

Frequently asked questions

2012 Indigenous Expenditure Report

What is the purpose of the Indigenous Expenditure Report?

The disparity between outcomes for Indigenous and non-Indigenous Australians has been an ongoing concern for governments at all levels, Indigenous Australians and many members of the general community. Yet there has been limited information for assessing the adequacy, effectiveness and efficiency of expenditure on programs aimed at improving outcomes for Indigenous Australians. The Indigenous Expenditure Report contributes to the evidence base available to interested parties (including Indigenous Australians), by providing information on the levels and patterns of government expenditure on services provided to Indigenous Australians.

The Report provides estimates for 86 expenditure categories, mapped to six broad service areas — early child development, and education and training; healthy lives; economic participation; home environment; safe and supportive communities; and other government services — that align, at a high level, to the Closing the Gap building blocks.

For more information, refer to chapter 1 of the Report.

How will the Indigenous Expenditure Report make a difference to Indigenous Australians?

The Report is not expected to affect outcomes for Indigenous Australians directly — rather, it provides an additional tool to assist policy makers to shape government policy, and to allow other interested parties to hold governments to account.

The Report provides estimates of government expenditure across key outcome areas such as: education; justice; health; housing, community services; employment; and other government services. Information about the levels and patterns of government expenditure on services related to Indigenous Australians can help those developing and assessing policies to Close the Gap in Indigenous disadvantage.

For more information, refer to chapter 1 of the Report.

How does the Report estimate Indigenous expenditure?

Government services related to Indigenous Australians are provided through a combination of Indigenous specific (targeted) and mainstream (available to all Australians) services. While expenditure on Indigenous specific services can generally be assumed to relate exclusively to Indigenous Australians, the proportion of expenditure on mainstream services that relates to Indigenous Australians is often not recorded systematically, and has been estimated for the purpose of the Report.

The Indigenous Expenditure Report approach to estimating expenditure on services related to Indigenous Australians involves two stages:

- identification of total expenditure by service area and, where applicable, total expenditure for Indigenous specific programs and services

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- proration (or allocation) of mainstream (that is, non-Indigenous specific) expenditure between Indigenous and non-Indigenous Australians. To allocate mainstream expenditure, the Report uses measures of service use that are closely related to service cost drivers (for example, the number of students enrolled in secondary schools).

The *2012 Indigenous Expenditure Report* is the second in a series. The estimation method used in this report builds on the work undertaken for the 2010 Report, with a number of major improvements. These improvements mean that the estimates in the 2012 Report are not comparable to the estimates in the 2010 Report.

The Report represents the best collective effort of the jurisdictions. However, estimating Indigenous expenditure is complex, and many data quality and methodological challenges are yet to be resolved. Interpreting the estimates requires an understanding of the strengths and limitations of the method and data (chapter 2), and the context within which Indigenous services are provided (chapter 3).

For more information, refer to chapter 2, and the *Expenditure Data Manual and Service Use Measure Definitions Manual*, available from the project website: www.pc.gov.au/ier.

What does the Report tell us about government expenditure on Indigenous Australians?

The *2012 Indigenous Expenditure Report* estimates that:

- total direct Indigenous expenditure in 2010-11 amounted to \$25.4 billion, accounting for 5.6 per cent of total direct government expenditure. Indigenous Australians make up 2.6 per cent of the population
 - the Australian Government accounted for \$11.5 billion (45 per cent) of Indigenous direct expenditure, with the remaining \$13.9 billion (55 per cent) provided by State and Territory governments
 - mainstream services accounted for \$19.9 billion (78 per cent) of Indigenous direct expenditure, with the remaining \$5.5 billion (22 per cent) provided through Indigenous specific (targeted) services
- estimated expenditure per head of population was \$44 128 for Indigenous Australians, compared with \$19 589 for non-Indigenous Australians in 2010-11, (a ratio of 2.25:1). The \$24 538 per person difference reflected the combined effects of:
 - greater intensity of service use (\$16 109 or 66 per cent) — Indigenous Australians use more services per capita because of greater need, and because of characteristics such as the younger age profile of the Indigenous population
 - additional costs of providing services (\$8429 or 34 per cent) — it can cost more to provide services to Indigenous Australians if mainstream services are more expensive to provide (for example, because of location), or if Indigenous Australians receive targeted services in addition to mainstream services (for example liaison officers in hospitals).

