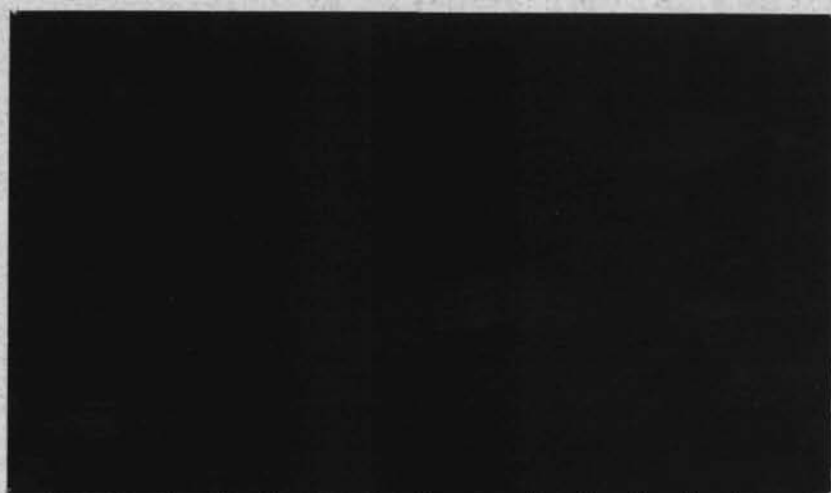




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**An analysis of the Aboriginal component
of Commonwealth fiscal flows to the
Northern Territory**

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SERIES NOTE

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- to investigate issues relating to Aboriginal employment and unemployment;
- to identify and analyse the factors affecting Aboriginal participation in the labour force; and
- to assist in the development of government strategies aimed at raising the level of Aboriginal participation in the labour force and at the stimulation of Aboriginal economic development.

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ABSTRACT

This paper focuses on the Northern Territory (NT) as a case study for the examination of Commonwealth/State financial relations in the area of Aboriginal affairs. The paper considers in detail the procedures by which Commonwealth revenue is allocated to the Territory. It describes the role of the Commonwealth Grants Commission (CGC) in the budget process, and the impact of fiscal equalisation on the Territory's budgetary outcome.

The paper pays particular attention to the nature of the 'Aboriginal components' in this budgetary assessment process, especially the impact on Commonwealth allocations, of disability factors related to the Territory's Aboriginal population, and the CGC assessment of the 'Aboriginal Community Services' expenditure function. It is argued that the health of the NT budget is inextricably bound to the Territory's Aboriginal population. Recent calls for a more comprehensive accounting of Territory Government expenditure on services and programs for Aborigines reflect increasing awareness of the fiscal significance of this component. Future planning for the design, delivery and funding of programs and services for Aboriginal people will require a breakdown of expenditure data at the State and Commonwealth level.

The present paper precedes CAEPR Discussion Paper No. 30 which examines the same issue of Commonwealth/State financial relations in the NT from the perspective of actual government expenditure on programs and services oriented to Aboriginal people. In effect, the present paper considers the macro-funding environment in which the Territory budget is determined, and analyses the nature and impact of the 'Aboriginal components' within that fiscal process; whilst Discussion Paper No. 30 examines the expenditure which the Territory Government allocates to the delivery of particular programs and services for the Territory's Aboriginal population.

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Foreword

In 1991, CAEPR published a discussion paper 'Funding allocations to Aboriginal people: the Western Australia case' by W.S. Arthur. In the foreword to that paper, I noted that the focus on Western Australia (WA) was not intended as a one-off exercise; the choice of WA was primarily linked to Mr Arthur's research experience and interest. In August 1991, the report of a Commonwealth/State/Territory/Local Government Working Party, *Achieving Greater Co-ordination of Aboriginal and Torres Strait Islander Programs and Services*, was endorsed by the Australian Aboriginal Affairs Council and became publicly available. Subsequently, there has been a great deal of debate, especially in the Northern Territory (NT), about the role of the Commonwealth Grants Commission (CGC) and the additional resources paid to State/Territory Governments to offset the recognised socioeconomic disadvantage of their Aboriginal and Torres Strait Islander citizens.

This discussion paper is the first of two that focuses on the Northern Territory as a case study of Federal/State financial relations in Aboriginal affairs. The paper attempts to gauge the influence that the significant Aboriginal component of the NT population plays in CGC determination of the NT Government's relative fiscal need under the broad policy ambit of fiscal equalisation. This discussion paper and the next ('Estimating Northern Territory Government expenditure on programs and services to Aboriginal people: problems and implications') can be conceptualised as inter-related parts of one research project. The first focuses on broad financial flows from the Commonwealth to the NT, with a special focus on disability factors associated with Aboriginality; the second focuses on identifiable NT Government expenditure on Aboriginal people. CAEPR Discussion Papers Nos 29 and 30 can stand alone, but they make greater analytical sense if read consecutively.

The focus on the NT is partly determined by the relative significance of its Aboriginal population. It is also influenced by the willingness of the NT Government to have data provided to the AAAC published. As Diane Smith clearly demonstrates, the issue of Federal/State financial relations in Aboriginal affairs is extremely complex. The availability of data is essential to an understanding of an associated range of important Aboriginal economic policy issues that are raised in both papers. The assistance of the NT Government and the CGC has been of critical importance for the successful completion of this complex research task.

Jon Altman
Series Editor
November 1992

In the aftermath of significant events since 1990, including the formation of the Aboriginal and Torres Strait Islander Commission (ATSIC), the release of a series of government reports,¹ the erratic push for 'new federalism', and political manoeuvrings at the June 1992 Heads of Government meeting, the issue of Commonwealth/State² financial relations within Aboriginal affairs has come under increasing attention. The historical legacy of these federal relations has meant that the funding process in Aboriginal affairs is extremely complicated.

One of the major difficulties facing Aboriginal people and their organisations is negotiating their funding and servicing requirements within the entrenched complexities of Commonwealth and State financial relations. There are considerable repercussions for Aboriginal economic status and self-determination, not only from the tangible end-products of government expenditure, but also from the very processes by which State Governments negotiate, and are apportioned, their budgetary allocations from the Commonwealth.

This paper focuses on the Northern Territory (NT) as a case study for the examination of Commonwealth/State financial relations in the area of Aboriginal affairs. The procedures by which Commonwealth revenue is allocated to the NT are considered in detail. In particular, the role of the Commonwealth Grants Commission (CGC) in the budget process is described, and the impact of the key principle of fiscal equalisation and of disability factors used by the CGC to determine the NT's budgetary outcome are assessed. While final decisions about the total revenue available to the Territory from the Commonwealth lie firmly with the latter, the size of the NT budget, relative to other States, is intimately linked to submissions it prepares and recommendations by the CGC. Particular attention is paid here to the nature of the 'Aboriginal components' in this budgetary process, especially the impact on Commonwealth general revenue grants to the NT of disability factors related to the Territory's Aboriginal population, and the CGC assessment of the 'Aboriginal Community Services' expenditure function.

A range of financial data are used in the Commonwealth process of determining the NT budget for the financial year 1990-91. Both the Commonwealth and the Territory provide annual budget overviews of Territory funding, and the NT Government provides expenditure and revenue data to the CGC for its annual update of general revenue grant relativities. Data for NT expenditure under the Aboriginal Community Services function has been obtained from the CGC 'Needs Classification Listing, 1990-91'.

The present paper precedes CAEPR Discussion Paper No. 30 which examines the issue of Commonwealth/Territory financial relations from

the perspective of the NT Government's actual expenditure on programs and services oriented to Aboriginal people. In effect, the present paper considers the macro-funding environment in which the Territory budget is determined and analyses the nature and impact of the Aboriginal components within that fiscal process. Discussion Paper No. 30 examines the internal expenditure environment which the NT Government has established with respect to the delivery of particular programs and services to Aboriginal people.

The fiscal role of the Commonwealth Grants Commission

The CGC was established in 1933 (and converted into an independent statutory body in 1973) to advise the Commonwealth Government on the need for special block grants to States. Claimant States variously made submission to the CGC for such grants on the basis of their financial disadvantage (CGC 1983, 1990a, 1991a). In 1976, the CGC's role was limited to recommending the proportion of the total Commonwealth funds for local government which should be made available to each State.³ Following the Self Inquiry into Local Government Finance (Commonwealth of Australia 1985), the Commonwealth phased out the CGC's percentage share recommendation and replaced it with an assessment in the form of relative per capita distributions (or relativities, as they are known) to be phased in by 1989-90.

From 1979, the NT was included in CGC recommendations to the Commonwealth on the need for special block grants and could submit a claim for assistance. In 1981 the CGC undertook its first review of grant relativities for all six States (excluding the NT and the Australian Capital Territory). The NT has been included in this procedure since 1988-89, receiving its first financial assistance grants based on CGC relativities in 1989. The principle of annual updates of grant relativities, estimated on the basis of rolling five-yearly financial data, was adopted in 1988. Over the last decade the CGC's major task has been to advise the Commonwealth Government on these relativities for each State and Territory (CGC 1990b, 1991a).

