

**Northern Territory Treasury Response to the Productivity Commission's
Draft Report on the Economic Implications of an Ageing Australia,
November 2004.**

The Northern Territory Treasury (NTT) supports the general approach adopted by the Productivity Commission in the draft report.

Specifically, we support the Commission's adoption of the following approaches.

- Adoption of the concept of estimating the economic effects of ageing over a certain period of time by determining the difference between estimates of total economic changes over the period and estimates of the consequences of the “non-demographic” changes over the period, the latter being estimated by imposing a constant age structure on future populations.
- The use of separate modelling of the Indigenous and non-Indigenous populations of the Northern Territory, not only when modelling population projections but also when modelling the economic consequences for the Territory as a whole arising as a consequence of population changes. We believe this approach is necessary, in part, because of the relatively high inter-state mobility of people (predominantly non-Indigenous people) to and from the NT. Even more important are the major disparities between the basic demography of the Indigenous and non-Indigenous populations and their economic circumstances.
- These disparities between the Indigenous and non-Indigenous population are not confined to the Northern Territory, they also apply, more or less to the same extent, to all other Australian states and territories. However, because the Indigenous population represents a relatively small proportion of the populations of other states and territories separate modelling of the Indigenous and non-Indigenous populations is only necessary for the Territory. We suggest that a brief explanation of this rationale be provided in order to avoid suggestions of “special treatment for the Northern Territory”.
- We support the approach adopted by the Productivity Commission for modelling the future population size and structure of the NT, in which levels of education attainment, health status, life expectancy, fertility and participation in the labour force etc for the Indigenous component of the NT's population are assumed to change over time (ie these parameters generally improve towards the level of the non-Indigenous population). This is in line with general policy aims and expectations of all Australian governments that, over the long term, the levels of Indigenous social and economic disadvantage will diminish.
- Adopting this approach obviously raises huge questions about plausible future rates of change and the “cost” of achieving these changes. (The rates of change used in the draft report are commented on later in this response.)

Nevertheless, despite these difficulties (and the consequent uncertainties about the results obtained) we believe it is much better to factor in assumptions about changes along with plausible estimates of the economic costs of achieving these changes rather than the alternatives of either assuming no changes will occur or that the desired or anticipated changes will occur at no cost.

Specific comment and/or proposals about preferred directions to be taken in the report or preferred methods of presentation.

- Probably the most important suggestion we offer is that the report should give greater attention to the unavoidable uncertainty attached to the results of the long term demographic/economic modelling and the consequent uncertainty attached to conclusions drawn from the results. Drawing greater attention to the uncertainty in results should not be done in a way which devalues the modelling results, rather the high levels of uncertainty in some results (which will increase as the length of the period being modelled increases), should be acknowledged and some attention should be given to exploring the degree of uncertainty in them. That is, some forms of sensitivity analysis would be helpful where this can be done.
- Just as important as acknowledging the likely presence of high levels of uncertainty is the need for the report to recommend that the modelling exercise be repeated every 5-10 years in order that our long term understanding of the impacts of ageing can be continually updated and improved. It is perhaps almost as important to discuss this type of monitoring as it is to discuss the actual results derived from the modelling exercise. To this end there may be some value in reporting some of the current modelling results at 5 or 10 year intervals rather than just at the end of the 40 year period. This would make easier future comparisons of current model results with actual demographic and economic parameters.
- GSP/GDP is often used in the report as the measure of economic impact to assess the possible effect of factors. This will not always be a satisfactory scale for measuring economic consequences particularly for small narrowly-based economies such as the Northern Territory in which the commencement or finish of a single large resources project (particularly an off-shore one) can have a very large impact on GSP without any real economic consequences for the economic well-being of the residents of the jurisdiction.
- More explanation, possibly by providing details in appendices, of details of the modelling approach adopted and the underlying concepts and assumptions on which the model is built would be helpful to jurisdictions that wish to repeat and update the Productivity Commission's modelling work. For this purpose it would be helpful if all models, with full explanations, were made freely available with the final report, possibly on CDs, for others to make use of.

- More explanation/discussion could be provided about whether the modelling results aim to inform on the fiscal and economic consequences of ageing for governments of jurisdictions or for residents of jurisdictions.

Specific comments of relevance mainly to the interests of the Northern Territory.