The printed report provides estimates of expenditure on six broad categories of services that relate to the COAG building blocks. At a national level, in 2010-11:

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- *early child development, and education and training* — an estimated \$2.44 was spent per Indigenous Australian for every dollar spent per non-Indigenous Australian
- *healthy lives* — an estimated \$2.02 was spent per Indigenous Australian for every dollar spent per non-Indigenous Australian
- *economic participation* — an estimated \$1.96 was spent per Indigenous Australian for every dollar spent per non-Indigenous Australian
- *home environment* — an estimated \$2.16 was spent per Indigenous Australian for every dollar spent per non-Indigenous Australian
- *safe and supportive communities* — an estimated \$4.50 was spent per Indigenous Australian for every dollar spent per non-Indigenous Australian
- *other government expenditure* — an estimated \$1.19 was spent per Indigenous Australian for every dollar spent per non-Indigenous Australian.

More detailed estimates for 86 expenditure categories by level of government are available electronically from the project website.

For more information, refer to the Report Overview, and each building block chapter.

Why can it cost more to provide services to Indigenous Australians?

On average, direct expenditure per head of population for Indigenous Australians (\$44 128) was \$24 538 higher than direct expenditure per head of population for non-Indigenous Australians (\$19 589). Around \$8429 (34 per cent) of this difference was due to additional costs of providing services. These additional costs have two components:

- *mainstream service cost differentials* — any additional cost of providing mainstream services to Indigenous Australians, for reasons such as location, culture and language. For social security payments, mainstream service cost differentials reflect differences in the average payment to Indigenous and non-Indigenous recipients when assessed against eligibility criteria
- *Indigenous specific services that complement mainstream services* — services that Indigenous Australians use in addition to a mainstream service; for example, Indigenous student counsellors in schools.

For more information, refer to chapters 2 and 3 of the Report.

Why do Indigenous Australians use some services more intensively?

On average, direct expenditure per head of population for Indigenous Australians (\$44 128) was \$24 538 higher than direct expenditure per head of population for non-Indigenous Australians (\$19 589). Around \$16 109 (66 per cent) of this difference was due to greater intensity of service use. Intensity of service use has two components:

- *Indigenous use of mainstream services* — the estimated Indigenous share of mainstream expenditure is proportional to Indigenous use of mainstream services.

The per capita intensity of service use is higher if, on average, Indigenous Australians tend to use more services than non-Indigenous Australians — either because of greater

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individual need, or because a higher proportion of the Indigenous population belongs to the age group likely to use those services

- *Indigenous specific services that substitute for mainstream services* — these are services that Indigenous Australians use instead of a similar mainstream service.

For more information, refer to chapters 2 and 3 of the Report.

How reliable are the estimates?

The Report represents the best collective effort of the jurisdictions. However, users of the estimates should be aware of the following potential issues:

- *report scope* — the Report includes estimates of Australian Government, and State and Territory government expenditure, including payments to local governments. However, it does not include expenditure by local governments
- *assumptions underpinning the model* — the Report method involves a number of assumptions, which affect how estimates should be interpreted
- *data quality* — the Report draws on the best available data from many sources. However, in some cases, required data were not available, or were of relatively poor quality.

The Steering Committee uses the following methods to explain and improve the estimates:

- *data quality statements* — any potential sources of uncertainty in data are highlighted by providing data quality statements for all major data sources, using the Australian Bureau of Statistics data quality framework
- *subjective assessment of the reliability of model estimates* — the Steering Committee has undertaken a subjective assessment of the reliability of the major parameters underpinning the estimates in the report. These are presented in appendix B of the report.
- *continual improvement* — the Steering Committee will continue to work with governments and data agencies to improve the quality of the estimates over time.

For more information, refer to chapter 2 and appendix B of the Report, and the Service Use Measure Definitions Manual, which are available from the project website: www.pc.gov.au/ier.

Why is it difficult to compare expenditure across jurisdictions?

Although the Indigenous Expenditure Report provides estimates for all jurisdictions, several factors influence the comparability of the estimates. These include:

- jurisdictions' inconsistent identification of Indigenous specific services
- jurisdictions' inconsistent allocation of expenditure to the agreed framework of expenditure categories
- the organisation of services within jurisdictions (that is, whether services are provided by general government, by government owned businesses, or by the private sector). The scope of the Report is limited to general government expenditure, so different approaches to service delivery can lead to significant variations in estimated expenditure.

