

Chapter 16 The Public Sector

Key Points

- Public sector expenditure (excluding defence) was about \$4.1 billion in 2007-08, accounting for 28.5 per cent of GSP and 26.2 per cent of SFD.
- During 2007-08, public sector expenditure increased by 6.9 per cent, well above the ten-year average annual growth rate of 3.0 per cent.
- The size of the public sector relative to the size of the Territory economy has declined over the past two decades.
- The public sector is the largest employer in the Territory, with about 28 800 people employed on a full-time or part-time basis by the Commonwealth, Territory and local governments.
- Strong growth in public sector expenditure on infrastructure is estimated for 2009-10.

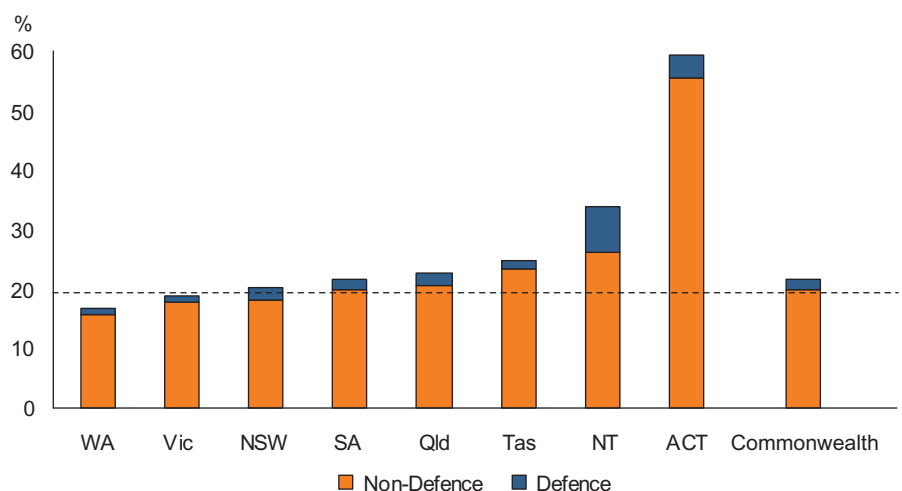
Background

This chapter examines the contribution to the Northern Territory economy by the Commonwealth (excluding defence), Territory and local governments through spending on wages, goods and services and infrastructure. Due to the large Australian Defence Force presence in the Territory, defence spending is considered separately in Chapter 17.

Public sector spending on wages, goods and services and capital infrastructure in the Territory in 2007-08 was \$4.1 billion, accounting for 26.2 per cent of state final demand (SFD) and 28.5 per cent of gross state product (GSP). Nationally, public sector spending accounts for 19.9 per cent of domestic final demand.

A large proportion of public sector spending in the Territory can be attributed to wages, with about 28 800 people employed in the public sector on a full-time or part-time basis. This makes the public sector the largest single employer in the Territory.

Chart 16.1: Public Sector Spending as a Percentage of State Final Demand by Jurisdiction, 2007-08



Source: ABS Cat. No. 5206.0

The contribution of the public sector to the economy is greater in the Territory than in all other jurisdictions apart from the Australian Capital Territory (Chart 16.1). This is largely attributed to diseconomies of scale in the

Territory, whereby the Territory Government is faced with relatively higher per unit costs of providing government services to a small and widely dispersed population, with a large proportion experiencing poor social outcomes and requiring additional government services.

In addition, the size of the public sector administration necessary to provide adequate services in the Territory is accentuated by the Territory's relatively small population and private sector industry base, increasing the relative importance of the public sector to the overall economy.

In 2007-08, public sector spending in the Territory was \$18 827 per person, compared to \$10 337 per person nationally. The Australian Capital Territory (ACT) had the highest public sector expenditure per capita at \$61 217 and Victoria the lowest at \$8714. The high level of public sector spending in the ACT is attributed to the significant (Commonwealth) public sector presence, a similar situation to that in the Territory. The reverse is true in Victoria, which has a large population and well developed infrastructure in a relatively small area.

Contribution to the Territory Economy

During 2007-08, public sector spending increased by 6.9 per cent to about \$4.1 billion, well above the ten-year average annual growth rate of 3.0 per cent. Over the same period, private sector spending increased by 4.0 per cent, below the ten-year average growth rate of 5.9 per cent.

The higher than average public sector spending in 2007-08 is attributed to increased demand for government services due to an above average rate of population growth, and a substantial increase in spending on infrastructure associated with the Commonwealth's Northern Territory Emergency Response, the Territory Government's Closing the Gap strategy, and the Darwin Waterfront redevelopment.

