1. Northern Territory Government Families and Children's Services Expenditure 2002-03 to 2008-09

Financial Year	Actual Expense
2002-03	36,492
2003-04	41,245
2004-05	43,520
2005-06	50,413
2006-07	53,353
2007-08	73,319
2009-09	83,212

The Northern Territory Government has implemented a number of specific *initiatives in recent years to enhance the protection of children. These include Caring for our Children and Closing the Gap of Indigenous Disadvantage* (which was part of the Territory Government's response to the *Little Children are Sacred* report).

The *Caring for our Children* reform was a five year commitment from 2003 – 2008 to steadily improve the range of child protection and out of home care services across the Northern Territory. Funding associated with this initiative is outlined in table 2 below.

Table 2. Caring for our Children Reform funding 2003-04 – 2008-09

	2003-04 \$M	2004-05 \$M	2005-06 \$M	2006-07 \$M	2007-08 \$M	2008-09 \$M	Total \$M
Total Funding	1	3.8	6.8	10.2	14	18	53.8

The new Initiatives implemented by the Territory Government since 2002 to enhance child protection are outlined below:

- The creation of additional child protection and support positions across the Northern Territory.
- Increased costs of providing care and support to children under the care of the Chief Executive were met.
- Increased foster care payment rates annually in accordance with the Consumer Price Index, as well as providing a 4% increase in January 2004 and a further 8% increase in July 2007.
- Foster Care NT established as a funded support service for foster carers across the Territory.
- Increasing the base funding for CREATE, the organisation established with and for children in care.
- Establishing the first Intensive Family Preservation Service in the Northern Territory (Homestrength). This program has been operated by Centracare since 2006 and provides intensive family support to families at severe risk of having their children removed from their care due to abuse or neglect.
- Development of a centralised 24 hour intake service that is now co-located with the Child Abuse Taskforce at Berrimah. The service also includes dedicated after hours workers to take urgent calls from across the Northern Territory and provide a professional after hours response in the Darwin/Palmerston area.
- Improving the capacity of Sexual Assault Referral Centre (SARC) through expansion of SARC services and additional training for SARC on-call Doctors.
- Formation and annual expansion of the Specialist Care Program to cater for the most high need young people in the care system.
- Establishment of a family support service for the Barkly region to improve parental and family functioning, reduce the conditions that lead to neglect, abuse and family violence, and reduce youth substance misuse.
- Jointly funding a new family violence and children's care and protection service targeting indigenous children and their families living in Alice Springs (Safe Families).
- Development of a Quality Framework and establishment of an Executive Officer Client Services to support operational work units to respond to client complaints from a quality perspective.
- Development of a Foster Care Recruitment Campaign and the roll out of special training for carers.
- Establishment of a family support service for refugees in Darwin and continuation of a number of preventative projects including: Northern Territory Parenting Strategy, Action Plan for the Department of Education, Employment and Training/Department

of Health and Families Early Years Framework, and implementation and ongoing support of the 7 Steps to Safety Kit.

Funding received as part of the Northern Territory Government response to the *Little Children are Sacred* report has committed continued the growth and reform of child protection and related services. This specific funding for this initiative is shown in table 3, below with these amounts for 2007-08 and 2008-09 included in table 1 above.

Table 3. Closing the Gap of Indigenous Disadvantage – Northern Territory Government Funding

INITIATIVE	2007-08 \$M	2008-09 \$M	2009-10 \$M	2010-11 \$M	2011-12 \$M	Total \$M
Child Protection Reform	0.3	0.85	0.83	0.83	0.83	3.64
Child Abuse Taskforce expansion	1.2	1.7	2.0	2.3	2.5	9.7
Child Protection System Expansion	0.8	2.5	5.6	6.95	8.15	24.0
Establish Aboriginal Child Protection Services	0.45	1.3	1.8	3.3	3.3	10.15
Sexual Assault Referral Centres Expansion	0.7	1.0	1.2	1.5	1.9	6.3
Family Violence Community Program	0.8	1.0	1.5	2.0	2.6	7.9
Total	4.25	8.35	12.93	16.88	19.28	61.69

Initiatives implemented under the Closing the Gap on Indigenous Disadvantage program are as follows:

- Establishment of the Office of the Children's Commissioner;
- Provision of residential care for vulnerable children;

- Establishment of a Therapeutic Service in Darwin;
- Provision of additional Child Protection workers;
- Establishment of the Aboriginal and Community Workers program in 13 communities;
- Establishment of the Mobile Child Protection Team;
- Establishment of the Targeted Family Support service;
- Refurbishment of expansion of Sexual Assault Referral Centres in Darwin, Alice Springs and Tennant Creek to accommodate increased staffing;
- Establishment of a Sexual Assault Referral Centre in Katherine; and
- In conjunction with Northern Territory Police, establishment of the Child Abuse Taskforce in Darwin and Alice Springs.