- The costs of urban transport subsidies are modelled in the report. This is a rather special type of cost which will be a greater relative burden in more urban jurisdictions. There is no discussion or modelling of other types of special costs which would be relatively higher in more rural jurisdictions, eg the cost of transport to hospitals, the cost of providing aged-care services to dispersed small remote communities, or the costs of providing infrastructure in such settings. There are many such remoteness-related costs which could conceivably be increase by an ageing population, some of which would result in cost increases to government while others would have to be borne by individual residents in the absence of relevant services in remote areas.
- Remote indigenous communities have very high average household sizes, mainly due to large family sizes. As ageing occurs and as fertility rates decline family sizes will also decline somewhat, resulting in smaller household sizes in the future. This will have a disproportionate impact on the demand for new housing, thus if average household size drops to 3-4 in remote areas over the next 40 years from the current levels of 6-8 or even higher, then, even without any increase in the size of the population this will produce a doubling in the demand for housing (all of which is funded through governments dollars in one way or another). Thus, housing costs, which are currently not considered in the draft report, could be a very substantial additional burden on government finances for remote parts of the Northern Territory. Comparable drops in household size for the non-indigenous population of Australia will not occur. Non-indigenous household sizes are currently little more than 2 and are unlikely to drop in a comparable manner. At this late stage it may not be possible to model these and similar issues not covered in the draft report, however it would be helpful to at least list the possible issues which have not been modelled in the report.
- The Northern Territory Treasury believes the demographic and economic modelling undertaken by the Productivity Commission in this investigation provides a useful starting point for developing our own in-house models for monitoring the Territory's medium and long term development. It is our intention to continue and enhance this modelling work in future months and. To this end we welcome the proposal from the Productivity Commission's research team to fully document and make transparent all components of the model's construction, input data used and the results of any sensitivity analyses undertaken. We also welcome the offer of the team to make the fully documented models available to all jurisdictions wishing to continue the modelling work. The Northern Territory Government will take up this offer..

Suggestions for refinements and changes to the modelling assumptions to better reflect Northern Territory current and future conditions and circumstances.

Population Projections

The general consensus within the Northern Territory Government agencies is that the reductions in Indigenous fertility and mortality in the Northern Territory that can be expected over the 40 year time span being modelled will be less marked than the models in the draft report assume. A middle ground view would appear to be that Indigenous age specific fertility rates might drop from current levels to approximately about 50% of the current non-Indigenous levels over a 40 year span. Similarly, age specific mortality rates may drop from their current levels by about one quarter (or at most one half) of the difference between current Indigenous and non-Indigenous rates.

There is also a feeling that the report's current projected future non-Indigenous populations may underestimate the proportion of older people. There is a feeling that current patterns of older non-Indigenous migration out of the Territory may be different to those predicted from current out-migration. In particular, in recent years (the last decade or so) have seen a remarkable drop in the number of middle aged Territorians who have left the Territory. This trend may continue, particularly if there is a drop in the number of young adult people migrating to the Territory.

Future Health Care and Aged Care Costs

Advice from the Northern Territory's Department of Health and Community Services indicates that current levels of primary health care funding for Aboriginal Health are likely to be increased substantially in the near future as a result of it being recognised that remote Aboriginal people are grossly under-funded from Medicare and PBS funds. Without this additional funding for improving access for primary health care being factored into the models it is unrealistic to suppose that Indigenous mortality rates will decline in the way envisaged.

There is a feeling that the modelled future aged-care costs (even after corrections were made to the model) are grossly underestimated for the likely future age profile of the Territory's population. In addition, there is a belief that the costs of providing aged-care for remote areas may not have been considered properly in the models.

Education Attainment and Costs

There is general agreement with the approach of the report in which improving educational attainment should be factored into the models, leading to increased labour force participation and employment. However, the Northern Territory's Department of Employment, Education and Training believe that increased educational attainment will only be minimal if current funding levels are maintained at their nominal per capita rates, ie the anticipated improvements in educational attainment will not be achieved. Substantial increases in educational attainment will only be improved and maintained approaching the levels assumed in the models if substantial increases in per capita funding for school attendees is made available. It is therefore argued that substantial per capita increased funding should be assumed in the modelling exercises (without necessarily indicating where this increase funding will come from.)

Labour Force Participation

Once again we agree with the general approach to modelling the participation of Indigenous people in the labour force (not CDEP). However, we have some doubts about the rate at which participation might improve. Besides the obvious issue of educational levels and skills training which, as indicated above, will be addressed very slowly and at considerable cost there is the additional issue of the mismatch between the places where most Indigenous people live and the places where most jobs are located. At best there will only be a very gradual change in either places where people live or places where jobs are located. We have no specific suggestions to make about the how to model this correctly but, overall, these issues do suggest a very slow improvement in the participation rates of Indigenous peoples.

Housing and Law and Justice.

Neither Housing nor Law and Justice issues are considered explicitly as contributing issues within the draft report. We believe that through changing age distributions and family structures future ageing will increase government's costs associated with both these issues.

The argument for increase housing associated with population ageing is set out about. This indirect effect will operate through reductions in future household sizes.

Law and Justice costs are expected to increase as a consequence of changes in the Territory's future population composition as the population ages. This comes about because, in the Territory, because criminal activity is disproportionately associated with young adult Indigenous people. These people will represent an increasing proportion of the Territory's population as the Territory ages over coming decades. This will lead to increased costs across the full range of law and justice activities. Some useful supporting figures are provided in an attachment.