
4 Reporting methodology

This chapter provides an overview of the Steering Committee’s proposed methodology for estimating government expenditure on services to Indigenous people under the National Framework. Identifying the share of government expenditure that goes towards services to Indigenous people is not straightforward. Many services that benefit Indigenous people are mainstream services, where the share of expenditure that ultimately benefits Indigenous people is not explicitly recorded. Knowledge about mainstream expenditure is necessary to obtain a full picture of expenditure on services to Indigenous people. As noted in the 2006 NT Review:

Attempting to construct an estimate of Indigenous-related spending based solely on the identification of Indigenous specific programs would therefore result in a significant underestimation of relevant expenditure. (NT 2006, p. 4)

As a consequence, a comprehensive measure of expenditure on services for Indigenous people must involve a process of estimation, not just a simple aggregation of expenditure from Indigenous-specific programs and services.

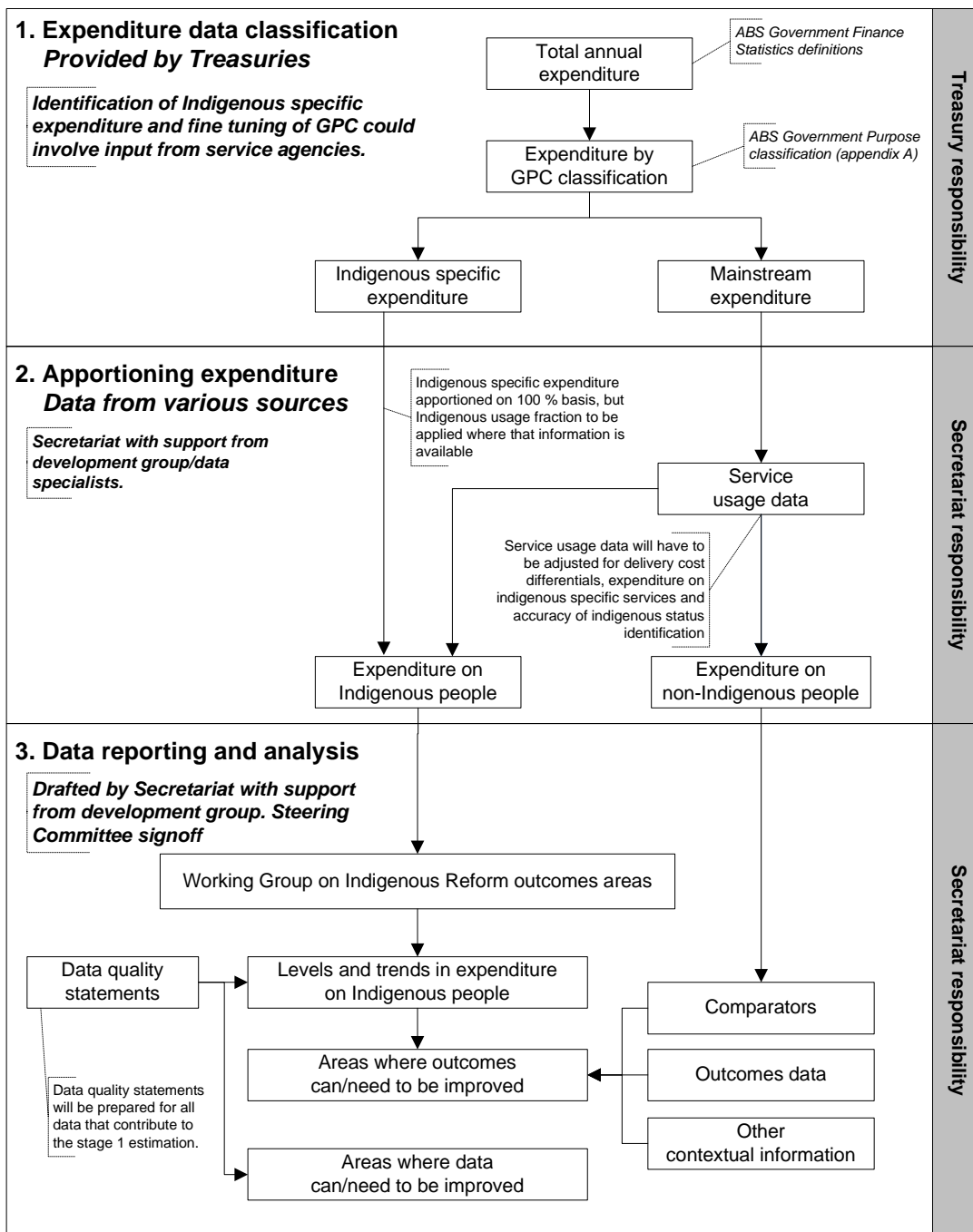
4.1 Allocating expenditure to service categories

