
OVERVIEW

Terms of reference

The Indigenous Expenditure Report aims to contribute to better policy making and improved outcomes for Indigenous Australians, by:

1. reporting on expenditure on services which support Indigenous Australians, including in a manner consistent with the COAG Working Group on Indigenous Reform statement of objectives, outcomes and measures and the COAG Overcoming Indigenous Disadvantage report framework.
2. promoting the collection and reporting of robust Indigenous expenditure data through:
 - a. determining and applying consistent methodology to the collection and reporting of data
 - b. identifying necessary improvements to the collection and availability of relevant data
 - c. developing and implementing strategies to address data deficiencies.

The Indigenous Expenditure Report will:

3. include expenditure by both Commonwealth and State/Territory governments (and local government if possible), and over time will:
 - a. allow reporting on Indigenous and non-Indigenous social status and economic status
 - b. include expenditure on Indigenous-specific and key mainstream programs
 - c. be reconcilable with published government financial statistics.
4. focus on on-the-ground services in areas such as: education; justice; health; housing; community services; employment; and other significant expenditure.
5. report on a regular basis, including:
 - a. completion of an initial 'stocktake' report for the first COAG meeting in 2009, setting out the reporting framework, principles, methodology, and survey of available data and strategies for data development
 - b. staged reporting against the framework (having regard to considerations such as data availability, implementation requirements and costs of reporting)
 - c. report on both Indigenous and non-Indigenous expenditure.
6. provide governments with a better understanding of the level and patterns of expenditure on services which support Indigenous Australians, and provide policy makers with an additional tool to target policies to Close the Gap in Indigenous Disadvantage.

The Indigenous Expenditure Report steering committee will:

7. provide regular updates to Heads of Treasuries on progress in developing the expenditure framework and to the Working Group on Indigenous Reform on progress on data issues
8. recommend to Heads of Treasuries appropriate institutional arrangements for annual reporting on Indigenous expenditure once the framework for reporting has been developed.

Overview

Despite the commitment of significant government expenditure over many years,¹ disparities between outcomes for Indigenous and non-Indigenous Australians persist (particularly in the areas of life expectancy, child mortality, educational attainment and economic participation). The reasons for these persistent gaps are complex, arising from a mix of historical, social and economic causes. Yet there is limited information with which to assess the adequacy, effectiveness and efficiency of expenditure on programs aimed at addressing these disparities.

The Indigenous Expenditure Report Steering Committee (the Steering Committee) — under the auspices of the Ministerial Council for Federal Financial Relations — has developed a National Framework for collecting and reporting government expenditure on services to Indigenous and non-Indigenous Australians. The National Framework is presented in this report for endorsement by the Council of Australian Government (COAG).

Estimating the Indigenous component of expenditure — especially for mainstream services — is a complex exercise that is new to most jurisdictions. As a consequence, it is likely to take time before all data achieve a level of reliability that enables meaningful reporting for all expenditure areas. Subject to COAG endorsement, further development work will be undertaken with the expectation the first *Indigenous Expenditure Report* will be produced in 2010. This report will include all data that are sufficiently reliable, as well as an assessment of the work and time required to address any remaining reporting gaps and areas for further data quality improvement.

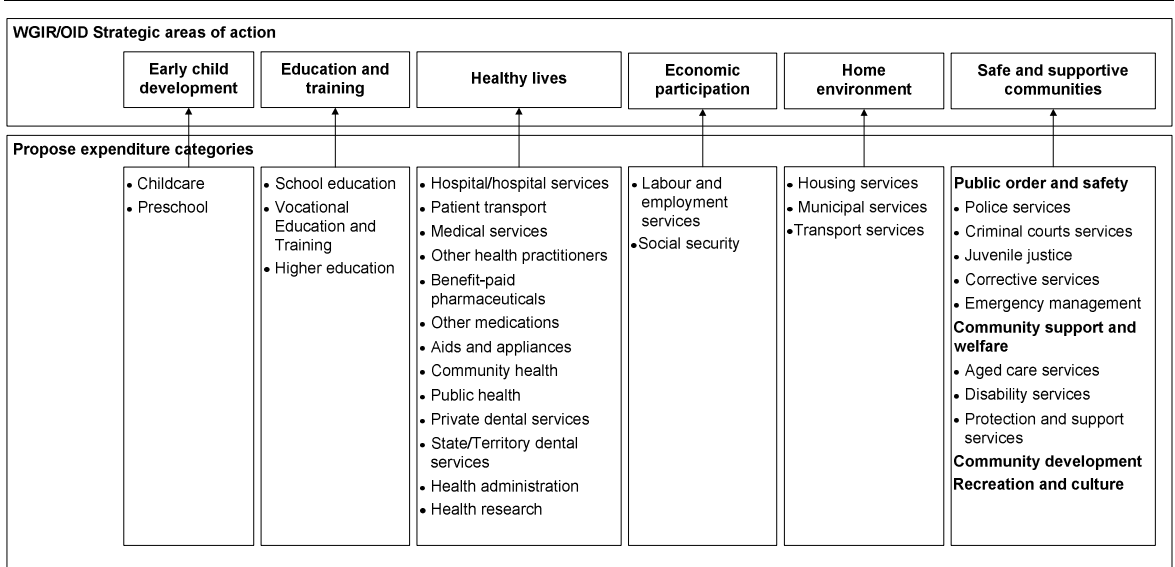
¹ For example, Commonwealth Government spending on Indigenous-specific initiatives between 1968-69 and 2006-07 has been estimated to have been at least \$60.5 billion (2006-07 dollars) (chapter 1, figure 1.1). This represents a lower bound of expenditure, as it does not include expenditure on mainstream Commonwealth services or expenditure by other levels of government.