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The *Expenditure Data Manual* provides guidelines for recording expenditure against a nationally consistent framework. These guidelines are refined with each report which will contribute to an improvement in the comparability of expenditure between jurisdictions over time. Each jurisdiction has also provided comments to aid interpretation, which are presented in chapter three of the Report.

For more information, refer to chapter 3 of the Report.

How is the Indigenous Expenditure Report different from other Indigenous-focused reports, such as the Overcoming Indigenous Disadvantage report?

The Indigenous Expenditure Report is designed to complement other reporting initiatives and to contribute information that is not otherwise available. The Indigenous Expenditure Report provides estimates of government expenditure on services related to Indigenous Australians across key outcome areas such as: education; health; housing; employment; community services; justice; and other government services, mapped at a high level to the Overcoming Indigenous Disadvantage strategic areas for action. The Overcoming Indigenous Disadvantage report provides information about the disparities in outcomes for Indigenous Australians. In combination, the information from both reports will allow high level comparisons of changes in expenditure levels and changes in key outcomes. This will provide a basis for richer assessment of policies designed to Close the Gap in Indigenous disadvantage.

For more information, refer to chapter 2 of the Report, and the Expenditure Data Manual and Service Use Measure Definitions Manual, which are available from the project website: www.pc.gov.au/ier.

Why are estimates different to those published in other expenditure reports?

The Indigenous Expenditure Report allocates government expenditure using the Australian Bureau of Statistics' (ABS) Government Purpose Classification framework. The expenditure in this report is therefore conceptually reconcilable to the ABS Government Finance Statistics publications. Data are also consistent with the whole of government expenditure data reported in budget papers and financial reports. However the Indigenous Expenditure Report presents separate estimates for:

- *direct expenditure* — expenditure on services and programs that are paid directly to individuals, non-government service providers, or local governments. For example, unemployment benefits that are paid by the Australian Government directly to eligible recipients, or expenditure on school education services by State and Territory governments
- *indirect expenditure* — payments or transfers made between jurisdictions, or between different levels of government. Indirect expenditure includes Australian Government general revenue assistance to State and Territory governments (such as Goods and Services Tax (GST) payments), which they then allocate to different areas. A large proportion of Australian Government expenditure is indirect
- *total expenditure* — direct plus indirect expenditure, which reconciles to jurisdictions' budget papers and financial reports.

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The printed report summarises one sub-set of the available estimates — direct expenditure — for 2010-11. These are considered robust estimates of the amounts directly spent by the Australian Government, and State and Territory governments on services in 2010-11. More detailed information, including additional expenditure categories, estimates for 2008-09 and estimates for Australian Government total (direct plus indirect) expenditure are available from the project website.

For more information, refer to chapter 2 of the Report.

What needs to be considered when comparing expenditure over time?

The project website provides estimates for 2008-09 and 2010-11. These two periods are not intended to represent particular benchmarks against which future expenditure should be compared. Caution should be exercised when interpreting differences between any two points in time because government expenditure, particularly for more disaggregated expenditure categories, can change over time for a number of reasons, including:

- *increase in demand for government services* — generally, increases in the level of demand for particular services will increase expenditure, particularly where expenditure based on meeting eligibility criteria is uncapped (for example, expenditure on unemployment benefits or Medicare)
- *the effects of inflation* — to determine actual movement in expenditure, the effect of inflation needs to be removed. However, it is difficult to distinguish changes in price from changes in the level of services government provide, particularly at an aggregated level. This report does not remove the effect of inflation from time series data, and caution should be taken when comparing data over time
- *new policies and changes to existing entitlements* — changes in government policies over time can cause significant movements in expenditure. Significant ‘one-off’ global financial crisis stimulus expenditures influenced the 2008-09 estimates. On the other hand, expenditure on many Closing the Gap initiatives did not commence until after 2008-09
- *changes to the allocation of expenditure* — the *Expenditure Data Manual* provides guidelines for allocating outlays to the appropriate expenditure categories. However, changes in the machinery of government, information systems and accounting policies can result in different allocations of expenditure over time (particularly detailed levels of disaggregation).

Future Indigenous Expenditure Reports are expected to provide more robust information about trends in expenditure over time, as more years of data become available and the quality of data improves.

For more information, refer to chapter 2 of the Report.

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