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# 1 Introduction

At its 20 December 2007 meeting, the Council of Australian Governments (COAG) agreed to report transparently on expenditure on services for Indigenous people. This commitment was progressed at the 14 January 2008 meeting of the Ministerial Council for Federal Financial Relations (MCFFR), with a decision to develop a national framework for reporting expenditure on Indigenous services (box 1.1).

The Indigenous Expenditure Report Steering Committee (the Steering Committee)<sup>1</sup> — which was established under the auspice of MCFFR in May 2008 — has developed a framework and methodology for collecting and reporting expenditure on services to Indigenous and non-Indigenous Australians. The National Framework is presented in this report for endorsement by COAG. Subject to COAG endorsement, further development work will be undertaken with the expectation that a report including initial estimates of expenditure on services to Indigenous Australians will be produced in early 2010.

This chapter reviews the importance of Indigenous expenditure information in the policy process (section 1.1). Section 1.2 provides an overview of the currently available information and discusses existing data gaps and limitations. In section 1.3, the role of the proposed Indigenous Expenditure Report (IER) is discussed, including how the IER will relate with other COAG reporting on Indigenous issues. Section 1.4 provides an outline of the remainder of the report.

## 1.1 The need for Indigenous expenditure information

The disparity between outcomes for Indigenous and non-Indigenous Australians — in particular, the gaps in life expectancy, child mortality, educational attainment and

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<sup>1</sup> The Steering Committee is chaired by the Commonwealth Treasury and has representatives from all Treasuries, the Commonwealth Department of Families, Housing, Community Services and Indigenous Affairs, the Ministerial Council for Aboriginal and Torres Strait Islander Affairs Secretariat, the Australian Bureau of Statistics, the Australian Institute of Health and Welfare, the Commonwealth Grants Commission and the Productivity Commission (which also provides the secretariat) (see page V for a list of current members).

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**Box 1.1 Extract from Ministerial Council for Federal Financial Relations  
Communiqué, 14 January 2008**

**Funding of services to Indigenous people**

Commonwealth and State and Territory Treasurers today further affirmed the importance of measuring the cost-effectiveness of Indigenous programs as a means of informing better policy making in Indigenous affairs. To facilitate this, Treasurers agreed that all jurisdictions will cooperate in the development of a national framework for reporting expenditure on Indigenous services.

The national framework will comprise expenditure by all jurisdictions, at both Commonwealth and State/Territory levels and will seek to include both Indigenous specific and mainstream spending on services for Indigenous Australians in areas such as: education; justice; health; housing; community services; employment; and other significant expenditure. In so doing, the focus will be in relation to on-the ground services.

The national framework will cover spending in relation to all funding sources, not just funding arising from the Commonwealth Grants Commission equalisation process. A report in accordance with the national framework will be provided to COAG annually, and an initial 'stocktake' report will be provided for the first COAG meeting in 2009.<sup>1</sup>

<sup>1</sup> The Ministerial Council subsequently requested the stocktake report be provided for the 'Closing the gap' COAG meeting in March 2009.

Source: MCFRR (2008), pp. 2–3.

economic participation — have been highlighted by a long list of studies (ANAO 2007; ABS and AIHW 2005, 2008; SCRGSP 2003, 2005, 2007). Although successive governments at all levels have implemented policies to address this disparity, gaps persist in many areas.

For example, the 2007 *Overcoming Indigenous Disadvantage: Key Indicators* report which observed trends in Indigenous outcomes, found that many Indigenous people had experienced improved employment outcomes and higher incomes. There had also been welcome improvements in some educational and health outcomes for Indigenous children. Yet, even where improvements had occurred, Indigenous people continued to do worse than other Australians — and many indicators showed little or no movement. In some areas, particularly criminal justice, outcomes for Indigenous people had deteriorated (SCRGSP 2007).