As the CGC notes, its 'concern is with relativities, not absolutes' (CGC 1990a: 2); it has no part in determining the total funds available for the pool of general revenue grants. Its approach to recommending relativities for the distribution of Commonwealth general purpose grants is based on each State and Territory's capacity to raise revenue and provide a range of standard services, not its performance. For CGC purposes, 'governments are not obliged to spend or tax at standard levels; the system simply gives them the capacity to do the one, provided they do the other' (CGC 1990a: 3). What a State Government actually does with general

revenue grants makes no difference to its assessed relativity. Hence, while a State may have its share of Commonwealth grants increased due to low revenue-raising capacity or high service provision costs, it is not obligatory on that State to apply any part of its untied funds towards addressing or overcoming any identified deficiencies. An exception to this, and one outside any control by the CGC, is the Commonwealth use of specific purpose payments (SPP) for both capital and recurrent purposes. These payments are invariably granted conditional on Commonwealth policy objectives being pursued in specific expenditure areas.⁴

While the CGC emphasises its independent, 'policy neutral' role within the federal system, there is considerable competition between States aimed at having the CGC accept arguments regarding their respective fiscal needs. In times of recent Commonwealth fiscal restraint, the CGC review process has become 'an important part of the political battlefield and submissions presented to it must be expected to increasingly reflect the broader political competition from which it previously had been partly protected' (Walsh 1989: 2). Fletcher (1992) has noted that conflicting regional politics, asserted by particular States, have historically had an important impact upon the determinations of the CGC and have been crucial to the vitality of the federal fiscal process. Attempts to politicise the CGC's role include the recent vigorous expression of Aboriginal regional interests, seeking to expand the Commission's brief and questioning existing Commonwealth/State financial arrangements (see ATSIC 1991a; Central Land Council (CLC) 1991; Crough 1991; Northern Land Council (NLC) 1991).

The impact of fiscal equalisation and disability factors

At one level, the CGC's role is based on a formula-based approach to assessing and recommending relativities between States aimed at achieving fiscal equalisation between them. However, there is also an element of subjective judgement in the CGC's determinations. Whilst the formulae upon which fiscal equalisation are based are complex, the objectives of the equalisation principle are not. The CGC recommendations based on fiscal equalisation are designed to make it possible for a State to provide the same level of public services as other States (on average) without imposing higher taxes and charges, provided it makes the same revenue effort (CGC 1992a: 75). The process does not ensure that equity between citizens is actually achieved (Walsh 1989). The mechanism of fiscal equalisation, in the pursuit of capacity equity between States, has been progressively refined by the CGC in the course of its own determinations and review process, and as a result of Commonwealth and State input. The equalisation principle forms the fiscal 'glue' which holds federalism together and underpins the CGC's role in achieving the 'equality in

diversity' basic to the Australian federal system (see Fletcher 1992; CGC 1983; Walsh 1989).⁵

The starting point for CGC assessment of state relativities is a detailed analysis of some 100 functional areas standardly contained within state budgets.⁶ Activities such as education, health, welfare and police are included, while housing and roads are excluded. The focus is on state recurrent expenditure activities and costs, so that capital expenditures are excluded. State expenditures are adjusted to consistent definitions and from these figures, 'standard' expenditures (the population-weighted average of expenditures by the States) are calculated for each category. A similar process is carried out on the revenue side of state budgets. This process results in the preparation of a 'standard' budget.

The Commission then carries out separate needs assessments for each area of standard state expenditure based on the 'factor assessment method'. Under this approach, the Commission identifies and quantifies specific factors which differentially affect costs within expenditure areas in each State. These factors represent any influences beyond a State's control that require it to spend more, or enables it to spend less than other States to achieve the same objective (CGC 1992a: 75). Cost differences attributable to varying state policies and the efficiency with which services are provided have, by and large, been excluded from CGC assessments. The result is what the CGC refers to as 'standardised expenditure' (that is, the 'amount a State would need to spend to provide the same level of service at the same level of efficiency as the other States on average'), and 'standardised revenue' (that is, the 'revenue a State would collect if it made an average effort to raise revenue', with effort being indicated, for example, by rates and coverage of taxes) (ibid.: 75).

The CGC's main task in this determination of standardised budgets is to identify and measure the non-policy differences in revenue-raising capacity and in costs of providing services, termed 'disabilities'. Hence, differences in a State's revenue-raising capacity are due to differences in revenue bases. Differences in the costs of providing services may be due to a number of factors which the CGC measures, including: having different proportions of the population in the target group for a service (such as school-age children); the social composition of the population (including its Aboriginal composition); the physical and economic environment; economies or diseconomies of scale; urbanisation; and the spatial distribution of the population to be served. The CGC then applies disability weights to these factors which have been derived from the average, actual expenditure patterns of the States. The CGC is not concerned with the absolute cost to each State associated with these disability factors, but with the relative level of costs between States.

Clearly, the degree of equalisation achieved by consideration of such disabilities will be influenced across States by changes in the range of disabilities recognised by the CGC and by the complex practical problems in measuring them. The CGC relies heavily upon data from the Australia Bureau of Statistics (ABS) and from the States for its assessment of disabilities, and periodically reviews the accuracy and suitability of its measurement procedures. At the same time, it acknowledges the existence in its assessment process, of important subjective judgements to do with deciding just what influences are beyond the control of the States, and sometimes in the measurements themselves (CGC 1990a: 4). The 'increasingly slippery category' of disabilities is also influenced by State/Territory arguments for inclusion of new disability factors and expenditure areas, and new methods of determining the associated factor values (Fletcher 1992: 14).

Subtracting a State's total standardised revenue from its total standardised expenditure and adjusting the result for the standard, or average, budget result gives a State's total requirement for financial assistance from the Commonwealth. A State's final global relativity factor is calculated by converting that financial requirement, after subtracting Commonwealth specific purpose payments it receives⁷, to per capita terms and expressing it as a proportion of the comparable Victorian baseline figure (Victoria's relativity factor is 1.000) (CGC 1992a: 76). The relativities calculated in the CGC 1992 Update Review are shown below in Table 1. Basically, the

Table 1. State and Territory per capita relativity factors, assessed by the Commonwealth Grants Commission, 1991 and 1992 updates.

State/Territory	CGC relativity factor	
	1991 update	1992 update ^a
New South Wales	1.015	0.970
Victoria	1.000	1.000
Queensland	1.335	1.317
Western Australia	1.408	1.369
South Australia	1.526	1.505
Tasmania	1.731	1.713
Northern Territory	5.673	5.660

a. These relativity factors are derived from the CGC's reference of March 1992, where the assessments of standardised revenue assume that Victoria had no capacity to raise revenue from offshore oil and gas in Bass Strait (CGC 1992a: 39).

Source: Commonwealth Grants Commission (1992a: 56).

relativity assessment means that for every dollar per head of population Victoria received in general revenue grants in 1991-92, the NT received \$5.66.

The general impact of these relativity factors is to initiate a transfer of revenue raised in New South Wales and Victoria to the other five States. This redistribution reflects the fact that on average, over the period 1984 to 1991 (CGC 1991a: 13-14) only the two largest States had a higher relative capacity to raise revenue than the others, and a relatively lower cost of providing services. The relativities also highlight the fact that Queensland, Western Australia and the NT have higher cost structures resulting in less developed infrastructure in remote areas, narrower economic bases and more dispersed, smaller populations. In terms of their social composition, these States also account for over one-half of the total Aboriginal population.

The distribution of Commonwealth general purpose grants using the fiscal equalisation methodology is being increasingly questioned by the two larger States. Recent pressure has been exerted by Victoria and New South Wales to have the CGC basis of assessment changed from equalisation which, they argue, amounts to a 'welfare subsidy to the two States (Queensland and Western Australia) which are exhibiting economic growth' (Premier Kirner quoted in I. Davis 'The fight for a slice of the fiscal cake', *The Canberra Times*, 17 June 1992). It has been argued that these two States are now bearing the consequences of their own self-interest, rather than the disadvantageous impact to them of fiscal equalisation.⁸ While all States (with the exception of the ACT) received higher Commonwealth general revenue grants in 1992-93 than they did in 1991-92, New South Wales and Victoria were the favoured recipients among the States of higher additional payments. Effectively, at the June 1992 Premiers' Conference in Canberra the precedent was set whereby the distribution of some additional general-purpose grants from the Commonwealth (the \$166 million discretionary payment) occurred on an equal per capita basis. Both Victoria and New South Wales chose to receive their discretionary payments under the equal per capita method, while all other States remained with the relativities method (Commonwealth Treasurer 1992). Victoria and New South Wales also foreshadowed that they would submit reports to the next conference on the future of equalisation. As seen above, the NT fares exceedingly well with respect to the magnitude of the relativity factor assessed for it by the CGC for general revenue grants and is highly dependent upon this global factor to achieve the capacity to establish and maintain services at the same level as other larger States.

The Aboriginal component in estimating CGC disabilities

The CGC process of determining final relativities to account for state expenditure and revenue disabilities includes assessing the social, demographic, residential and economic characteristics of each State's Aboriginal population. In particular, disability factors related to the higher cost of service provision to Aboriginal people are used in a wide range of functional areas within each State's budget (e.g. health, education, prisons, police and the administration of justice, child welfare, national parks and others). Again, the Commission is not concerned with the absolute levels of costs associated with these disability factors for each State, but rather with the relative level of costs.

The 'Aboriginal effect' in disability factors is most often seen within the social composition factor, but also in dispersion and scale factors associated with the locational distribution of the Aboriginal population. The impact of the Aboriginal component in CGC assessments is not uniformly weighted across expenditure areas. Hence, with respect to assessing factors relating to Aboriginality in the area of pre-school education, the CGC determines a unit-of-use factor (u) estimated on the number of three-year old Aboriginal children residing in non-metropolitan areas of a State, added to the total four year-old Aboriginal population and three-year olds from low income families in metropolitan areas. To this is added a social composition (m) factor where those Aboriginal children aged three and four residing in non-metropolitan areas are weighted by 1.7. The comparative factor values assessed by the CGC for this particular state expenditure area are set out in Table 2.

In this area of assessed need the NT obtains a greater disability factor value as a result of the demographic profile and residential location of pre-school Aboriginal children in its population. In the budget area of primary education (government and non-government) the social composition disability factor means that Aboriginal children in non-metropolitan areas of each State are similarly weighted by 1.7, while secondary and technical education Aboriginal students in non-metropolitan areas are weighted by 1.15.

