

Frequently asked questions

2014 Indigenous Expenditure Report

What is the purpose of the Indigenous Expenditure Report?

The Indigenous Expenditure Report aims to contribute to better policy making and improved outcomes for Indigenous Australians, by reporting on expenditure on services which support Aboriginal and Torres Strait Islander Australians and promoting the collection and reporting of robust Indigenous expenditure data.

The 2014 Indigenous Expenditure Report is the third in a series that provides estimates of government expenditure on services provided to Aboriginal and Torres Strait Islander Australians. Estimates are provided for each level of government, Australia as a whole, and on a state and territory geographical basis, for 2008-09, 2010-11 and 2012-13.

The Report provides estimates for 159 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 building blocks in the National Indigenous Reform Agreement.

How will the Indigenous Expenditure Report make a difference to Aboriginal and Torres Strait Islander Australians?

The Report is not expected to affect outcomes for Aboriginal and Torres Strait Islander 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 can help those developing and assessing policies to Close the Gap in Indigenous disadvantage.

How is the Indigenous Expenditure Report different from other reports?

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 for Aboriginal and Torres Strait Islander 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 between Aboriginal and Torres Strait Islander Australians and non-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.

2014

Information in this Frequently Asked Questions sheet is from the *2014 Indigenous Expenditure Report*, published by the Steering Committee for the Review of Government Provision. The Report can be found on the project website: www.pc.gov.au/research/recurring/ier. Printed copies of the Report are available from Canprint Communications (ph 1300 889 873 or email: sales@infoservices.com.au).

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How does the Report estimate Indigenous expenditure?

Government services related to Aboriginal and Torres Strait Islander 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 Aboriginal and Torres Strait Islander Australians, the proportion of expenditure on mainstream services that relates to Aboriginal and Torres Strait Islander Australians is not recorded systematically, and has been estimated for the purpose of the Report. Although the report itself does not attempt to assess the adequacy, effectiveness or efficiency of government expenditure, when combined with other data, the estimates can provide a better understanding of such government expenditure.

The approach to estimating expenditure involves two stages:

- identification of total expenditure by service area and, where applicable, expenditure on Indigenous specific programs and services by service area
- proration (or allocation) of mainstream (non-Indigenous specific) expenditure between Aboriginal and Torres Strait Islander Australians 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, school expenditure is allocated according to the number of enrolled students), or where this is not available, general population data.

The *2014 Indigenous Expenditure Report* is the third in a series. The estimation method used in this report improves on the method used in previous reports, which means that the estimates in the 2014 Report are not comparable to the estimates in the previous editions.

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, and the context within which Indigenous services are provided.

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

What does the Report tell us about government expenditure on Aboriginal and Torres Strait Islander Australians?

The following estimates are from the *2014 Indigenous Expenditure Report*.

- In 2012-13, total direct Indigenous expenditure amounted to \$30.3 billion, accounting for 6.1 per cent of total direct government expenditure. Aboriginal and Torres Strait Islander Australians made up 3.0 per cent of the population at 30 June 2013.
 - The Australian Government accounted for \$14.1 billion (47 per cent) of Indigenous direct expenditure, with the remaining \$16.2 billion (53 per cent) provided by State and Territory governments.

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- Mainstream services accounted for \$24.7 billion (81 per cent) of Indigenous direct expenditure, with the remaining \$5.6 billion (19 per cent) provided through Indigenous specific (targeted) services.
- In 2012-13, estimated expenditure per person was \$43 449 for Aboriginal and Torres Strait Islander Australians, compared with \$20 900 for non-Indigenous Australians (a ratio of 2.08:1). The \$22 550 per person difference reflected the combined effects of:
 - greater intensity of service use (\$15 438 or 68 per cent) – Aboriginal and Torres Strait Islander Australians, on average, use more services per person because of greater need, and because of population characteristics such as the younger age profile of the Indigenous population
 - higher costs of providing services (\$7112 or 32 per cent) – it can cost more to provide services to Aboriginal and Torres Strait Islander Australians if mainstream services are more expensive to provide (for example, because of location), or if Aboriginal and Torres Strait Islander Australians receive targeted services in addition to mainstream services (for example liaison officers in hospitals).

However, the Report makes no assessment as to whether the resulting variations in expenditure are adequate given differences in need, or reflect effective or efficient delivery of services.

The Report provides estimates of expenditure on six broad categories of services that relate to the COAG building blocks. Across these services in 2012-13:

- *early child development, and education and training* – an estimated \$2.21 was spent per Aboriginal and Torres Strait Islander Australian for every dollar spent per non-Indigenous Australian
- *healthy lives* – an estimated \$2.09 was spent per Aboriginal and Torres Strait Islander Australian for every dollar spent per non-Indigenous Australian
- *economic participation* – an estimated \$1.66 was spent per Aboriginal and Torres Strait Islander Australian for every dollar spent per non-Indigenous Australian
- *home environment* – an estimated \$2.00 was spent per Aboriginal and Torres Strait Islander Australian for every dollar spent per non-Indigenous Australian
- *safe and supportive communities* – an estimated \$4.18 was spent per Aboriginal and Torres Strait Islander Australian for every dollar spent per non-Indigenous Australian
- *other government expenditure* – an estimated \$1.09 was spent per Aboriginal and Torres Strait Islander Australian for every dollar spent per non-Indigenous Australian.

More detailed estimates for 159 expenditure categories by level of government are available from the project website.