Reasons for these persistent gaps in outcomes are complex, arising from a mix of historical, social and economic causes (SCRGSP 2007). In response to this entrenched disadvantage, governments have spent significant amounts of money over many years, but often with little apparent effect. Yet there is only limited information with which to assess either the adequacy of expenditure (that is,

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whether enough money has been allocated to overcoming Indigenous disadvantage), or the effectiveness and efficiency of that expenditure (that is, whether government expenditure has contributed to improved outcomes, and whether it has done so without wasting resources). Better information about government expenditure on services to Indigenous Australians would improve governments' ability to:

- assess the priorities on the basis of which resources are allocated or should be allocated
- measure the efficiency of the delivery of services and identify opportunities to improve the delivery of services or reduce waste and duplication
- assess appropriate funding adjustments to achieve optimal service delivery (QSDPC 2007).

A first step is to collect robust expenditure data. Current availability of information varies across jurisdictions and across areas of service delivery. The NT Government has produced two comprehensive reports which identify expenditure on both Indigenous-specific programs and on Indigenous peoples' use of mainstream services (NT Treasury 2006; 2008). The Commonwealth and most other jurisdictions can identify Indigenous specific expenditure, but not expenditure on mainstream services used by Indigenous people.

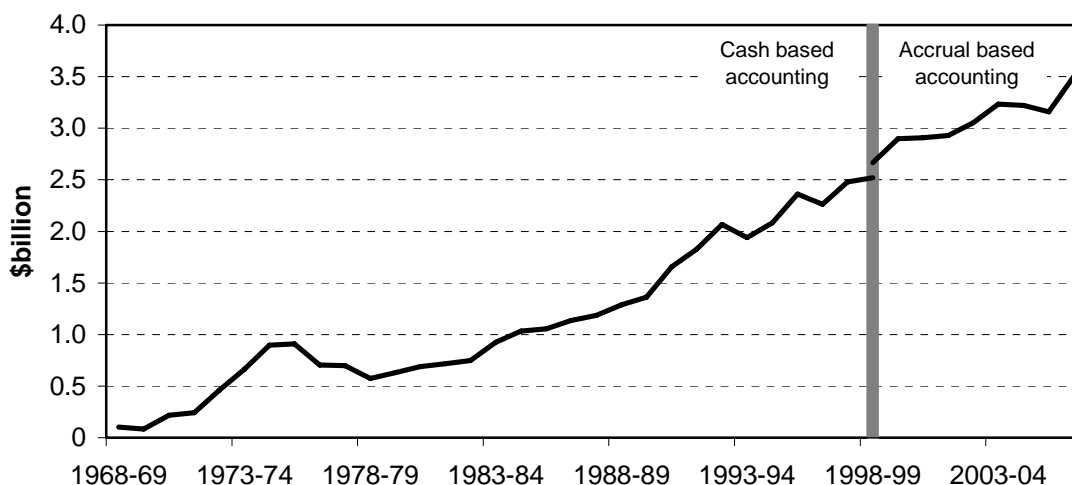
Gardiner-Garden and Park (2007) estimate that between 1968-69 and 2006-07, the Commonwealth Government spent at least \$60.5 billion (2006-07 dollars) on Indigenous specific initiatives (figure 1.1). This represents a lower bound of expenditure, as it does not include expenditure on mainstream Commonwealth services or expenditure by other levels of government.

In a review of the Whole of Government Indigenous Service Delivery Arrangements for Commonwealth departments, the Australian National Audit Office observed that:

While achievements have been made in developing whole of government priorities for Indigenous service delivery, reporting of the contribution of individual departments has not kept pace with the new way of working. Individual departments continue to plan and provide information within the Outcomes/Outputs framework concerning their individual expenditure on Indigenous programmes and activities. Under current reporting arrangements it is not possible to obtain a clear picture of whole of government Indigenous expenditure, and performance information relating to whole of government initiatives is either absent or poorly developed. (ANAO 2007, p. 23)

It is important to include expenditure on mainstream services that are (or could) be used by Indigenous people. Because Indigenous people, as a group, experience significant disadvantage relative to the rest of the Australian population, they are

Figure 1.1 Commonwealth Indigenous specific expenditure, 1968-69 to 2006-07(2006-07 dollars)



**Note:** Does not take Indigenous use of mainstream services or substitution of services between various levels of government into consideration.