Nonetheless, public sector spending in the Territory has declined as a proportion of total spending from 32 per cent to 26 per cent over the ten years to 2007-08. This is due to the increasing importance of the private sector to the Territory economy over this period, with private sector consumption, and spending on infrastructure, increasing by an average of 5.3 per cent and 7.1 per cent a year respectively (Table 16.1).

Table 16.1: Components of Territory State Final Demand by Sector, 2007-08

	Value	Proportion of SFD	Change from 2006-07	10-year average annual growth
	\$M	%	%	%
State Final Demand	15 800	100	4.7	5.2
Defence	1 187	8	7.8	7.8
Total Private Final Demand	10 473	66	4.0	5.9
Private consumption	6 541	41	5.4	5.3
Private investment	3 933	25	1.8	7.1
Total Public Final Demand	4 141	26	6.9	3.0
Public consumption	3 456	22	3.7	2.7
Public investment	683	4	26.7	4.7

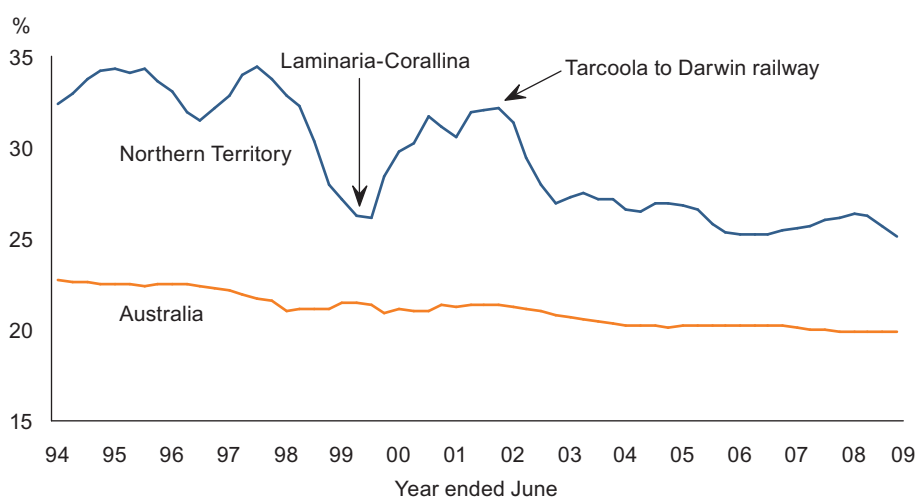
Source: ABS Cat. No. 5206.0

Nationally, there has also been a modest decline in the proportion of public sector spending to economic activity over the past ten years, for similar reasons as experienced in the Territory.

However, the small size of the Territory economy means major projects can cause significant fluctuations in the relative importance of public sector spending compared to other jurisdictions. For example, the \$1.4 billion Laminaria-Corallina oilfields development in the Timor Sea in 1999 (a private sector project), and the \$1.3 billion Adelaide to Darwin railway in 2001 (a joint public/private sector project), both changed the relative contribution of public sector spending to the economy (Chart 16.2).

More recently, the decline in proportion of public sector spending is due to increased private sector spending, particularly the construction of the Wickham Point liquefied natural gas plant, and expansion of the Rio Tinto Alcan alumina refinery at Gove (Chart 16.2).

Chart 16.2: Public Sector Spending as a Proportion of State Final Demand, 1998-99 to 2008-09