In the expenditure area of general medical services, the social composition factor is assessed on the basis of selected age and sex bands of the Aboriginal population to which weights are applied to reflect the higher usage of hospitals by Aborigines. These measures are derived from data on actual utilisation of respective state hospitals. In the area of public health the Aboriginal population in each State is uniformly weighted at 2.7. The expenditure category of child welfare is weighted on the basis of ABS income data. Aboriginal children in low income families are weighted by 7.0 and those not in low income families are weighted by 4.0.

Table 2. Commonwealth Grants Commission factor values for pre-school education by State/Territory, 1991.

State/Territory	Factor values pre-school education	
	Units of use (u)	Social composition (m)
New South Wales	1.0000	1.0000
Victoria	0.9569	0.9841
Queensland	1.0324	1.0123
Western Australia	1.0956	1.0268
South Australia	0.9792	1.0052
Tasmania	1.0928	1.0018
Northern Territory	1.5972	1.2398

Source: CGC (1991c).

In such assessments it could well be that census shortcomings in estimating remote area Aboriginal populations (Taylor 1992), related underestimations of unemployment levels (Smith 1991), and high non-response rates to income questions, may lead to lower unit measurements (and hence factor values) by the CGC than might otherwise be the case.

The CGC accepts that it costs all States and Territories more to provide services to Aboriginal people (CGC 1992b: 8). The social composition and other disability factors allow for this by giving those States and Territories with higher numbers of Aboriginal people and 'traditional Aboriginals (requiring) particular service delivery policies' in their populations, a greater disability factor value (CGC 1991c). In other words, certain cost-related characteristics of the Aboriginal population within each State become assessed components of disability factors and can have considerable effect on the measurement of factor values for recurrent, standard state budget expenditure items. This Aboriginal component to disability factors is spread across a range of expenditure items, including education, health, welfare and legal services.

A number of Aboriginal organisations and researchers have increasingly pointed to the lack of accountability in state use of monies obtained as a result of the Aboriginal component of various disability factors (see CLC 1991; NLC 1991; NT Alice Springs Town Campers Organisation 1991; Crough 1992). The chairperson of ATSIC has strongly criticised the 'share-without-care' methodology as having technical validity, but being highly questionable in terms of social justice principles and providing an incentive to perpetuate disadvantage' (O'Donoghue 1990: 8). O'Donoghue

argues that an expenditure disability only exists to the extent that it is recognised by expenditure being allocated to it in accordance with the means by which the funds were initially obtained. Correspondingly, indications that an expenditure disability has ceased to exist, or is being gradually alleviated, should be reflected in decreasing expenditure levels.

The CGC would agree that a disability is only recognised if reflected in state expenditure. There is no ideal standard against which state expenditures are assessed. Rather, as noted above, expenditure disabilities are assessed by the CGC against the average of expenditures by all States. Effectively, state policy concerning particular functional areas and the associated allocation of funds within them, are the immediate determinants of the Australia-wide average. However, the CGC's ability to link actual state expenditure to specific measured disability values is highly dependent upon their access to detailed state expenditure accounts and to the availability of supporting statistical data concerning particular budget functions. For example, in the area of education and health services, reasonable data are available to the CGC on Aboriginal access and use. In many other areas such data are not available, and state accounts provided to the CGC are invariably not disaggregated according to services and costs associated with the Aboriginal population. The CGC is not involved in auditing state expenditure in terms of performance outcome. Nevertheless, there will be increasing calls from Aboriginal communities and organisations for state and local government authorities to be more accountable for the Aboriginal disability monies they receive in their general revenue grants, and for there to be greater transparency to the Commonwealth determination and distribution of such monies to the States.

Disability factors and the Northern Territory budget

The CGC has accepted that the NT has special fiscal needs arising from a number of characteristics of its economy and population that relate to costs of services. By virtue of self-government status, the Territory is seen to have unique 'stage of development', as well as 'minimum establishment', expenditure disabilities. These relate to the costs and disabilities associated with establishing museums and libraries; the need for updating and establishing new statutes and laws; for administering tax collection and debt charges; for establishing local government and town planning; and to the relatively short period of operation of an independent Territory public service (NT Government 1991a: 90). Further, the NT has a relatively limited capacity to raise state-like revenues (on account of its narrow economic base and small population) and a higher per capita cost of providing services to its population, assessed by the CGC as being approximately 2.5 times that of other States (CGC 1990a, 1991a).

The Aboriginal component of these cost disabilities is significant in determining the NT's final share of Commonwealth revenue grants. In 1991, the NT Aboriginal population represented approximately 22 per cent of its total population (ABS 1992).⁹ This fact influences the CGC's assessments of the Territory's need for general revenue assistance in a number of ways. The economic circumstances of the Aboriginal population indirectly influence measures of household income and the value of property transactions by which the CGC measures the Territory's relative capacity to raise revenue. In terms of the NT's budget categories measured by the CGC, the Aboriginal population has a direct influence as a result of their residential location in remote areas, its younger than average age structure and its significantly higher unemployment, poverty, illiteracy and illness.

The CGC further accepts that the NT faces particular disabilities in providing services to Aboriginal people. As seen in Table 2, the demographic profile and residential location of the Aboriginal population mean that the Territory Government is assessed as having higher disability factor values for specific expenditure functions. The high social composition factor value assessed for the NT within the budgetary expenditure categories of child welfare (NT - 1.6051; New South Wales - 1.0; Victoria - 0.9466) and emergency welfare relief and other services (NT - 1.5514; New South Wales - 1.0; Victoria - 0.7822) reflect the comparatively low level of Aboriginal incomes and high level of Aboriginal unemployment in the NT (Teschfaghiorghis 1991).

The NT is also given additional weightings for certain expenditure needs, over and above that given to all States, as a result of social composition factors associated with its Aboriginal population. For example, in the primary education category the NT receives an additional weighting of 7.5 per cent to the social composition factor because of 'its special circumstances' (see Table 3). These circumstances create greater costs and include: the dispersion of the relevant Aboriginal population; greater numbers of rural and remote schools required; diseconomies of small-scale; social composition factors to do with culturally appropriate schooling and the non-English speaking characteristics of Aborigines in the school-age population; and the fact that the NT has approximately 21 per cent of the total Australian enrolment of Aboriginal students, constituting close to a third of its own primary school student population (NT Government 1991a: 189-210).

Another example of the Aboriginal component to NT disability factor values is seen in the CGC assessment of Technical and Further Education services. These are assessed for the NT as having an additional 'stage of development' disability factor of 5 per cent broadly determined to reflect

Table 3. Commonwealth Grants Commission social composition factor values for primary education (government and non-government) by State/Territory, 1991.

State/Territory	Factor values Social composition
New South Wales	1.0000
Victoria	0.9916
Queensland	1.0083
Western Australia	1.0144
South Australia	1.0024
Tasmania	1.0019
Northern Territory	1.2611

Source: CGC (1991c).

the Territory's additional expenditure requirements (not covered by other factors), owing to the preponderance of 'traditional Aboriginals in its population (which) means that particular service delivery policies have to be adopted' (CGC 1991c).

Two specific NT Government arguments for special fiscal needs are the disability factors of land rights and sacred sites. These have been accepted by the CGC as costs to the NT due to the influence of overriding Commonwealth policies. For example, in the area of expenditure on national parks and wildlife services, the NT obtains an additional factor value for land rights (1.0 for all other States and 1.1 for the NT with respect to the land rights factor, and 1.0 for all other States and 1.95 for the NT with respect to the sacred sites factor). The land rights factor also increases the NT's disability value in the expenditure areas of administration of justice for additional costs incurred by the NT on consideration of land claims under the *Aboriginal Land Rights (Northern Territory) Act 1976*, and, in a series of other budgetary areas such as supplying country water and sewerage, mapping and surveying, the premier and treasurer's departments, and local government and town planning (CGC 1991c). Both the Northern and Central Land Councils have strongly argued that the NT Government's costs in administering land rights (in particular, contesting land claims) hardly appears to be a 'service' provided for the benefit of Territory Aborigines; but rather it is a political decision and should accordingly be excluded from assessment of its funding needs (CGC 1992c; CLC 1991; NLC 1991). Indeed, it has been argued that the CGC's inclusion of the land rights argument exacerbates the fiscal problems of NT Aboriginal land councils in so far as the NT receives special assistance to challenge claims, thus adding to

the land councils' own litigation costs (Altman and Dillon 1988: 130-1). On the other hand, there are genuine additional costs borne by the NT, such as those within the budget areas of mapping, surveying and national parks, which are externally imposed and should be considered as expenditure disabilities by the CGC.

Disability factor values assessed by the CGC for the NT standardised budget are increased significantly as a result of the former's acceptance of the Aboriginal component as increasing the NT's cost of service delivery. The NT's favoured position in terms of its final relativity comes from the interaction of effects between disability factors. In particular, the combination of social composition factors (which highlight the proportion of the population which is Aboriginal) with scale and dispersion factors (which are heavily determined by the spread of the Aboriginal population across a number of isolated, small communities) are key factors affecting the CGC's assessment of NT fiscal needs. The interaction of these disability factors, based on the cost-related characteristics of the Aboriginal population, combine to produce higher factor values for particular expenditure categories for the NT compared to other States, and to produce the NT's high global relativity. In this sense, just as there is an Aboriginal component to the higher per capita cost of providing services to its population, there is also a significant Aboriginal component to the determination of the NT's general revenue receipts from the Commonwealth.

The Aboriginal Community Services budget category

Aboriginal Community Services (ACS) is one of some 100 budgetary functions used by the CGC in order to arrive at state standardised budgets. This category comprises all State and Commonwealth recurrent expenditure incurred in Aboriginal communities, including the provision of community management and local government-type services, and the recurrent (not capital) costs of operating, repairing and maintaining essential services for these communities. The latter include water, power, sewerage, internal access roads (excluding Commonwealth-funded road projects), airstrips, barge landings, telecommunications and cyclone shelters.