Source: Gardiner-Garden and Park (2007).

important actual and potential users of many mainstream services that are provided on the basis of need. Three-quarters of the Indigenous population live in cities and regional areas, close to mainstream services. Shifting patterns of internal migration mean that in some regional areas, Indigenous people make up significant proportions of the population, and so are becoming the ‘mainstream’ for services in those areas.

In 2001, a Commonwealth Grants Commission report highlighted the need to examine the performance of mainstream services delivered to Indigenous people. This report found that, no matter where they lived, Indigenous people had ‘very much lower rates’ of usage of mainstream services:

It is clear from all available evidence that mainstream services do not meet the needs of Indigenous people to the same extent as they meet the needs of non-Indigenous people. (CGC 2001, p. XV)

Policy designed to overcome Indigenous disadvantage will be better formed and targeted if governments have a clearer picture of the impact that government expenditure on services to Indigenous people is having on outcomes by:

- *aiding the assessment of expenditure against need* — for example, by facilitating the comparison of the level of expenditure on services for Indigenous and non-Indigenous people

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- *providing a framework for cost-effectiveness studies* — the methodology could be extended to more detailed cost-effectiveness studies for individual jurisdiction or services
  - *improving the monitoring of the progress on Indigenous reform initiatives* — better Indigenous expenditure information would assist not only the Treasurers but also assist the Working Group on Indigenous Reform (WGIR) and the evaluation of progress in closing the gap initiatives.

The IER could also improve government accountability (through transparent reporting) and contribute to a more accurate distribution of the pool of Goods and Services Tax payments.

## **1.2 Limitations of existing information**

Some information is currently available on government expenditure on Indigenous services. These studies provide useful examples of what can be achieved using different methodologies for reporting expenditure, but also have limitations.

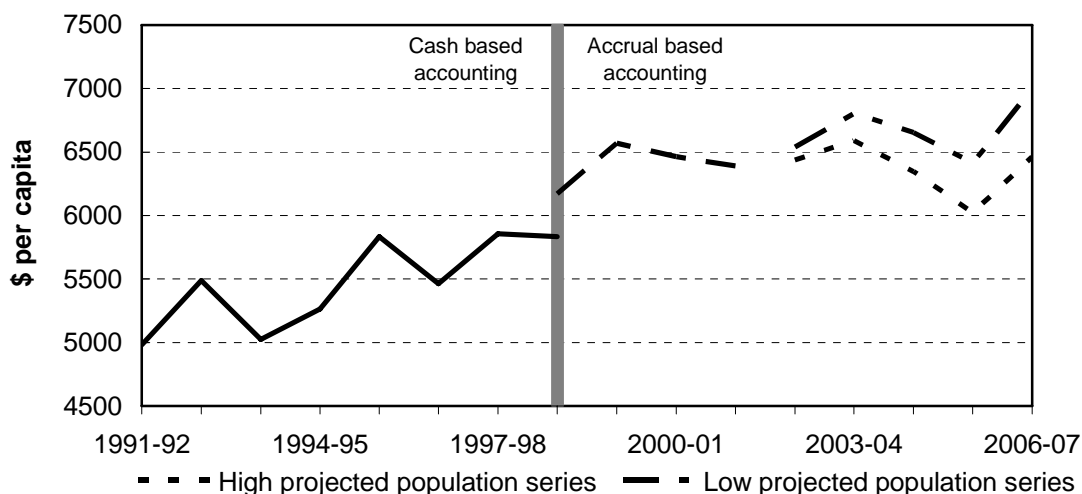
### **Estimates of Commonwealth Indigenous-specific expenditure 1968–2006**

Gardiner-Garden and Park (2007) provide a useful overview of Commonwealth expenditure in the area of Indigenous affairs over the 40 years from 1968 to 2008. Their paper focuses on Indigenous-specific expenditure, and highlights the limitations of a simple aggregation approach to estimating total expenditure.