Services to Indigenous people are provided through a combination of targeted and mainstream services. Expenditure on Indigenous-specific services can generally be assumed to be exclusively for the benefit of Indigenous people.¹ The proportion of expenditure on mainstream services that relates to services to Indigenous people is not recorded methodically and must be estimated. Figure 4.1 provides a broad overview of the methodology, which comprises three discrete processes:

- *expenditure data classification* — expenditure data are classified, and expenditure on Indigenous specific programs and services is identified (section 4.1)
- *apportioning mainstream expenditure* — expenditure on mainstream services is apportioned between services provided to Indigenous and non-Indigenous people (section 4.2)

¹ There can, however, be some use of these services and programs by non-Indigenous people in particular locations (for example, health services in remote communities).

Figure 4.1 Overview of methodology



- *reporting results* — the results are reported in a contextualised format that is useful to policy makers (chapter 3, section 3.3).

The first step in the proposed methodology is for jurisdictions (under the coordination of their respective Treasuries) to allocate their total expenditure across the ABS *Government Purpose Classification (GPC)*, which provides an established

framework of definitions and classifications for coding and analysing government expenditure.

Jurisdictions are familiar with the GPC, which they use to provide data for the ABS *Government Finance Statistics* collection. However, as discussed in chapter 3, some categories of the GPC do not provide sufficient disaggregation to map to the Working Group on Indigenous Reform (WGIR) strategic areas for action. Jurisdictions will be required to apportion data for a limited number of additional GPC+ categories (appendix A).

The second step is to identify — for each expenditure purpose classification — that expenditure which relates to Indigenous-specific services or programs. As a first approximation, expenditure on these programs will be assumed to be solely for the benefit of Indigenous people. However, where information on the non-Indigenous use is available, this fraction will be applied.²

The third step (discussed below) is to estimate the Indigenous share of expenditure on mainstream services.

The ability of jurisdictions to provide data consistent with the GPC/GPC+ varies (chapter 5). The Steering Committee will assist jurisdictions in this reporting by developing collections manuals, definitions and agreed approaches for determining allocations by GPC/GPC+ category, and guidelines for identifying Indigenous-specific expenditure. These support materials will provide a national approach toward which the report should aspire over time, and a set of standards against which the approach of each jurisdiction can be assessed.

4.2 Apportioning mainstream expenditure

The Indigenous share of expenditure on mainstream services is rarely explicitly recorded and must be estimated on the basis of service use. Measures of service use provide a proxy of the distribution of costs (expenditure) among services users. Where possible, the service use measures should be adjusted for:

- *under-identification* — the degree to which service users do not identify as Indigenous. For example, a person's Indigenous status might not always be asked as part of the service process. Alternatively, there might be a disincentive for service users to identify their Indigenous status.

² Non-Indigenous use of Indigenous specific programs can be large. In 2004-05, approximately 12 per cent of Australian government expenditure through Aboriginal Community Controlled Health organisations was for services to non-Indigenous people (AIHW 2008).

- *cost differential* — the extent to which the cost of providing services to Indigenous and non-Indigenous people varies. The provision of services to Indigenous people might be more costly ‘on average’ if Indigenous people are disproportionately located in remote areas, or if Indigenous service users have additional service needs (such as language difficulties) regardless of their location.

Box 4.1 **Apportioning public hospital admitted patient services expenditure in NSW**

The AIHW estimated that the Indigenous share of expenditure on admitted patient services in NSW public hospitals was \$174.4 million in 2004-05. This estimate was derived using the following broad model:

$$\text{Indigenous share of expenditure} = \text{Total expenditure} \times \text{Service use factor} \times \text{Under-identification factor} \times \text{Cost differential factor}$$

The key variables are:

- *total admitted patient services expenditure (\$598 million)* — provided from the AIHW National Health Expenditure collection.
- *service use factor (2.46 per cent)* — The Indigenous share of recorded cost weighted hospital separations (35 860/1 459 277*100).^a Using the share of cost weighted hospital separations allows for the fact that different types of separations have different costs (for example, a dialysis separation in a country hospital compared to a heart transplant separation in a teaching hospital).
- *under-identification factor (1.13)* — AIHW completed an assessment of the level of Indigenous under-identification in public hospital admitted patient separations which for NSW public hospitals suggested an under-identification factor of 13 per cent (AIHW 2008).
- *cost differential factor (1.05)* — AIHW analysis in the last three indigenous health expenditure reports suggest there was a cost differential on average, 5 per cent more to provided admitted patient hospital services to an Indigenous person. The second and third Indigenous health expenditure report (AIHW 2001, 2005) explored the cost differential.

$$\begin{aligned} \text{Indigenous share of expenditure} &= \$598 \text{ million} \times 0.0246 \times 1.13 \times 1.05 \\ &= \$174.4 \text{ million} \end{aligned}$$

^a The Indigenous service use factor is derived from AIHWs Hospital Morbidity Costing Model and differs somewhat from the service usage factor that would be derived from Diagnostic Related Group cost weights.