The ACS category is one of the very few expenditure areas where the factor assessment method is not used by the CGC. Instead, calculations of state financial needs are based on actual expenditure by each State; that is, by the per capita difference method. The CGC measures the ACS function by looking at state departmental budgets and determining which areas of actual expenditure are relevant to that category. Basically, the CGC concludes that what each State and Territory spends in this area (in net

terms) is what it needs to spend. Any receipts obtained by a State from recovery, by charges against delivery of services, included within the ACS category, are deducted by the CGC from that State's total ACS expenditure. The CGC, in effect, accepts the 'implied' disability evident in the expenditure differences between States. The implied level of disability is arrived at by calculating the difference between a State's actual expenditure and the average expenditure of the seven States. The implied disability is then multiplied against the seven State average to give a specific State's standardised expenditure for that function. This method essentially means that States can increase (or decrease) their assessed funding needs, and hence their level of Commonwealth grants, by increasing their expenditure in this category. This is, of course, also dependent on the size of the overall pool of money made available by the Commonwealth.

The standardised expenditure assessed for the ACS budget function is then summed with all other standardised expenditures for a State to give (after other adjustments), its total financial assistance requirement. In this manner, the ACS function becomes part of the budgetary expenditure stream measured by the CGC and is translated, along with all other expenditures, into the final relativity factor for that State. The Commonwealth does not allocate an amount specifically referred to as ACS to a State budget. Funds based on this category come as part of total untied general revenue grants. It is up to each State to subsequently match future expenditure against previous expenditure in this area if they choose to seek CGC assessment under the specific methodology applying to the ACS function. It is not necessary for a State Government to spend untied funds under this category, though low or absent expenditure will accordingly be reflected in the CGC's future assessment of implied need.

It should be noted, however, that it is not a simple matter of one year's expenditure within this category being directly equivalent to next year's funds. The CGC updates its grant relativities each year on the basis of a rolling five-yearly average of expenditure figures. This procedure is also used in CGC assessments of state expenditure within the ACS category. In other words, there is a 'lag in the system' (CGC 1991a: 5) whereby a State's future financial year's funding need within the ACS area is assessed on a rolling, updated average of the previous five.

The CGC faces a number of difficulties in identifying and quantifying the cost factors involved in the ACS category. In particular, it must determine what range of services and functions should be included; whether they should take into account relative disadvantage within the Aboriginal population itself; the definition of Aboriginal community; and the rather blurred distinction between recurrent expenditure in this category (which the CGC includes) and capital expenditures (which the

CGC excludes). The method of assessing the anomalous ACS function is currently being reviewed by the CGC in its inquiry into the methods used for calculating the share of Commonwealth general purpose grants. It is likely that the CGC will move towards a method based on attempting to quantify expenditure needs within ACS, as it does in other budget categories, rather than taking actual state expenditure as equivalent to an implied disability.

One can argue (as have some Aboriginal interests) that the ACS expenditure function, currently assessed as an implied disability factor, represents an associated dollar funding contribution towards specific services for each State's Aboriginal population. On the other hand, the CGC is not actually recommending an absolute dollar grant for the ACS category (or for any other disability factor); rather it is using a system of measuring disability values for state expenditure needs which contribute to the recommended final relativity ratio. It is this 'bottom-line' relativity which is used by the Commonwealth Government to determine the States' overall assessed financial needs. While the CGC's role is limited to assessing fiscal capacity, state policies directly determine performance, especially at the program and service delivery level. Currently, the State Governments are not accountable for expenditure of untied Commonwealth funds. Assuming that all such monies are actually spent in the ACS expenditure area according to which they are measured, then those States that spend more on ACS-related services could be said to be directly benefiting the Aboriginal population more greatly. On the other hand, higher service delivery costs to remote populations may well account for higher expenditure for the same (or even lower) levels of service provision. Even so, under the current CGC assessment approach, governments with higher ACS expenditure will be ensuring themselves continuing Commonwealth reimbursement of those monies at virtually the equivalent rate.

Aboriginal Community Services within the Northern Territory budget

Within the ACS budget function, the NT again fares better than any other State (see Table 4). The 1989-90 CGC assessment of Territory needs, undertaken as part of the 1991 relativities update, included \$60.9 million for the ACS function. In 1990-91, the NT's actual expenditure was \$60.5 million; over twice as much as the next highest spender in any other State (being Queensland with \$28.6 million). In per capita terms, in 1990-91, the NT spent \$382.8 in the ACS category, in comparison with the national standard of \$7.8 per capita. Only 8 per cent of NT expenditure in this area occurred via specific purpose payments (SPP), compared to the average of 46 per cent for the remaining States (see Table 4).

Table 4. Aboriginal Community Services: actual state expenditure (\$ total and per capita), 1990-91.

State	\$ million	\$ per capita	Percentage of expenditure funded by SPP
New South Wales	2.670	0.46	5.62
Victoria	.624	0.14	100.00
Queensland	28.637	9.74	11.20
Western Australia	26.780	16.23	48.60
South Australia	12.446	8.59	52.98
Tasmania	.218	0.48	60.09
Northern Territory	60.528	382.80	8.08

Source: CGC (1991d) and unpublished CGC data.

In 1990-91, the CGC assessed NT total gross expenditure under ACS as being approximately \$64.4 million (see Table 5). This included a range of NT departmental expenditure, as well as the deduction of a \$2.8 million Commonwealth specific purpose (recurrent) payment for local government financial assistance to remote communities. Included as a NT expenditure was a \$4.9 million Commonwealth grant-in-aid for community infrastructure. The CGC deducted revenue obtained by the NT under the ACS category. In 1990-91, this amounted to \$3.8 million obtained by the NT Power and Water Authority (PAWA) under its Aboriginal Essential Services program, for charges against supply of power services to Aboriginal communities. After this deduction the NT had a net ACS expenditure, measured by the CGC, of \$60.5 million. In the five years from 1986 to 1990, the NT had an average net expenditure of \$55.5 million under this category.

The CGC has accepted that the Territory needs to spend a lot more on this function than other States (CGC 1992b: 11). This is despite the fact that Queensland and Western Australia both have larger Aboriginal populations than the NT (61,266 and 37,790, respectively) and would incur many of the same range of disabilities and associated costs in program and service delivery.¹⁰ There are, in fact, a number of legitimate reasons for the CGC acceptance of the NT's higher implied disability under the ACS category. Once again, the interactive effect of a combination of location-specific disabilities (especially dispersion, point of delivery scale, isolation, whole-of-State stage of development factors, and the higher proportion of Aboriginal people in the total population) which the NT faces in delivery of services, plays a significant part in the higher costs it faces.

Table 5. Northern Territory expenditure identified by the Commonwealth Grants Commission for Aboriginal Community Services, 1990-91.

NT Department	Total (\$ million)
Expenditure	
Public Service-Office of Public Service Commissioner	
Aboriginal development	0.740
Office of Local Government (ACS)	22.806
Treasury-computer technology and services	
Transport and works (ACS)	0.046
Lands and housing (ACS)	0.247
Transport and Works	
Aboriginal communities - capital	1.873
Aboriginal essential services	2.766
Property management-office of Public Service Commissioner (ACS)	0.047
Commonwealth receipts - SPP (Recurrent)	
Local government financial assistance -remote communities	-2.821
Conservation Commission (ACS)	0.024
Commonwealth grants-in-aid	
Community infrastructure	4.891
Power and Water Authority	
Aboriginal essential services	33.738
Gross expenditure	64.357
Revenue	
Power and Water Authority	
Aboriginal essential services - electricity	3.829
Gross revenue	3.829
Net expenditure (gross expenditure minus gross revenue)	60.528

Source: CGC (1991d).

Indeed, the NT Government (1991b: 267-76) has argued that its total expenditure needs are, if anything, understated as a result of the CGC's limited definition of what constitutes the ACS. For example, the NT submits that council administration, animal control, cemeteries, council houses, sanitation and garbage, and many other functions which Aboriginal community councils and associations undertake, should be included within the community management component of ACS.¹¹ It has also argued strongly that CGC current assessment methods do not allow for expenditure levels sufficient to deliver adequate services to NT Aboriginal communities (NT Government 1991b: 274). Given the high costs of service delivery, the NT's higher expenditure under the ACS

category does not necessarily mean a greater level of service provision than other States.

The recent introduction by the NT of a user-pays system to Aboriginal communities for electricity supplies (at the standard NT urban tariff rate) has led to considerable questioning of whether the government provides the same quality of services to Aboriginal communities as it does to urban centres. The NT has argued in its submission to the CGC that in the five-year period up to 1990, the average tariff rate charged by PAWA was 75 per cent higher than that of state electricity authorities in Australia as a whole, owing to population dispersion and absence of an interconnected supply network linked to large-scale power generating systems (NT Government 1991a: 84). Costs are particularly high for provision of electricity to remote NT communities: an average of 54 cents per kilowatt hour, compared to an average 18 cents for the NT (NT Government 1991b: 290). The NT also has a higher than average commercial consumption of electricity and reported \$17 million power costs accruing to NT Government departments and authorities, for which it did not obtain full cost recovery (NT Government 1991a: 84-6, 142). The result is that the PAWA is not likely to recover operating costs either in urban or remote areas for some time to come. The withdrawal of Commonwealth subsidy to the PAWA from 1992-93 has placed increasing pressure on the NT budget and hastened the need to seek full cost recovery.

The issue of why the NT is instituting a user-pays system in remote communities when any receipts are deducted (dollar for dollar) by the CGC from NT expenditure under the ACS category, has been raised in a number of quarters. As shown in Table 5, \$3.8 million in PAWA revenue receipts, from supply of electricity to Aboriginal communities, was deducted from the NT's gross ACS expenditure in 1990-91. The ACS implied disability factor for the NT is assessed by the CGC on the resulting lower net expenditure of \$60.5 million. It is in such service expenditure areas that the NT Government's ongoing policy of mainstreaming services to Aboriginal people is revealed, though it seems at odds with the financial benefits accruing from fiscal equalisation (and specifically from the per capita difference method used for assessing the ACS category).