The data are compiled from a wide range of published sources, including annual reports, research papers, budget papers and Ministerial Statements. As a consequence, the collection is influenced by the different methodologies and classifications under which the data were initially collected and reported.

An example of the type of data compiled by Gardiner-Garden and Park is provided in figure 1.2. As Gardiner-Garden and Park note, these data are not an accurate measure of government expenditure on services to Indigenous people because Indigenous use of mainstream services (which is substantial) and expenditure by other levels of government are not taken into consideration.

Figure 1.2 **Real identifiable Commonwealth Indigenous-specific expenditure per capita, 1991-92 to 2006-07 (2006-07 dollars)<sup>a, b</sup>**



<sup>a</sup> Does not take Indigenous use of mainstream services or substitution of services between various levels of government into consideration. <sup>b</sup> Based on ABS estimated and projected Indigenous population. The high projected population series assumes higher fertility and lower mortality than the low projected population series.

Source: Gardiner-Garden and Park (2007).

### **Australian Institute of Health and Welfare estimates of expenditures on health services for Aboriginal and Torres Strait Islander people**

Since 1998 the Indigenous health expenditure series of reports has estimated expenditures on direct health services for Aboriginal and Torres Strait Islander people. The series was initially commissioned by the then Commonwealth Department of Health and Family Services, with the support of all State and Territory health authorities. It was undertaken by the National Centre for Epidemiology and Population Health (Australian National University) and the AIHW.

The first report, covering data for 1995-96, was released in July 1998 (AIHW 1998). Subsequent reports covering data for 1998-99, 2001-02 and 2004-05 were released in 2001, 2005 and 2008 respectively (AIHW 2001, 2005, 2008). An example of the type of data provided by the AIHW Indigenous health expenditure series is provided in table 1.1.

The AIHW methodology collects data from the Australian Government, State and Territory governments and the non-government sector under its national health expenditure data framework. The AIHW apportions these data between expenditure

**Table 1.1 Total expenditures on health services for Indigenous and non-Indigenous people, by service, 2004-05**

	<i>Total expenditure</i>		<i>Expenditure per person</i>		
	<i>Indigenous</i>	<i>Non-Indigenous</i>	<i>Indigenous</i>	<i>Non-Indigenous</i>	<i>Ratio<sup>a</sup></i>
	\$m	\$m	\$	\$	
Hospitals	1 080.7	27 337.6	2 213	1 386	1.60
Public hospital services <sup>a</sup>	1 048.6	21 042.7	2 147	1 067	2.01
Admitted patient services	799.4	16 226.8	1 637	823	1.99
Non-admitted patient services	249.2	4 815.8	510	244	2.09
Private hospitals	32.1	6 295.0	66	319	0.21
High-level residential care	41.7	6 283.4	85	319	0.27
Patient transport	103.5	1 369.9	212	69	3.05
Medical services	164.6	14 483.5	337	734	0.46
Community health services	497.8	3 052.7	1 019	155	6.59
Dental and other health practitioners	78.0	7 811.8	160	396	0.40
Medications	109.4	11 056.4	224	561	0.40
Aids and appliances	18.6	2 591.4	38	131	0.29
Public health	88.9	1 350.3	182	68	2.66
Research	46	1 669.0	94	85	1.11
Health administration nec	74.6	2 254.5	153	114	1.34
<b>Total</b>	<b>2 304.0</b>	<b>79 260.4</b>	<b>4 718</b>	<b>4 019</b>	<b>1.17</b>
Government					
Australian Government	585.5	25 397.0	1 199	1 288	0.93
State and Territory governments	1 537.1	26 844.1	3 148	1 361	2.31
<b>Total Government</b>	<b>2 122.6</b>	<b>52 241.0</b>	<b>4 347</b>	<b>2 649</b>	<b>1.64</b>
Non-government	181.4	27 019.4	371	1 370	0.27
<b>Total</b>	<b>2 304.0</b>	<b>79 260.4</b>	<b>4 718</b>	<b>4 019</b>	<b>1.17</b>