Source: ABS Cat. No. 5206.0

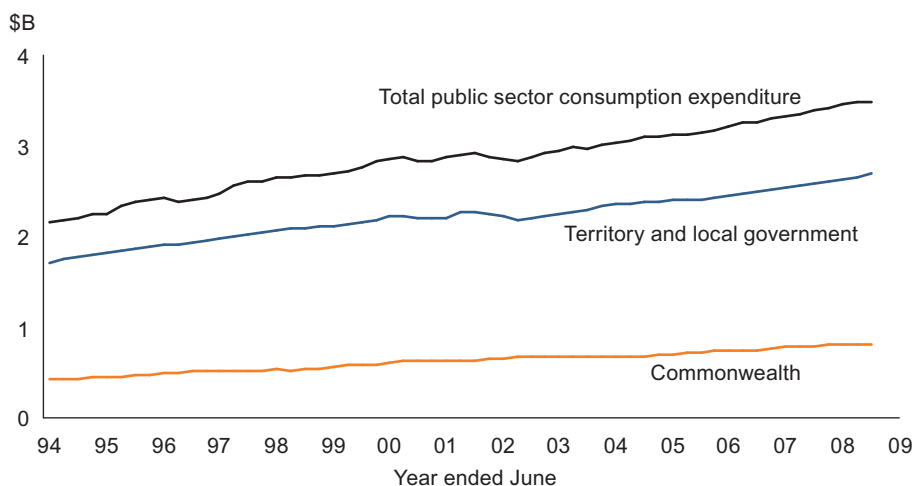
Public Sector Consumption

Public sector consumption is the largest component of total public sector spending, and includes spending on wages, purchases of goods and services, repairs and maintenance, office supplies and consultancy services. In 2007-08, public sector consumption accounted for 83.5 per cent of total public sector spending in the Territory.

In 2007-08, public sector consumption increased by 3.7 per cent to about \$3.5 billion. Public sector consumption has increased by an average of 2.7 per cent a year over the past ten years. A key contributor to the higher increase in 2007-08 was the 4 per cent increase in Territory public service wages in that year under the general Northern Territory Public Sector enterprise bargaining agreement.

Territory and local governments typically account for around three-quarters of total public sector consumption (Chart 16.3). Although the full extent of the Northern Territory Emergency Response and Closing the Gap initiatives on public sector consumption remain uncertain at this stage, both programs are likely to have led to increased public sector consumption due to increased numbers of Territory and Commonwealth public servants.

Chart 16.3: Components of Public Sector Consumption Expenditure (excluding defence)



Source: ABS Cat. No. 5206.0

Consistent with the decline in the relative importance of public sector spending to the Territory economy, public sector consumption has declined as a proportion of total consumption (public and private spending on wages, goods and services) from about 40 per cent in 1997-98 to 34 per cent in 2007-08.

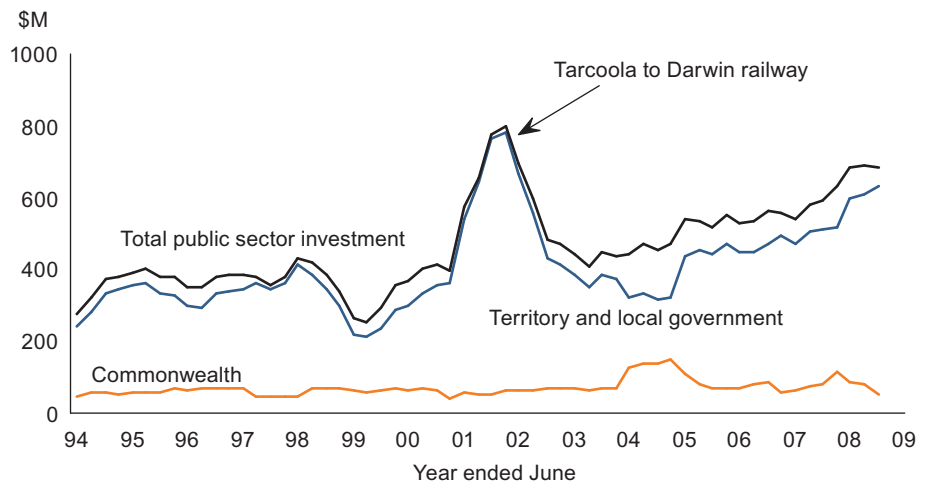
Public Sector Investment

Public sector investment is the lesser component of total public sector spending and includes spending on dwellings, other buildings and structures, machinery and equipment and ownership transfer costs. In 2007-08, public sector investment spending accounted for 16.5 per cent of total public sector spending in the Territory, and 14.8 per cent of total investment in the Territory (Chart 16.4).

Total public sector investment spending increased by \$144 million, or 26.7 per cent, to \$683 million in 2007-08. Of this, Territory and local governments spent \$599 million, or 87.7 per cent. Territory and local government investment expenditure included construction on roads, middle schools and the Darwin Waterfront redevelopment.

Public sector investment spending by the Commonwealth increased by 29.2 per cent to \$84 million in 2007-08, due to the increase in contributions to deliver benefits for Indigenous children, families and communities in association with the Northern Territory Emergency Response.

Chart 16.4: Components of Public Sector Investment Expenditure (moving annual total)



Source: ABS Cat. No. 5206.0

Over the past five years, public sector investment spending has increased by an average of 9 per cent a year, and is near to the record levels achieved with the construction of the \$1.3 billion Tarcoola to Darwin railway project from July 2001. The increase in spending has been possible due to higher revenues from taxes and royalties received by the Commonwealth and Territory governments.