Apart from the NT imperative of mainstreaming services and charges in the Aboriginal affairs areas, the progressive pressure towards establishing the user-pays system may also be part of the NT Government's attempt to gradually wean itself from an overly dependent financial relationship with the Commonwealth Government. Further, the issue of user-pays for Aboriginal communities also needs to be considered apart from the fact of whether the current CGC methodology yields a virtual reimbursement to

the NT of costs in servicing those communities. Careful consideration by government will need to be given to the ways in which charges can be linked to the often low and erratic levels of individual and household income at different communities; what is the appropriate rate for remote communities where services, when they do exist, may be unreliable or substandard; who is to be responsible for recovery of charges; and what type of services are actually required by different kinds of communities.

Commonwealth payments to the Northern Territory, 1990-91

In 1990-91, the NT received \$1.1 billion from the Commonwealth Government. The \$729 million in general revenue assistance payments was made up of \$679 million in untied financial assistance grants and \$50 million in special revenue assistance (which was funded from the financial assistance grants pool). A further \$44 million was paid as general purpose capital payments, making a total of \$773 million in general purpose payments. The remaining Commonwealth payments came in the form of

Table 6. Commonwealth payments to the States and the Northern Territory (\$ million), 1990-91.

Commonwealth payment	NSW	Vic.	Qld	WA	SA	Tas.	NT	Total
Total general purpose	3,781	2,780	2,537	1,570	1,474	549	773	13,464
General revenue	3,702	2,712	2,521	1,548	1,435	522	729	13,167
General purpose (current)	80	68	16	22	39	27	44	297
Total specific purpose	4,705	4,071	2,301	1,344	1,175	433	287	14,318
Specific purpose (current)	3,464	3,316	1,638	986	909	317	157	10,786
Specific purpose (capital)	1,241	756	663	359	267	117	130	3,531
Total payments ^a	8,486	6,851	4,837	2,915	2,649	983	1,060	27,781

^a These total payments represent gross estimates. After repayments by the Territory of \$33 million in 1990-91 are taken into account, the total Commonwealth payment to the NT was \$1.028 billion (Commonwealth of Australia 1991c: 8).

Source: Commonwealth of Australia (1991c: 7-9).

specific purpose payments; \$157 million for current purposes and \$130 million for capital (see Table 6). Of the Territory's total of \$287 million specific purpose payments, \$249 million were allocated as payments to the Territory and \$38 million as payments through the Territory.

In 1990-91, specific purpose payments comprised a low 27 per cent of the Territory's overall payments, while the other States received on average, some 49 per cent of their Commonwealth revenue payments in the form of specific purpose payments. Four specific purpose payments within the NT budget for 1990-91 were allocated to Aboriginal-specific funding areas: current funding for Aboriginal education (\$12.1 million), the national language policy (\$0.4 million) and Aboriginal employment training (\$0.04 million); and capital payments for Aboriginal education (\$2.2 million) and housing assistance for Aborigines (\$19.5 million). These represented 5 per cent of total specific purpose payments to the NT. (See Appendix 1 for a detailed breakdown of specific purpose payments to the NT in 1990-91.)

The NT received approximately 60 per cent of its budget receipts from Commonwealth revenue payments in 1990-91; compared with approximately 30 per cent for the other six States (NT Government 1992: 53; Stanley and Knapman 1992: 68). This was the lowest proportion since 1979-80, when the NT received a high 84 per cent of its revenue from Commonwealth grants (Stanley and Knapman 1992: 70). Whilst the NT relies heavily on Commonwealth funding, it has also incurred greater recent reductions in those payments in comparison to the other States. Between 1984-85 and 1990-91, there has been a reduction of net Commonwealth payments to the Territory, in real terms, of 26 per cent, compared with a real reduction of about 13 per cent to the six States (NT Government 1991c: 22). Even so, on a per capita basis the NT was funded at a rate of \$6,494, over four times greater than the per capita rate of \$1,539 for total Australia (see Commonwealth of Australia 1991c: 9).¹²

However, the NT's higher global relativity factor is an indication of the degree to which the NT is reliant upon the fiscal equalisation process to achieve the capacity to provide the same standard services as other States. It does not represent an advantageous position over and above other States. The extent that it does occur is evident in the NT's being the only recipient of special revenue assistance in 1990-91, receiving approximately \$50 million which was taken from the general revenue pool available for distribution to all States by the Commonwealth. The 1991 Premiers' Conference agreed that the NT be provided with similar assistance of \$40 million in 1991-92. Without such payment, general revenue assistance to the NT would have fallen by about 3 per cent in real terms in 1990-91. Even so, this still represents a phasing down of the level of special revenue assistance provided to the NT and is consistent

with the Commonwealth's commitment to progressively move the NT to a financial basis comparable to that of the other six States (Commonwealth of Australia 1991c: 60).

Aboriginal affairs policy implications

The nature of the NT's fiscal dependence

The NT exhibits an unusual set of economic and political characteristics. Since attaining self-government in 1978 it has quickly negotiated the shifting sands of Commonwealth funding, a process facilitated by the Memorandum of Understanding. Nevertheless, its economy is at a precarious stage of development, heavily dependent on Commonwealth revenue payments, on growth predicated upon resource development, and constrained by deficiencies in transportation and diseconomies of scale related to its small, widely-dispersed population. At the same time, the NT is expected to supply the range of standard services at the same level as other States.

There are noticeable differences between the NT economy and the rest of Australia, one of which is the clearly distinguished Aboriginal and non-Aboriginal components. The NT labour market, compared to the rest of Australia, is characterised by a higher participation rate of 70.6 per cent in 1990-91 (63.7 per cent for Australia). However, the NT also has the lowest percentage of Aboriginal people in employment (26 per cent, compared to 32.6 per cent for the total Aboriginal population), and the highest rate of Aboriginal people not participating in the labour force (60 per cent, compared to 49.6 per cent for the total Aboriginal population) (Teshfaghiorghis 1991: 19).¹³

The NT economy is characterised by a large public sector which employed 36.1 per cent of total wage and salary earners, compared to 28.3 per cent for Australia in 1990-91. The great majority of these (76 per cent) were employed in the NT Public Service (NT Government 1991d: 10). For both Aboriginal and non-Aboriginal Territorians, the community services industry (which depends largely on public funds) is the major employer industry group. However, Aboriginal employment is more heavily concentrated in the combined areas of community services and public administration (56 per cent of employed Aborigines) than for the remainder of the Territory population (33 per cent) in 1986 (ABS 1990: 85).¹⁴

Similarly, whilst overall Territory average weekly earnings are slightly higher than for total Australia (\$608.40 compared to \$597.80 in 1990-91; NT Government 1991d: 14), greater differences emerge between Aboriginal and non-Aboriginal Territorians. In 1986, the proportion of

Aboriginal people in the NT in the lowest income bracket (below \$173 per week) was twice that recorded for the remainder of the NT population (ABS 1990: 89). In an assessment of Aboriginal socioeconomic status across Australia, Tesfaghiorghis (1991: 16) concluded that Aborigines in both the NT and Western Australia had the lowest ranking according to standard social indicators.¹⁵

In 1991, public service and defence industries contributed 22.5 per cent of Territory gross domestic product (GDP) compared to 15.6 per cent for Australia. Minerals, oils and gas contributed 22.3 per cent compared to 4.6 per cent for Australia. Manufacturing contributed only 4.4 per cent to Territory GDP compared to 16.3 per cent for Australia. The NT recreation and tourism industry contributed 6.1 per cent compared to 4.2 per cent for Australia (NT Government 1991d). Over 60 per cent of manufacturing activity in the NT is directed towards the processing of minerals (NT Government 1991d: 43). Likewise, the Territory's housing and construction industry is heavily reliant upon mining, oil and gas developments, and upon tourist developments, as well as on the periodic expansion of Commonwealth defence forces. Growth in the Territory's economy is seen to be centred on tourism and mining, with the government predicting that mining will soon overtake public administration and defence as the most important sector (ibid.: 9).

However, mining ranks low in terms of its benefits to NT income and employment and would require a great expansion to achieve significant spin-offs to the NT economy (Stanley and Knapman 1992: 29). In terms of income and employment generation and diversification, the best industry performers in the NT economy are tourism, public administration, and defence (Stanley and Knapman 1992). The last two are substantially dependent on Commonwealth funds.

The Territory economy operates in parallel with the Commonwealth *Aboriginal Land Rights (Northern Territory) Act, 1976* which enables the conversion of areas of unalienated Crown land to Aboriginal title. The Act contains special provisions for the payment of royalty equivalents, amounts equivalent to the royalties raised on Aboriginal land. These royalty equivalents are paid by the Commonwealth to the Aboriginals Benefit Trust Account (ABTA) and in turn used to fund Aboriginal land councils, as compensation to Aboriginal people living in areas affected by mining, and as general grants to and for the benefit of Aboriginal people in the NT. In 1990-91, mining royalty equivalents from the Commonwealth of \$33.3 million dollars were credited to the ABTA (ABTA 1992: 2). At the same time, the NT Government received \$28.4 million mining royalties (excluding uranium) directly from mining companies (NT Government 1991e: 5). Payments to the NT from the

Commonwealth in lieu of uranium royalties were \$2.9 million (NT Government 1991d: 23).