What will the Indigenous Expenditure Report provide

The National Framework will enable the reporting of national estimates of government expenditure on services to Indigenous people that will be:

- *comparable* — the estimates will be comparable across jurisdictions and with data collected for other purposes that follow standard ABS classifications.
- *relevant* — the mapping of the National Framework to the Working Group on Indigenous Reform (WGIR) and *Overcoming Indigenous Disadvantage: Key Indicators* (OID) report frameworks will assist policy makers to formulate and assess government policy (figure 1). While initial mapping will be at a high level, more detailed linkages with outcomes might be possible over time. Expenditure estimates will also assist Commonwealth Grants Commission work.
- *reliable* — the commitment, as part of the methodology, to report on the quality of data and encourage ongoing data improvement (in collaboration with other exercises) means that the quality of estimates will be known, and that improvements to quality can be targeted. Basic sensitivity analysis will provide transparency to the published estimates. It is likely, however, to take time to achieve reliable data for all expenditure areas.
- *cost effective* — the proposed approach draws largely on existing expenditure data which will be apportioned between Indigenous and non-Indigenous expenditure. Although additional detail is required to map Government Purpose Classification (GPC) classifications to all WGIR strategic areas, this process will

Figure 1 Alignment of National Framework with WGIR/OID outcomes^a



^a See chapter 5 and appendix A for more detail.

be far less resource intensive than attempting to aggregate Indigenous expenditure from the program/service level. However, obtaining information to apportion expenditure between Indigenous and non-Indigenous people will require the commitment of resources by jurisdictions, data agencies and the secretariat.

- *timely* — an initial report on expenditure for 2008-09 is expected to be achievable in 2010. Subsequent reports should be possible on an annual basis for the previous financial year.

The National Framework estimates will be presented in an annual *Indigenous Expenditure Report* that will include:

- *presentation of expenditure estimates* — estimates by WGIR/OID strategic area and jurisdiction for Indigenous and non-Indigenous people of both absolute levels of expenditure and standardised comparators such as expenditure per person.
- *contextual information* — contextual information (such as relative levels of need and geographical location) that should be taken into account when interpreting the expenditure estimates.
- *description of the methodology* — an overview of the methodology, a commentary on how closely the data for each jurisdiction and service area follow the methodology, and statements regarding the overall quality and reliability of the data.

Although the task is complex and early reporting is likely to be limited in terms of scope and quality, the Steering Committee is confident that reliable data can be achieved over time. However, the support and commitment of all jurisdictions — particularly in the first years of development — are essential if the National Framework is to produce meaningful and useful estimates.

The National Framework

Expenditure framework principles

The Steering Committee developed the following high level principles to ensure that the National Framework will meet the needs of a wide range of data users:

- *A comprehensive approach* — The National Framework should provide a comprehensive collection that is sufficiently flexible to allow complex analysis, and be comparable to data collected for other purposes, by:

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- *including all types of government expenditure* — The framework considers government expenditure on both specific and mainstream services. It also takes into consideration the full breadth of government expenditure, to allow expenditure reported under the National Framework to be reconciled with expenditure data collected for other purposes.
 - *adopting the ABS Government Finance Statistics (GFS) Input Classifications* — Basing the National Framework on the established ABS classifications provides a high level of consistency with data collected for other purposes and reduces the administrative burden on jurisdictions’ treasury and finance departments (who are familiar with the ABS classifications)
 - *providing for levels of disaggregation that facilitate complex analysis* — Over time, it is expected that ongoing development of the National Framework allow data to be reported on a basis which facilitates meaningful policy analysis (for example, sub-jurisdiction, program/portfolio expenditure, age/sex). However, initial disaggregation will be at a high level.