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Why can it cost more to provide services to Aboriginal and Torres Strait Islander Australians?

On average, direct expenditure per person for Aboriginal and Torres Strait Islander Australians (\$43 449) was \$22 550 higher than direct expenditure per person for non-Indigenous Australians (\$20 900). Around \$7112 (32 per cent) of this difference was due to higher costs of providing services.

These higher costs have two components:

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

However, the Report makes no assessment as to whether the resulting variations in expenditure are adequate given differences in need, or reflect effective or efficient delivery of services.

Why do Aboriginal and Torres Strait Islander Australians use some services more intensively?

On average, direct expenditure per person for Aboriginal and Torres Strait Islander Australians (\$43 449) was \$22 550 higher than direct expenditure per person for non-Indigenous Australians (\$20 900). Around \$15 438 (68 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 person intensity of service use is higher if, on average, Aboriginal and Torres Strait Islander Australians tend to use more services than non-Indigenous Australians – either because of greater individual need (and evidence shows that, on average, Aboriginal and Torres Strait Islander Australians experience higher levels of disadvantage than other Australians) or because a higher proportion of the Aboriginal and Torres Strait Islander population belongs to the age group likely to use those services (the Aboriginal and Torres Strait Islander population has a younger profile than the non-Indigenous population)

- *Indigenous specific services that substitute for mainstream services* – these are targeted services that Aboriginal and Torres Strait Islander Australians use instead of a similar mainstream service; for example, the use of Aboriginal Community Controlled Health Organisations rather than GPs.

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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. These assumptions are clearly set out in published supporting manuals
- *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 table 1 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 the Report, and the Service Use Measure Definitions Manual, which are available from the project website: www.pc.gov.au/research/recurring/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, although the *Expenditure Data Manual* helps jurisdictions to supply data that are as consistent as possible
- the organisation of services within jurisdictions (that is, whether services are provided by general government, by government owned businesses, or purchased by government from 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 improvement in the comparability of expenditure across jurisdictions over time. Each jurisdiction has also provided comments to aid interpretation, which are presented at the end of the Report.

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 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. Direct expenditure by the Australian Government in a jurisdiction and direct expenditure by that jurisdiction's government can be added together to estimate total government expenditure in that jurisdiction
- *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 State and Territory Governments then spend in different areas. A large proportion of Australian Government expenditure is indirect
- *total expenditure* – direct plus indirect expenditure for each government can be added together to estimate total expenditure by that government, which reconciles to each jurisdiction's budget papers and financial reports.

The Report summarises direct expenditure for 2012-13, with comparisons for 2010-11 and 2008-09. These are considered robust estimates of the amounts directly spent by the Australian Government, and State and Territory governments on services. More detailed information, including additional expenditure categories and estimates for total (direct plus indirect) expenditure is available from the project website.

What needs to be considered when comparing expenditure over time?

The Report provides comparable estimates for 2012-13, 2010-11 and 2008-09. These periods are not intended to represent particular benchmarks against which future expenditure should be compared. Caution should be exercised when interpreting differences across these three periods, 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 is based on meeting eligibility criteria and therefore uncapped (for example, expenditure on unemployment benefits or Medicare)

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- *new policies and changes to existing programs* – 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
- *the effects of inflation* – to determine actual movement in expenditure, the effect of inflation needs to be removed. This report removes the effect of inflation from time series data and expresses data in constant (or real) (2012-13) prices¹. Detailed data on the website are available in either constant (real) or nominal (unadjusted) terms
- *changes to the allocation of expenditure* – the 2014 Expenditure Data Manual provides guidelines to assist governments to allocate 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 at more detailed levels of disaggregation).

Readers should not compare estimates for 2008-09 and 2010-11 in the 2014 Report with estimates for the same years in the 2012 Report. The 2014 Report uses new population estimates published by the Australian Bureau of Statistics (ABS) based on the 2011 Census. After the 2011 Census, the ABS determined that its previous population projections (based on the 2006 Census) had overestimated the total population. Therefore, the Estimated Resident Population (ERP) for June 2011 and June 2009 used in the 2014 Report are lower than the projections used in the 2012 Report. At the same time, latest ABS estimates of the Aboriginal and Torres Strait Islander population (published in 2014) are higher than the projections used in the 2012 Report. The size of the change in the total ERP and the Aboriginal and Torres Strait Islander population varies across jurisdictions.

Consequently, the estimated Aboriginal and Torres Strait Islander share of expenditure for 2008-09 and 2010-11 apportioned using population service use measures (see table 1 of the main report and the Service Use Measure Definitions Manual) is higher than it was in the 2012 Report (expenditure categories with non-population service use measures are unaffected). At the same time, the higher Aboriginal and Torres Strait Islander population denominator means that per person expenditure estimates for Aboriginal and Torres Strait Islander people are lower in the 2014 Report than they were in the 2012 Report. Therefore, the ratio of Indigenous to non-Indigenous expenditure per person in the 2014 Report is lower than in the 2012 Report. The size of the effect varies across jurisdictions.

As well as the changes in population data, the 2014 Report also reflects revisions to service use measure data and expenditure allocations by some governments.

For more information, refer to the Report.

¹ To account for inflation, expenditure for 2008-09 and 2010-11 has been adjusted using the General Government Final Consumption Expenditure deflator (chain price index) (ABS 2013a) recommended by the Australian Bureau of Statistics and adopted by the Steering Committee for use in the Report on Government Services.

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