It has been argued that the impact of mining on Aboriginal land has been positive for the NT economy (Altman and Dillon 1988: 134). Effectively, royalty equivalents constitute extra revenue to the NT. Almost all of NT royalty receipts accrue from resource developments on Aboriginal land, and the major proportion of monies paid by the ABTA to Aboriginal interests are spent in the NT and have subsequent local economic spin-offs. At the same time, capital invested by Aboriginal royalty associations and development corporations, through royalty payments and direct Commonwealth funds are having a positive effect on NT regional economies (Altman 1989; Crough et al. 1989; Stanley and Knapman 1992).

The Territory economy is resource dependent in two ways. Firstly, in the sense of being tied to the development of its natural resources and secondly, in continuing to receive high levels of financial resources from the Commonwealth. At the same time, it is unlikely that there will be a reduction in the NT's cost structure for some time to come. Much of the government's policy and program directions, both for its Aboriginal and non-Aboriginal citizens, are based on the uneasy tensions generated by such financial dependence. Of its actual, total budgetary expenditure in 1990-91 of \$1,778 million, \$1,061 million (60 per cent) was provided from the Commonwealth Government. The steady real decline in Commonwealth payments since 1984-85 has not been fully compensated for by an increase in Territory-based receipts. Further, the reduction in Commonwealth grants has a greater impact on the NT economy because of its very dependency on those payments. For example, a 10 per cent reduction in the 1991-92 budget would be equal to a per capita reduction of \$608.60 for the Territory, but only \$133.70 for New South Wales (Stanley and Knapman 1992: 66). This has caused increasing budgetary pressures for the NT government and has made an already high commitment to 'developmentalism' (Heatley 1986) even more persuasive. The NT's greater per capita dependence on the Commonwealth makes it more vulnerable to changes in federal funding policies and procedures.

Providing 'State-like' services in the NT

Clearly, any reduction in the crucial financial role played by fiscal equalisation would have significant consequences for the NT budget. The CGC calculated that if location-specific disabilities were excluded from the equalisation model, Commonwealth payments to the NT in 1988-89 would have been reduced by a considerable \$385 million, equal to 30 per cent of NT Government total outlays in that year.¹⁶ By comparison, Western Australia, the State next worst affected by such a reduction, would face a cut representing only 2.4 per cent of its total outlays in the

same financial year (NT Government 1991c: 74). In such an event, the NT Government would have great difficulty in maintaining a range of services at the same level as other States.

There are clear tensions existing between Commonwealth and NT policy directions, especially in the area of expenditure on Aboriginal programs and services. For example, the Commonwealth Treasury has argued that in order to maximise allocative efficiency within the budget process and reduce costs, public sector services should be curtailed where the costs of provision are higher than their value to users. The basis for this recommendation is the argument that particular distributions of population or other resources that happen to exist among States or locations within States at any particular time should not necessarily be preserved if they negatively effect the efficiency of financial distribution (see NT Government 1991c: 72). A correlative argument is that the measurement of disabilities concerned with such distributions (such as locational and diseconomies of scale disabilities) should be reassessed and, perhaps, made more restricted in their impact.

It may well be the case that highly dispersed, small populations minimise allocative efficiency and maximise diseconomies of scale. But this argument for allocative efficiency pays little attention to the particular characteristics of the NT population where the majority of Aboriginal people reside at numerous small, isolated communities. Indeed, over the last two decades this dispersion has been actively facilitated by the Commonwealth through its policy of Aboriginal self-determination, land rights legislation and funding support which have encouraged the movement of Aboriginal people away from townships to outstations (Blanchard 1987). The cultural imperatives at the basis of this movement will ensure that the resulting 'inefficient' dispersion of the Aboriginal population, contrary to Commonwealth Treasury arguments, will be maintained. Indeed, the NT population is likely to become more, rather than less, decentralised.

There are a number of dilemmas, both for the NT Government and for Aboriginal people, surrounding the issue of the provision and type of services to be delivered to communities and outstations; especially those more remotely located. While the Commonwealth Government initially viewed the outstation movement as a cost-effective development, a number of outstations have progressively increased in size, commenced servicing other satellite outstations, and increasingly required a wider range of specialised and standard state services. Any diminution of location and scale disability factors would have considerable negative impact upon the level of funding available for provision of services to Aboriginal people resident in remote and rural areas. Given the degree of socioeconomic disadvantage reported for the NT and total Aboriginal

population, there are strong grounds for arguing that these disability payments be maintained when considering state expenditure needs related to Aboriginal affairs.

It should not be assumed that the CGC-determined global relativity for the NT provides it with the capacity to deliver the standard range of services at average cost levels, for its entire population. Firstly, the CGC assessment covers only 70 per cent of the NT Government's budget functions and certainly does not address the historical deficiencies in infrastructure provision relative to other States. Secondly, the additional per capita weightings received for standard budget functions are effectively spread by the NT Government over a much wider range of expenditure requirements. Thirdly, population dispersion, together with the social and cultural characteristics of the Aboriginal population, create higher costs with respect to delivery of services across the entire set of budgetary expenditure areas. Fourthly, while the NT has stage of development factors, such as a reduced range of public service functions performed (there are 14 administrative units represented in one or more States that are not represented in the NT), it does not have the benefit of a disability based on the backlog of expenditure needs (Smith 1992). Along with associated high administrative costs and diseconomies of small-scale, such factors combine to emphasise the financial advantages of providing a selected range of services through centralised agencies, of program mainstreaming, and standardised charging. This type of selective service economy will be characterised by reduced operation at the peripheries of population settlement. Current Commonwealth policy objectives, on the other hand, inevitably require the extension of often specialised, culturally appropriate services to smaller populations, scattered across a wider geographic area.¹⁷

Another central tension between Commonwealth and State policy directions is the consideration of cultural issues in the delivery of services to Aboriginal people. The issue here is not simply one of 'cultural appropriateness', but of the need to take into account the considerable cultural heterogeneity evident in the NT Aboriginal population. These cultural differences will require both policy and program flexibility to account for the diverse circumstances under which Aboriginal people live, including the progressive decentralisation of the population. There will be a real financial impact for the NT in introducing such program flexibility. Commonwealth pressure for allocative efficiency and specialised services will need to be balanced by a 'policy realism' based on an acknowledgement of the financial impact of the contradictions between Commonwealth and NT policy (Altman and Sanders 1991).

In fact, one could question the appropriateness of the underlying assumption of being able to provide State-like services. In the longer

term, one should be able to expect the extent of Aboriginal socioeconomic disadvantage to abate owing to the significant Aboriginal component of the Commonwealth determination of NT general revenue grants. However, there is no reason to assume that disability factors encountered by the NT such as the high cost of providing services, the small, dispersed population, diseconomies of scale and so on, are either temporary or transitional (NT Government 1991c: 27). To this extent, such disabilities will continue to impede the rate at which Aboriginal socioeconomic disadvantage can be overcome, especially in remote regions. The aim of providing State-like services in the NT is one which will remain largely dependent upon Commonwealth funding. The NT will require a continuing high level of financial subvention if capacity equalisation at the level of service provision is to be even feasible. A diminution of fiscal equalisation will have immediate repercussions upon the economic development and status of all NT residents and, especially and disproportionately, upon disadvantaged Aboriginal people.

The Aboriginal component in the Northern Territory budget

The NT Government's budget is symbiotically linked to the Territory's Aboriginal population. In a real financial sense there exists an economic co-dependence between all Territorians and Territory Aboriginal people.

As has been shown, there is a significant Aboriginal component to the CGC's determination of expenditure disabilities for the NT. The Territory Government is heavily reliant on this Aboriginal component to receive sizeable and additional weightings to disability factors, thus achieving its high CGC global relativity factor and its ultimate level of Commonwealth allocations. However, the Aboriginal component to allocations from the Commonwealth does not mean that the NT is in a more advantaged financial situation than other States. On the contrary, the reliance is indicative of a service economy that will continue to be characterised by high costs and low cost recovery from a widely dispersed, small population. Recently, the principle of fiscal equalisation and the impact of certain disability factors on Commonwealth allocations to the States have come under increasing pressure. There are strong grounds for arguing that in the area of Aboriginal affairs, where the Commonwealth exercises a special responsibility, the policy neutral role of the CGC should be upheld and the principle of fiscal equalisation maintained.

The NT Aboriginal population is similarly locked into a dependent funding situation. It is reliant on continuing Commonwealth subvention of the NT budget and locked into NT funding policy concerning the type and style of service to be delivered. While the NT Government expends a high total level of monies on services and programs having Aboriginal clients, it does so overwhelmingly through mainstream programs and service

deliverers (Smith 1992). The low level of tied grants in Commonwealth allocations to the NT promotes Aboriginal dependency on discretionary outlays which are under increasing budgetary pressure and, accordingly, afford little funding security or accountability for service delivery to the Aboriginal population. It is in recognition of the Aboriginal component in the NT budget and economy per se, and the low overall economic status of the NT Aboriginal population, that strong calls are being made for an ongoing accounting of Territory Government revenue and expenditure related to the Aboriginal population (CGC 1992c).

This call reflects similar recommendations for more detailed accounting of government expenditure on Aboriginal services in Western Australia (Arthur 1991; Equal Opportunity Commission 1990), Queensland (Human Rights and Equal Opportunity Commission 1988) and Australia in general (Commonwealth of Australia 1991a). Such an accounting is a very complex task. Nevertheless, some preliminary steps appear to already be carried out by the CGC in its measurement of the ACS function within state budgets. The CGC also receives detailed expenditure and revenue data from the States for its annual relativity updates. In the case of the NT, which is heavily reliant upon Aboriginal disability weightings, the government provides important data on previous expenditure levels and costs associated with particular programs which have Aboriginal clients. In general though, state budgetary data provided to the CGC are not broken down into their detailed Aboriginal components.