The high-level National Framework can also be extended by other researchers for more detailed analysis, for example at the regional or community level, or by specific sub-populations of interest (such as women or young people).

- *Alignment with COAG Indigenous outcome reporting* — The National Framework should allow reporting on expenditure in a manner consistent with the aligned WGIR and OID strategic framework. There will, however, be limits on how closely the National Framework can be linked with *specific OID* outcome measures. The WGIR/OID outcome areas are not necessarily related to specific policy actions or services, which makes it difficult to reliably link all WGIR/OID indicators to specific government expenditure. A further separate body of work would be required to consider linkages between multiple policy actions/services and particular outcomes.
- *Reported results can be clearly interpreted* — The *Indigenous Expenditure Report* should be presented in a format that is useful to policy makers. This includes a clear link between expenditure and outcomes, an acknowledgement of other influencing factors and an explicit statement of the reliability of the estimates.

Methodology

Identifying the share of government expenditure that goes towards services to Indigenous people is not straightforward. Although expenditure on Indigenous-specific services can generally be identified, the proportion of expenditure on

mainstream services that relates to services to Indigenous people is not recorded methodically and must be estimated.

Figure 2 provides a broad overview of the methodology, which comprises three discrete steps:

- *expenditure data classification* — jurisdictions classify expenditure by the purpose of the expenditure (according to the COAG-endorsed WGIR/OID strategic areas for action), and separately identify any Indigenous specific programs and services. This provides an estimate of Indigenous-specific and mainstream expenditure by strategic area.

These allocation are not straightforward. Although jurisdictions are familiar with the ABS classifications, some categories of the GPC do not provide sufficient disaggregation to map to the WGIR/OID strategic areas for action. As a consequence, jurisdictions will be required to apportion data for a limited number of additional GPC sub-categories. In addition, most jurisdictions have not previously reported Indigenous specific expenditure by GPC.

Expenditure data classification will require liaison between jurisdictions to identify consistent definitions and guidelines, and within jurisdictions to obtain a better understanding of the data. Although the first draft of definitions and guidelines are expected to be agreed for the first report, reliable data may not be able to be reported for all expenditure areas or for all jurisdictions for some time.