<sup>a</sup> Ratio of Indigenous expenditure per person to non-Indigenous expenditure per person. <sup>b</sup> Public hospital services excludes any dental services, community health services, patient transport services, public health and health research undertaken by the hospital. **nec** Not elsewhere classified.

Source: AIHW (2008).

for services to Indigenous and non-Indigenous Australians, using weights for Indigenous use of services (adjusted for under-reporting and the cost differential of providing services to Indigenous people). Various methods are applied to estimate these parameters depending on data availability and whether the program services Indigenous people only or a mix of clients.

The AIHW methodology applies a consistent methodology to the data collection, which allows detailed disaggregation of data. The reports include expenditure by all levels of government and the non-government sector, and allows for reliable

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comparisons of expenditure on Indigenous and non-Indigenous Australians on a service and geographical basis.<sup>2</sup>

The AIHW Indigenous health expenditure series, by design, only measures expenditures on health services, which it defines as:

... all expenditures on goods and services that have the main objective of improving or maintaining health, or of reducing the effects of disease and injury. It does not include those expenditures that, as a secondary purpose, have an impact on health but whose main purpose is something other than health (such as water supply, sanitation or road safety) or expenditure on what can be referred to as the 'social determinants of health' (such as housing, education or poverty alleviation, etc.). (AIHW 2008, p. 44)

A characteristic of the AIHW approach is that higher-level estimates of expenditure are derived by aggregating the Indigenous share of expenditure for many different types of lower level services. This highly detailed data collection has been developed over 10 years and while this provides greater scope for analysis at lower levels, the complexity and size of such an undertaking would be impracticable for a national collection that aims to identify the Indigenous share of all government expenditure.

## **The Northern Territory Indigenous expenditure reviews**

Indigenous expenditure reviews were conducted by the NT Treasury in 2006 and 2008 with the objective of informing:

... the ongoing and important debate about government spending on services for Indigenous people by providing a robust and transparent estimate of Northern Territory Government expenditure and revenue that is related to the Territory's Indigenous population. (NT Treasury 2008, p. 5)

The 2008 NT review notes that, despite Indigenous people representing around 30.4 per cent of the NT population, '... Indigenous people are disproportionately high users, in some cases dominant users, of mainstream government services in the Territory' (NT Treasury 2008, p. 6). The NT methodology attributes more than half of the Territory's expenditure to services for Indigenous people (table 1.2).

The NT reviews provide a useful example of what can be achieved in terms of identifying the Indigenous related component of expenditure across a broad range of mainstream services.

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<sup>2</sup> The AIHW includes non-government expenditure which it estimated to be around 8 per cent of total health expenditure for Indigenous Australians and 34 per cent for non-Indigenous Australians in 2004-05 (AIHW 2008, p. 63).

Table 1.2 **Estimate of NT expenditure related to the Indigenous population 2006-07**

	Agency expenditure	Agency share of total NT expenditure	Indigenous related expenditure	
			Share of agency expenditure	Total estimated expenditure
	\$m	%	%	\$m
Human services agencies	1 950.2	62.8	56.4	1 099.2
Economic services agencies	541.5	17.4	43.2	234.1
Support agency	142.3	4.6	50.9	72.5
Central agency	473.2	15.2	46.9	221.7
<b>Total</b>	<b>3 107.2</b>	<b>100.0</b>	<b>52.4</b>	<b>1 627.5</b>

Source: NT Treasury (2008).