Administrative mechanisms need to be established at the State level to facilitate the recording of Aboriginal client usage of programs and services, associated cost structures, thus enabling Aboriginal program expenditure data to be disaggregated. These data could be incorporated into CGC determinations of state standardised revenue capacities and expenditure requirements across a range of budgetary functions. Such an accounting represents an attempt to make the Aboriginal component of Commonwealth allocations and of State Government budgetary outlays more transparent. It does not mean that subsequent Commonwealth funds to States covering those functions would have to be linked to tied grant payments, as demonstrated by the ACS approach. Rather, it would enable an accounting procedure to be established which identifies the level of state expenditure on programs and services for Aboriginal people.

A key policy implication of this paper concerns the future role of ATSIC and its regional councils. One of the broader policy issues likely to have considerable affect on future Aboriginal affairs funding includes the pressure being asserted by the States to have taxing powers returned. If taxing powers were to be progressively returned, the need to address the principle of horizontal equity through the CGC would presumably be considerably reduced, and the issue of funding for Aboriginal service

provision at the State level left increasingly to the policy directions of individual States. Clearly, the planning process being progressively undertaken by ATSIC regional councils and offices could play an ongoing role in negotiating the design and delivery of programs to Aboriginal people at the regional and State level, and the level of associated expenditure. ATSIC guidelines for developing regional plans recommend that regional councils identify and gather data on their local and regional economic base (ATSIC 1991b: 7). A crucial feature of Aboriginal economies is, in fact, the government funding environment. The 'bottom-up' planning that may be possible in the regional and community planning process will require a breakdown of government expenditure on programs and services for Aboriginal people at the State and local level.

If ATSIC is to proceed with plans to negotiate bilateral funding agreements between the Commonwealth and the States regarding the funding and delivery of services to Aboriginal people, it will need to commence negotiations for such comprehensive state expenditure data to be made available. There appears to be a role for ATSIC in negotiating procedures for the establishment of state accounting mechanisms via these bilateral agreements and the regional planning process. Clearly, the CGC already undertakes an assessment of some Aboriginal components of state budgets on the basis of data provided by the States and the ABS. Given that many areas of this assessment have incomplete data, both on usage and expenditure at the program level, the CGC would also be in a position to advise on budgetary areas where improved accounting could be initiated. An invaluable spin-off from this process for Aboriginal communities, their many organisations and Aboriginal local government councils, will be the resulting availability of government expenditure data relevant to their own community and region. There are strong grounds for arguing that in the area of Aboriginal affairs, where the Commonwealth does exercise a special responsibility, the policy neutral role of the CGC should be upheld and the principle of fiscal equalisation maintained.

Notes

1. The most important of these include the final national report from the Royal Commission into Aboriginal Deaths in Custody (Commonwealth of Australia 1991a); the unpublished report by the Australian Aboriginal Affairs Council, *Achieving Greater Co-ordination of Aboriginal and Torres Strait Islander Programs and Services* (Australian and Aboriginal Affairs Council 1991); and the Commonwealth Budget Related Paper *Social Justice for Indigenous Australians, 1991-92* (Commonwealth of Australia 1991b).
2. Throughout this paper 'State/s' is used to refer to both the States and Territories, unless otherwise specified.

3. During the period 1973-79, the CGC made recommendations to the Commonwealth regarding funds to State local government authorities. In 1979, the CGC recommended the use of the equal per capita method of allocating Commonwealth funds to these authorities and distribution of monies was handed over to State Grants Commissions. Since this period, the CGC's role in local government funding issues has remained marginal, with the exception of its 1990 Inquiry into the distribution of general purpose grants for local government, where it presented options for a phasing-in of a distribution based on fiscal equalisation. The recommendation was rejected by the Commonwealth.
4. The Working Group on Tied Grants, established as part of the review of Commonwealth-State financial relations at the 1990 Special Premiers' Conference to examine the current range of specific purpose payments to the States and Territories, has developed two categories of SPP: 1. Payments to State Governments, being payments direct to State and Territory Governments, excluding those made for passing on to other bodies and individuals; and 2. Payments through States and Territory Governments, being for passing on to other bodies and individuals, including payments where the States had funding or other responsibilities in the same area of expenditure, provided that those responsibilities were not exercised through joint programs (SPP in the latter category include payments for higher education, non-government schools, general purpose assistance to local government and research grants to state institutions) (Commonwealth of Australia 1991c: 88).
5. The current major exception to the impact of fiscal equalisation is in the area of Commonwealth funding of local government which is based on per capita distributions according to conditions laid out in the Commonwealth *Local Government (Financial Assistance) Act, 1986*. This area of funding is not assessed by the CGC. Had the Commonwealth accepted CGC recommendations (CGC 1990b; 1991b) to alter the distribution to one based on fiscal equalisation, the Territory would have received some \$31.2 million in Commonwealth assistance, as opposed to the \$6.6 million it received in 1990-91 (NT Government 1991c: 44). (See also Crough 1992; Mowbray 1986 and Wolfe 1989 for an assessment of the impact of the distribution of local government funding on the NT Aboriginal population.)
6. The CGC is currently undertaking a comprehensive review of the methods of determining general revenue grant relativities (expected to be concluded in March 1993). It is anticipated that the CGC members of the review will recommend a number of wide-ranging changes, one of which may be the reduction of the current number of revenue and expenditure functions (just over 100, including some 70 expenditure areas) to approximately 70 overall areas (including around 41 expenditure functions).
7. Most recurrent Commonwealth specific purpose grants are treated by the inclusion method in CGC determinations of relativity factors because they provide a source of funds used to finance state recurrent services. ATSIC (1991a: 14) has argued that where its grants (either made directly to Aboriginal and Torres Strait Islander people, or through the States) are intended to be supplementary to mainstream programs to overcome backlogs, they should be treated by the deduction method (that is, deducted from total state expenditure on the function). It could be further argued that in Aboriginal affairs, using the inclusion method impacts negatively upon both States' willingness to increase their own funding in this area, and is counteractive for a population with significant socioeconomic disadvantages. A strong argument can be made for treating Commonwealth specific purpose grants in the Aboriginal affairs area as an exemption to the inclusion method.

8. In 1990, both New South Wales and Victoria were instrumental in having the period over which the CGC calculates relativities extended from three to five years. This was done in order to reduce the impact on CGC calculations, of rises in real estate values in those two States. By including pre-boom years into the calculations they were assessed as needing larger revenue shares. However, the subsequent real estate downturn associated with the recession now penalises them in the new five-year data periods. As Ian Davis has noted in his article, 'Kirner and Greiner bite the hand that feeds them' (*The Canberra Times*, 16 June 1992: 9) the consequence has been that rather than acknowledging that the opportunistic change which they made in 1990 is the cause of their current problems, the larger States have in effect turned their attack on the principle of equalisation.
9. The preliminary 1991 Census count of 37,698 for the NT Aboriginal population appears to be understated and may total approximately 40,000. Given that the non-Aboriginal preliminary total will also be revised by the final count, there will be little difference in the actual proportion of the total NT population represented by Aboriginal people.
10. It could also be argued that the significant difference between the NT, Western Australia and Queensland in their ACS expenditure is due to the reluctance of the latter two States to meet their financial responsibilities for providing services to Aboriginal communities. Western Australia in particular, despite being seemingly well placed to benefit from the current ACS methodology used by the CGC, has been reluctant among the States to commit itself to recurrent expenditure on the ACS function (See Arthur 1991; Equal Opportunity Commission 1990; Human Rights and Equal Opportunity Commission 1988).
11. In fact, the CGC contends that currently these functions, with the exception of council housing, are included in their ACS assessment process if a State provides details of its actual expenditure in these categories.
12. These are total net per capita payments after repayments by the States, Territories and Local Government Authorities have been deducted.
13. Percentage employed is defined here as the ratio of employed persons aged 15-64 years to the total Aboriginal population aged 15-64 years, times 100.
14. Historical data on changes in Aboriginal employment by industry in the NT between 1971 and 1986 Censuses are provided in Altman and Daly 1992. The authors note that during the 15-year period there were large falls in NT Aboriginal employment in agriculture, and considerable growth in industries where the public sector was an important employer.
15. Subsistence production has also been shown to be important (though with considerable variations noted in the estimated reliance) for Aboriginal standards of living at a number of NT outstation communities (Altman 1987; Altman and Taylor 1989; Blanchard 1987).
16. There is a marked difference in the distribution of the Aboriginal and non-Aboriginal population in the NT. Almost two-thirds of Aboriginal people lived in rural areas in 1986 while the majority of non-Aboriginal people lived in urban areas. Clearly, the financial impact of such location-specific disabilities is predominantly determined by the NT's Aboriginal population.
17. Lawrence (1991) presents an analysis of the impact of these policy and program contradictions between the Commonwealth and NT Governments in the area of road regulations and charges on remote Aboriginal communities.

Appendix

Table A.1. Total Commonwealth specific purpose payments to the Northern Territory by type and expenditure category, 1990-91.