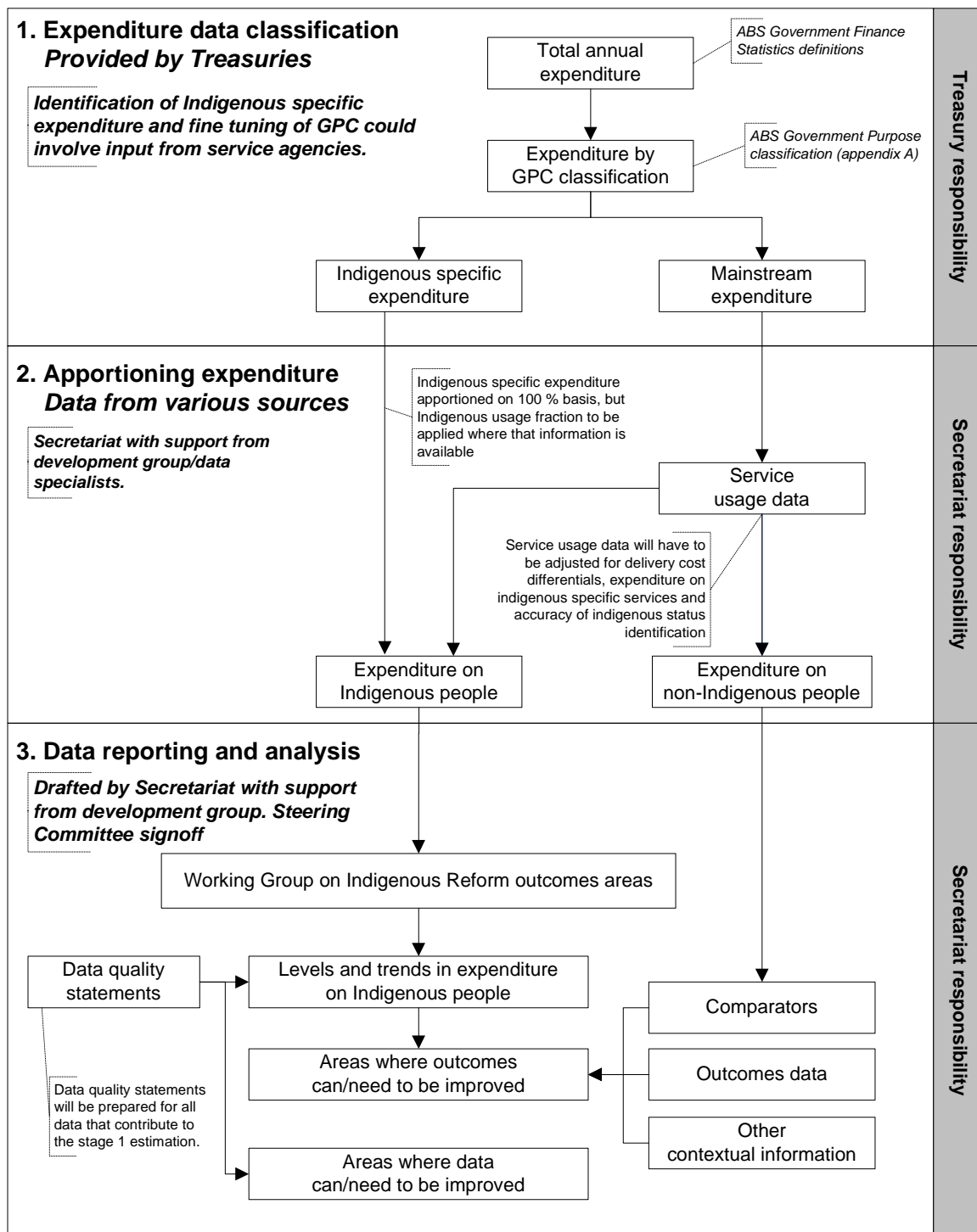
- *apportioning mainstream expenditure* — expenditure on mainstream services is apportioned between services provided to Indigenous and non-Indigenous people on the basis of service use.

Measures of service use provide a proxy of the distribution of costs (expenditure) among services users. For example, the proportion of Indigenous children enrolled in school can be used as a proxy for the share of total mainstream expenditure on schools that is directed toward services to Indigenous children.

Apportioning expenditure is anticipated to be difficult in practice, as the service use measure must have a demonstrated relationship to cost. Service use measures are likely to require adjustments for Indigenous *under-identification* (the degree to which service users do not identify as Indigenous) and *cost differential* (the extent to which the unit cost of providing services to Indigenous and non-Indigenous people varies).

- *Data reporting and analysis* — expenditure estimates will be reported in a format that is useful to policy makers. This includes a clear link between expenditure and outcomes as well as an acknowledgement of other ‘external

Figure 2 Overview of methodology^a



^a See chapter 4 for more detail.

factors' that might influence outcomes. This will help identify, at a high level, areas where further improvement might be possible, or where more detailed investigations are warranted.

However, as noted, the quality and scope of reporting are likely to be limited in early report. As a consequence, an important part of reporting will be to provide policy makers with a good understanding of the reliability of the data. Decisions related to the timing of policy decisions might also be improved by identifying remaining gaps in reporting and strategies addressing these gaps (or further improve data quality).

The way forward

The Steering Committee has conducted an initial survey of jurisdictions' ability to provide the required expenditure data as well as the sources (and quality) of potential service use measures (chapter 5, appendix B).

Expenditure data availability

Although all jurisdictions have provided data to the ABS following the GPC classification, a small number of extensions to the GPC are necessary to map to the WGIR/OID strategic areas for action.

Feedback from some jurisdictions suggest that it should be possible to provide expenditure data in the form required. However, not all jurisdictions were able to provide comprehensive responses in the time available. In other cases, the responses should be interpreted as *indicative*, because detailed data definitions and guidelines for classifying data have yet to be agreed.

A considerable amount of work will be required in 2009 to assist jurisdictions to provide the required data. The Steering Committee, in consultation with data experts from the jurisdictions, will need to develop nationally consistent definitions and guidelines. Jurisdictions will need to consult with their respective service agencies to gain a better understanding of their data.

The Steering Committee anticipates that a range of data will be reported in the first *Indigenous Expenditure Report*, but that in many areas development work will identify where further work is required. As noted previously, system and data deficiencies mean that the scope and quality of reporting for some jurisdictions may be limited in the short term.