Source: Unpublished Information provided by the AIHW. (AIHW 2001, 2005, 2008)

The basic apportioning model is illustrated by an example from Australian Institute of Health and Welfare (AIHW) *Expenditures on Health for Aboriginal and Torres Strait Islander People* report series (box 4.1).

Service use measures

The Steering Committee's initial investigations suggest that a number of existing data collections could provide relevant service use measures (chapter 5, appendix B). However, the relationship between service use measures and service costs is complicated, and more work is required to identify appropriate service use measures.

Box 4.2 provides examples of the types of service use measures that could be used for some of the key GPC/GPC+ categories that map to WGIR strategic areas for action.

Under-identification

After appropriate service use measures have been identified, further work will be required to identify and/or account for the degree of Indigenous under-identification. Accurate information on under-identification can be expensive to ascertain and difficult to extrapolate. In practice, for some service areas, this information could be based on expert judgement or on the known experience in similar services.

Improving Indigenous identification will require the cooperation of agencies and bodies responsible for administering the collections from which service use measures are drawn.

Cost differentials

For most mainstream services, it is currently very difficult to identify the magnitude of any differences in the cost of providing services to Indigenous and non-Indigenous people. Currently:

- *relatively little work has been done in this area* — to date, there has been little research into cost differentials across Australia in many service areas. The Steering Committee has identified relevant work by the Commonwealth Grants Commission on cost 'impediments' which could be usefully built upon.

Box 4.2 Indicative service use measures

- WGIR early child development strategic areas of action:
 - *child care services* — The representation of Indigenous children in Australian Government approved child care services at an agreed point in time during the year.
 - *pre-school services* — The representation of Indigenous children enrolled in State and Territory funded or provided preschools at an agreed point in time during the year.
- WGIR education and training strategic areas of action:
 - *compulsory school education* — The representation of Indigenous students aged 5 to 15 years who are enrolled in educational institutions, adjusted for attendance where possible.
 - *non-compulsory school education* — The representation of Indigenous students in enrolment, attendance and attainment rates for year 11 and 12 schooling.
 - *vocational education and training (VET)* — The representation of Indigenous students enrolment and attainment rates for vocational education and training education institutions.
 - *higher education* — The representation of Indigenous students enrolment and attainment rates for tertiary education institutions.
- WGIR economic participation strategic areas of action:
 - *Employment services* — The ideal measure of service use in this area would be the number of Indigenous and non-Indigenous clients that each service had seen over a year. The appropriate measure is the number of clients not the number of interactions per client.
 - *Social security* — To measure Indigenous and non-Indigenous service use of transfer payments, an Indigenous identifier for all clients will be needed. The type of payment as well as the frequency and amount of payments may also be needed for cost differential measures and to categorise different transfer payment types against various building block areas.

- *many factors can influence cost differentials* — many factors can create cost differentials for each program or service area. These can vary across jurisdictions and even between small areas.³

³ One of the main issues with calculating cost differentials will be separating which service costs are related to factors such as location, and which service costs are associated with Indigenous status of service users. For example, the more remote an area is, the higher the cost of service delivery is likely to be, regardless of the Indigenous status of service users. However, a larger proportion of Indigenous people than non-Indigenous people live in remote communities. An issue to resolve is the extent to which remoteness *per se* should be considered in cost differentials between Indigenous and non-Indigenous people.

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- *identifying appropriate data sources can be difficult* — to date, the Steering Committee has identified few relevant data sources. Given the range of influences that could potentially affect cost differentials, targeted research projects may be required in specific service areas to identify cost drivers (for example, targeted activity-based costing surveys).

Accounting for cost differentials will be one of the most challenging aspects of reporting on Indigenous expenditure and has been identified by the Steering Committee as part of a process of continual improvement over time.

Addressing data gaps

Improving the quality of administrative data collections that could provide service use measures, and accurate, up-to-date estimates of Indigenous under-identification in these collections would have a significant influence on the overall quality of Indigenous expenditure estimates.

Improvements in many of these collections have also been identified as a priority by the COAG WGIR (WGIR 2008, *Closing the Data Gaps*, unpublished), the Steering Committee for the Review of Government Service Provision (SCRGSP 2007), the Advisory Group on Aboriginal and Torres Strait Islander Statistics (ABS 2007) and the ABS and AIHW (2005). The Steering Committee anticipates working closely with these other bodies to coordinate data improvement strategies.