Commonwealth Specific Purpose Payments \$ million	Expenditure
Specific Purpose Payments - current	
Education	
Higher education ^a	20.221
TAFE	1.977
Government schools	10.136
Non-government schools ^a	7.945
Joint schools program	1.164
Aboriginal education	12.079
National language policy	0.369
Total	53.891
Health	
Hospital funding grants	22.414
Nurse education	0.120
Geriatric assessment	0.482
Home and community care	0.050
National better health	0.122
AIDS funds	0.612
Other health care access	0.040
Other health advancement	0.234
Drug education	0.293
Blood transfusion services	0.308
Total	24.675
Social Security and Welfare	
Home and community care	1.455
Children's services	0.209
Mortgage and rent relief	0.287
Supported accommodation assistance	2.200
Translating and interpreting services	0.053
Total	4.204
Housing and Community Amenities	
Home deposit assistance	0.061
Urban water supply and treatment	0.009
Urban flood mitigation	0.030
Environmental restoration	1.487
Rainforest conservation	0.143
Total	1.730
Transport	
Aerodrome local ownership plan	0.072
Interstate road transport	0.513
Total	0.585

Table A.1. Continued

Commonwealth Specific Purpose Payments \$ million	Expenditure
Industry Assistance and Development	
Bovine brucellosis and tuberculosis	24.149
Exotic disease eradication	0.030
Rural adjustment scheme	1.124
Soil conservation	1.226
PAWA (NT) assistance	30.000
National industry extension service	0.101
Total	56.630
Labour and Employment	
Employment training - Aboriginal	0.044
Total	0.044
General Public Services	
Legal aid	2.361
Research at universities ^a	0.420
Total	2.781
Not Allocated to Functional	
Sinking fund on state debt	1.590
Debt redemption assistance	0.125
Financial assistance - local government ^a	6.564
Compensation - companies regulation	1.022
Natural disaster relief	0.002
Royalties	3.427
Total	12.730
Total	157.270
Specific Purpose Payments - capital	
Education	
Higher education ^a	2.524
TAFE	2.164
Government schools	2.323
Non-Government schools ^a	0.546
Aboriginal education	2.180
Total	9.737
Health	
Hospitals enhancement program	0.443
Blood transfusion services	0.051
Total	0.494
Social Security and Welfare	
Home and community care	0.255
Children's services	0.017
Crisis accommodation assistance	0.369
Total	0.641

Table A.1. Continued

Commonwealth Specific Purpose Payments \$ million	Expenditure
Housing and Community Amenities	
Pensioner housing grants	0.523
Housing assistance for Aborigines	19.458
Local government and community housing	0.227
Commonwealth - State Housing Agreement block assistance	40.673
Urban water supply and treatment	0.399
Urban flood mitigation	0.004
Total	61.284
Culture and Recreation	
National estate	0.288
Total	0.288
Transport	
Aerodrome - local ownership plan	0.134
Roads	56.860
Total	56.994
Industry Assistance and Development	
Bovine brucellosis and tuberculosis	0.111
Total	0.111
Labour and Employment	
Natural disaster relief	0.475
Total	0.475
Total	130.024
Total Specific Purpose Payments	287.294

a. Items marked are classified as payments made through the NT Government.

Source: Commonwealth of Australia (1992c: A.34-40).

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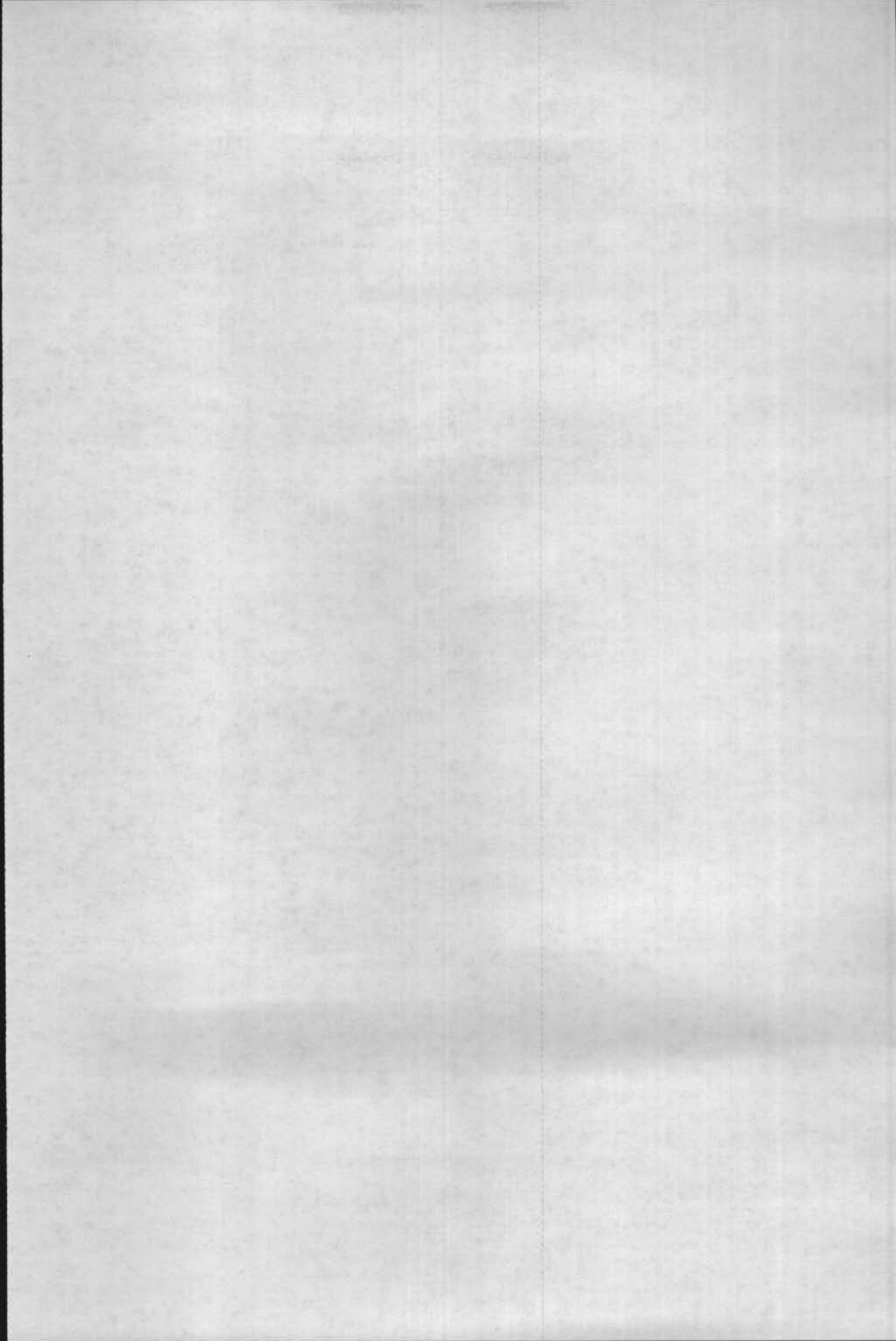
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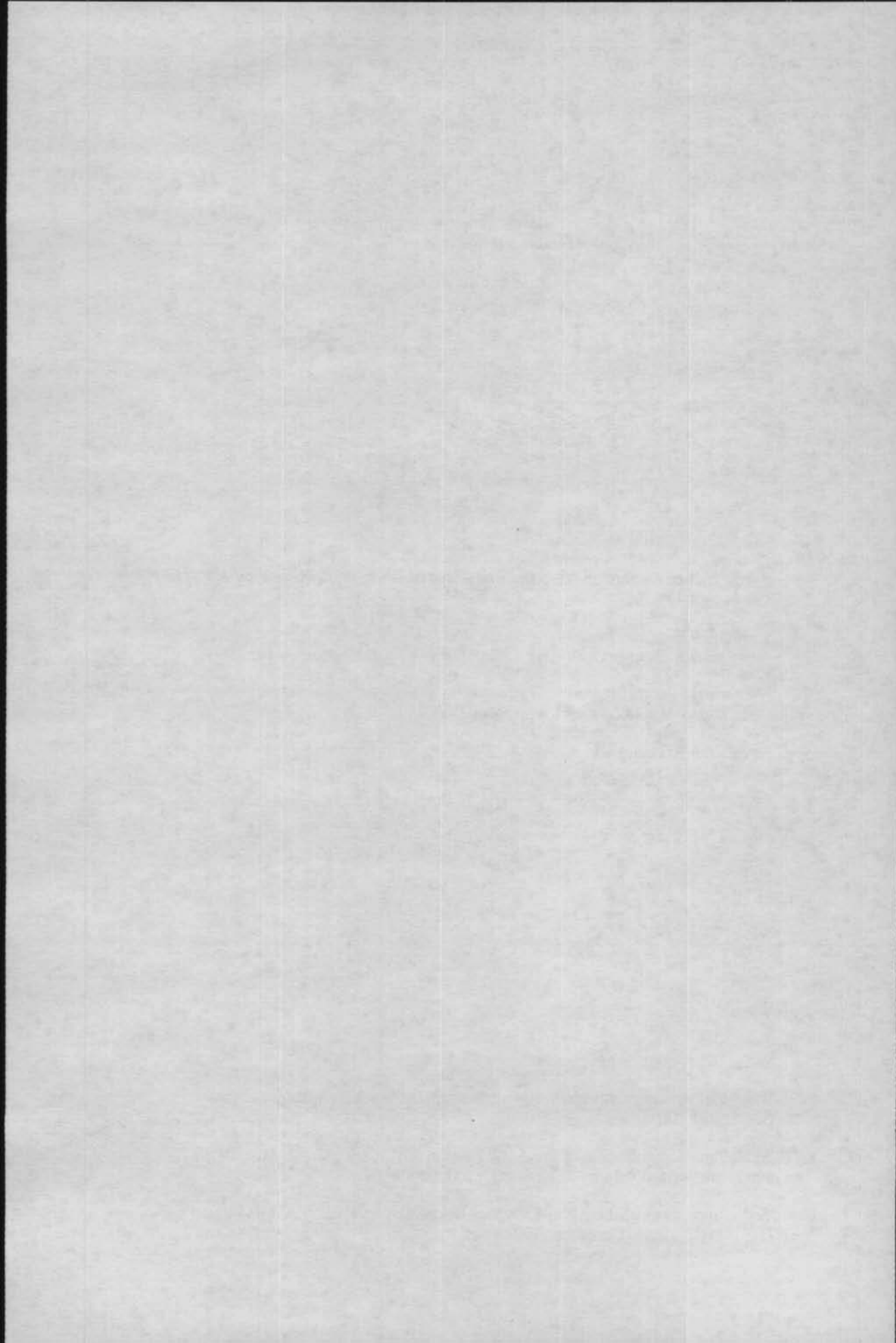
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