Examples of other projects started recently include the construction of 15 new classrooms and government employee housing as part of the Closing the Gap initiatives, with an additional \$286 million to be spent between 2007-08 and 2011-12. Further, the Territory Government is spending \$96.6 million upgrading Tiger Brennan Drive, a major urban arterial route between Darwin and Palmerston, \$10.5 million on an oncology unit in the grounds of Royal Darwin Hospital, and \$672 million on provision of new and upgraded housing in Indigenous communities across the Territory as part of the Strategic Indigenous Housing Infrastructure Program (SIHIP).

Employment

The public sector is the largest employer in the Territory, accounting for a quarter of total employment, compared to 16.3 per cent nationally.

The Australian Bureau of Statistics (ABS) measure of public sector employment includes full-time, part-time and casual employees as well as employees on paid leave and workers compensation. In the Territory, this measure also includes employees of Charles Darwin University, Batchelor Institute of Indigenous Tertiary Education and the Territory Insurance Office. The ABS reports that there were 28 800 public sector employees in the Northern Territory in 2007-08. Of these, about 22 000, or 75 per cent, are attributed as Territory Government employees. About 3600 people were employed by the Commonwealth, and about 3100 by local governments.

The Office of the Commissioner for Public Employment (OCPE) provides a more widely used measure of Territory Government employment, based on the full-time equivalent positions in the general government sector. In 2008, the average number of full-time equivalent Territory Government employees was 16 574, up about 3.3 per cent from 16 051 in 2007. For comparison, employment growth in the Territory in 2008 was 4 per cent, indicating higher growth in private sector employment.

Numbers employed in the Territory Government have increased by 14.8 per cent in the ten years to 2008. Over the same period, total employment has increased by 20.8 per cent, and the population has increased by 15.8 per cent. A growing population necessarily leads to higher demand for government services, and employment of more teachers, police and health professionals.

OCPE records indicate that the number of Indigenous people employed by the Territory Government increased from 6.2 per cent in 2004 to 8.1 per cent in 2008.

From December 2007 to December 2008, the number of self-identified Indigenous employees of the Territory Government increased from 1339 to 1497. This is an annual increase of 11.8 per cent and above the average annual growth of 10.5 per cent reported since December 2005.

Local Government

In July 2008, the Territory Government replaced about 60 small non-contiguous community councils across the Territory with eight new large shire councils. The intention is to improve and expand service delivery across the Territory. Although job matching of former council employees into new shire council positions has occurred where possible in the creation of the shires, the overall effect of these changes on local government employment remains unclear.

In addition to the creation of shires, former local government employment numbers may also change with reforms to the Commonwealth's Community Development Employment Projects (CDEP). Prior to 1 July 2009, CDEP participants received CDEP wages and were classified as employees in labour statistics. From July 2009, local governments will be responsible for the ongoing management of CDEP in regional areas until 2011, with new CDEP participants receiving CDEP income support payments, and not being counted as public sector employees in labour statistics.

Outlook

The public sector will continue to play an important role in the Territory economy into the future, with public sector consumption and investment expenditure likely to remain at high levels in 2009-10.

Public sector consumption is expected to be maintained at high levels, with population growth and the Closing the Gap and Northern Territory Emergency Response programs requiring provision of additional or expanded government services. In addition, a small redistribution of public sector spending occurred in July 2008, when the Territory Government took over responsibility from the Commonwealth for the delivery of essential and municipal services to about 450 remote outstations. The announcement of the Territory Government's policy on outstations in late 2009 is expected to clarify and quantify the redistribution associated with future spending on outstations.

Public sector investment expenditure is expected to be boosted in 2008-09 and 2009-10 due to infrastructure spending, including Commonwealth spending under its Nation Building and Jobs Plan worth around \$350 million public expenditure, and the \$642 million joint Territory and Commonwealth

Government SIHIP announced in 2008, as well as increased spending on health and hospitals as part of the Territory Government infrastructure program in 2009-10.

From 2009-10, there is potential for growth to slow in public sector spending and employment due to lower tax and royalty revenues accruing to the Territory and Commonwealth governments as a result of a weakened Australian economy. However, the Commonwealth fiscal stimulus packages (Government spending and taxation) and guarantee on state and Territory borrowings are expected to offset the otherwise lower growth in reported public sector spending. Locally, changes to the CDEP program could artificially slow public sector employment growth over the next three years as new CDEP participants are no longer counted as public sector employees in statistics.