### **Commonwealth Grants Commission state revenue sharing relativities**

The Commonwealth Grants Commission (CGC) Goods and Services Tax (GST) sharing methodology incorporates a recognition of expenditure on Indigenous people (including an assessment of differences in the costs of providing services to Indigenous and non-Indigenous people) (table 1.3).

Expenditure on services to Indigenous people are estimated on the basis of Indigenous use of services and unit cost differences that arise from socio-demographic characteristics, their culture and lifestyles and where they live. These estimates were the basis for redistributing \$1.4 billion of the \$3.6 billion that was redistributed for 2008-09.

## **1.3 Role of the national framework**

The IER will provide Australian, State and Territory governments with a better understanding of the level and patterns of expenditure on Indigenous people. The proposed framework for the report, although primarily for national reporting, has been designed to allow jurisdictions to further disaggregate reporting for more detailed analysis (for example, at a regional or community level). In addition, the alignment of the proposed framework for the report with other national reporting exercises, such as the *Overcoming Indigenous Disadvantage: Key Indicators* report (OID report), will facilitate analysis of the relationship between levels and patterns of expenditure and high level outcomes.

**Table 1.3 Estimated expenditure per Indigenous and non-Indigenous person, 2006-07**

<i>Service</i>	<i>Indigenous</i>	<i>Non-Indigenous</i>	<i>Ratio</i>	<i>Method and data source</i>
	\$person	\$person		
Schools	2 740	1 210	2.26	Based on lower Indigenous age based enrolment rates derived from ABS Schools Collection and a unit cost differential of 1.391 derived from data provided by NSW, SA and the NT
Vocational education and training	540	240	2.25	Based on higher Indigenous use rate of 2 derived from NCVET annual contact hour data and estimated unit cost differential of 1.1 (data are presently being collected from States)
Admitted patients <sup>a</sup>	2 150	1 010	2.13	Uses AIHW data on expenses for Indigenous and non-Indigenous services
Community and other health services	1 660	530	3.13	Uses AIHW data on expenses for Indigenous and non-Indigenous services
Welfare services	1 530	410	3.73	Based on differences in use rates derived from a range of administrative data set, including Commonwealth pensioner data, HACC and CSTDA data and State provided data
Housing <sup>b</sup>	800	80	10.00	Based on cost weighted user data derived from FaCSIA Annual Report 2004-05 and ABS Housing and Infrastructure in ATSI Communities 2006
Justice services	3 130	540	5.80	Based on Indigenous and non-Indigenous use rates derived from National Police Custody Survey(AIC), State provided criminal court data and ABS Prisoners Australia

<sup>a</sup> Included admitted patients to public hospitals, nursing homes for the aged and psychiatric hospitals. <sup>b</sup> Net of rent.

Source: Unpublished information provided by the Commonwealth Grants Commission.

## Indigenous expenditure report

An annual publication will be produced to report the estimated expenditure on services for Indigenous and non-Indigenous people. This report will include:

- *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

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- *presentation of expenditure estimates* — estimates by strategic area and jurisdiction for Indigenous and non-Indigenous people both of absolute levels of expenditure and of standardised comparators such as expenditure per person
  - *contextual information* — contextual information that should be taken into account when interpreting the expenditure estimates.

Where relevant, the report will also include some outcome information from aligned reports such as the OID report (box 1.2).

### **Alignment with other reporting**

The proposed report framework is based on the ABS Government Purpose Classification (GPC) and the aligned WGIR and OID report framework, which was endorsed by COAG in November 2008 (COAG 2008). The proposed report framework will allow data collected under these other frameworks to be readily compared with data collected for the IER.<sup>3</sup> This includes, for example, data collected for Commonwealth Grants Commission purposes and ABS Government Finance Statistics (GFS). The alignment of these frameworks is discussed in greater detail in chapters 3, 4 and appendix A.

The IER will not replace existing reports that provide more detailed monitoring of expenditure in specific areas (such as the AIHW estimates of expenditures on health services for Aboriginal and Torres Strait Islander people). Nor will it replace data collections such as the ABS GFS collection.