A secondary benefit from this work will be that any improvements in data quality will also flow to the data provided to the ABS and will provide jurisdictions with a better understanding of their own data.

Service use data availability

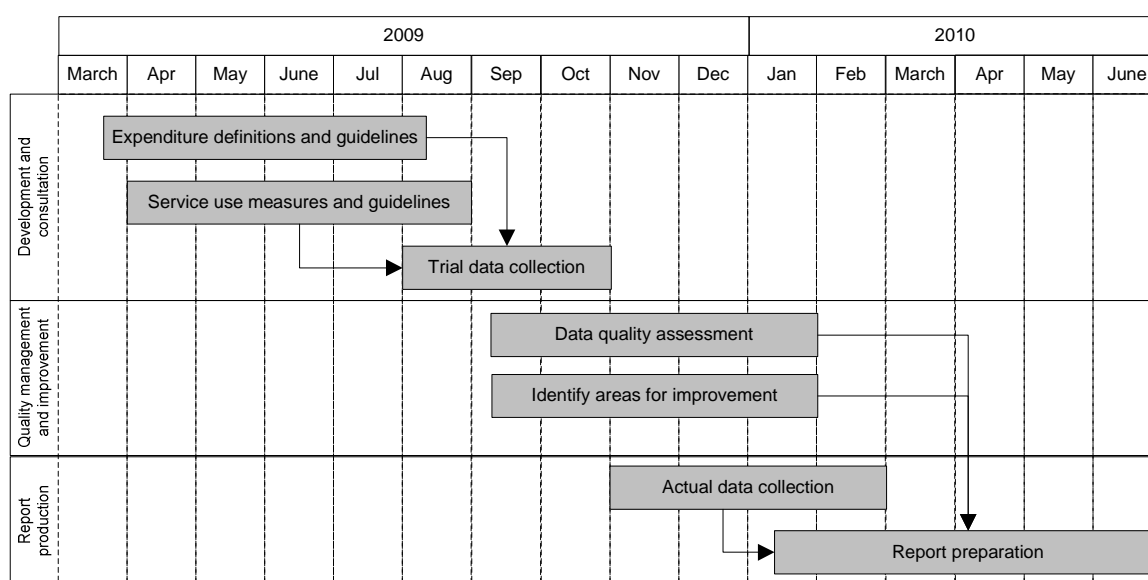
Although the choice of service use measures has yet to be finalised, the Steering Committee has examined a wide range of possible sources of data. Identifying appropriate service use measures will be difficult, and improving the quality of these measures could be a significant long term task. For some measures of service use, under-identification and cost differential information are unknown or of poor quality.

Improving the quality of the collections that are likely to be most useful for service use measures could require considerable resources, and might also require a high level of cooperation from the agencies that administer the respective collections. The Steering Committee will work closely with the WGIR, the COAG Reform Council and the Steering Committee for the Review of Government Service Provision on strategies to improve data collections that contribute to a range of national reporting exercises.

Report tasks and timeline

Figure 3 provides an overview of the major steps that must be completed to produce the first report (chapter 6). The estimated durations of these tasks are indicative, and are highly dependent on the complexity of the task and on the support and commitment of jurisdictions. Appropriate resourcing of this exercise is essential if

Figure 3 Indicative timelines for the major tasks of the first report cycle^a



^a See chapter 6 for more detail.

meaningful reporting is to be achieved within an acceptable time-frame. Some aspects of the National Framework will be resolved in a relatively short time, with the majority of ongoing work relating to improving the quality of data and reporting. The resource commitments of jurisdictions' treasury and finance departments are expected to reduce over time. However, there will be a need for continuing development of the National Framework and of data quality in subsequent reports.

The Steering Committee will put in place a process of continual improvement over a number of years, with priorities and strategies identified in the strategic planning phase at the beginning of each report cycle. This will help ensure that the report meets the needs of governments.

Consultation

To date, the Steering Committee and Secretariat have consulted within government, but have not consulted with other important stakeholders, particularly Indigenous people and their organisations. Further consultation within government is expected to be essential to develop definitions and guidelines for expenditure and service use data.

The Steering Committee considers it important to consult with potential users of the report and with Indigenous people on the purpose, underlying principles and methodology of the report. Subject to COAG endorsement of this stocktake report, the Steering Committee proposes a more structured consultation strategy specific to the IER (chapter 2).