### **A framework for more detailed analysis**

The National Framework is designed primarily to facilitate estimation and reporting of data that are consistent and comparable across all jurisdictions. For pragmatic reasons, there is a limit to the level of detail that can be collected and reported on a national basis. The framework can be adapted by individual jurisdictions or studies to generate more detailed estimations (for example, small area studies) that can be compared to the state or national averages. To facilitate this, all published data will be made publically available on request.

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<sup>3</sup> Data will be grouped under the same classifications at some level of aggregation, and users will be able to understand the reason for any differences in estimates that might exist.

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## Box 1.2 Outcome reporting to COAG

*Overcoming Indigenous Disadvantage: Key Indicators report (OID report)* — The OID report is produced by the Steering Committee for the Review of Government Service Provision (SCRGSP) at the request of COAG for regular reports on key indicators of Indigenous disadvantage. The reporting framework has two tiers: ‘headline’ indicators for the longer term outcomes sought; and a second tier of ‘strategic change indicators’ that are potentially responsive to government policies and programs in the shorter term.

In 2008, COAG adopted six ‘closing-the-gap’ targets, which represent the ultimate objectives all Australian governments have for Indigenous people. To meet these targets, COAG has determined that it is necessary to establish a number of areas for particular attention, known as Building Blocks.

*Report on Government Services (RoGS)* — The RoGS was commissioned by Heads of Government (now COAG) in 1993 to:

- provide ongoing comparisons of the performance of government services
- report on service provision reforms that governments have implemented or that are under consideration.

The focus of the report is on the equity, effectiveness and efficiency of specific government services. In 1997, the Prime Minister requested the SCRGSP to give particular attention to measuring the performance of mainstream services provided to Indigenous Australians. Since 2003, a separate annual Indigenous Compendium has collated all the Indigenous data from the report.

*National Performance Reporting Framework agreed by COAG in November 2008* — Indigenous specific outcomes are contained in the COAG National Agreements. Under the new National Performance Reporting Framework, the COAG Reform Council (CRC) will produce annual reports containing the data on the performance indicators specified in the National Agreements, as well as its own comparative analysis of the performance of governments in meeting the objectives of the Agreements.

There is a National Agreement on Indigenous Reform, which includes indicators that have been identified by the Working Group on Indigenous Reform that are required to track progress towards the closing the gap targets, as well as the performance indicators relevant to Indigenous people that are contained in the other National Agreements. Data on these indicators will be included in the CRC reports.

## 1.4 Report outline

The remainder of this report presents the Steering Committee’s proposed approach to national Indigenous expenditure reporting for COAG endorsement.

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- *governance and liaison frameworks (chapter 2)* — The Steering Committee’s proposed governance and liaison frameworks are presented in chapter 2. Further development and reporting against the proposed framework will involve the commitment of resources and participation of all jurisdictions. The Steering Committee also strongly supports active consultation with key stakeholders, particularly Indigenous people and their representatives.
  - *expenditure framework principles (chapter 3)* — The Steering Committee’s guiding principles to underpin the long-term strategic development of the report are presented in chapter 3. The proposed national framework seeks to anticipate the information requirements of a wide range of stakeholders and potential report uses. Collecting data to meet all these requirements will require iterative improvement in the report over time.
  - *reporting methodology (chapter 4)* — The technical aspects of the methodology, including how expenditure data will be collected, apportioned and reported, are summarised in chapter 4.
  - *Available information and data gaps (chapter 5)* — A stocktake of the current availability and quality of expenditure and usage data is presented in chapter 5. This chapter also includes a discussion of how data gaps will influence the content of reports in the short and medium term.
  - *Future directions (chapter 6)* — The key next steps and milestones going forward are described in chapter 6. This chapter includes a timeline to the first report containing data, and some guidance as to the anticipated content of that report. There is also a discussion of what might be expected from the report in the longer term and how ongoing improvement can be facilitated.

