**Senate Economics Legislation Committee**

ANSWERS TO QUESTIONS ON NOTICE

**Treasury Portfolio**

Supplementary Budget Estimates, 2 - 3 November 2005

**Question: SBT 31**

**Topic:** **Commonwealth Grants Commission Cost Weights - Report**

**Hansard Page:** **E83**

Senator Sherry asked:

**Senator SHERRY**—Because of the nature of the work. There is a consultancy by the Fiscal Group titled 'Commonwealth Grants Commission Cost Weights'. Can I have an explanation of what that was about?

…

**Mr Heferen**—Yes, I see, 'Dr Arthur John McHugh, Review of Selected Commonwealth Grants Commission Cost Weights'. As Mr Tune said, as part of the simplification of the horizontal fiscal equalisation methodology, the cost weight is essentially the proportion of how important an issue is in figuring out what the level of disability might be for a particular state. It is a highly technical matter, and it got down to the stage where neither people in the Treasury nor indeed the Grants Commission were in a situation to do an independent review of the cost weights that are currently used. Dr McHugh, who is an ex-auditor general from Tasmania, was recommended by one of the secretaries of the state treasuries as a possible authority in this area. He was engaged to do this work and provide a report in either late January or February, and then that report went through for consideration for the simplification program.

**Mr Tune**—That report became input into the process that was taken in consultation with the states.

**Senator SHERRY**—Has that been publicly released?

**Mr Tune**—No, it has not.

**Senator SHERRY**—Why was that?

**Mr Tune**—It was internal work that was done. It was just input into a broader process, so it was just to inform us about some technical issues.

**Senator SHERRY**—Could you take on notice releasing it to the committee?

**Mr Tune**—I can do that, yes, certainly.

Answer:

The report by Dr McHugh, *Review of Cost Weights for Assessment of Methodology for Horizontal Fiscal Equalisation,* is attached.

**Senate Economics Legislation Committee**

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Supplementary Budget Estimates, 2 - 3 November 2005

# REVIEW OF COST WEIGHTS

# FOR ASESSMENT OF METHODOLOGY

# FOR HORIZONTAL FISCAL EQUALISATION

**Dr A J McHugh**

**February 2005**

**Senate Economics Legislation Committee**

ANSWERS TO QUESTIONS ON NOTICE

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Supplementary Budget Estimates, 2 - 3 November 2005

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## 1. SUMMARY OF CONCLUSIONS

The following conclusions are based only on the sample of cost weights that were specified in the consultancy brief:

- Data available to the Commonwealth Grants Commission (CGC) is not audited at the level of the originating State. The consequence is that data and particularly 4-digit level Government Finance Statistics (GFS) data may not be as reliable as required or comparable between States or over time. The difficulty is exacerbated in relation to the estimates provided by States eg labour-related costs and freight costs.

- Data available to the CGC is often limited in terms of the coverage of States. This limits the confidence that can be given to cost weights derived in these circumstances. An example is Roads.

- There is a need for a systematic program that is endorsed by the States and the Australian Bureau of Statistics (ABS) for improving the coverage and quality of the data. An example is Police.

- The system for determining cost weights is inherently complex and, despite some attempts at simplification, is likely to remain so due to the requirement of States for greater transparency and accuracy.

- The conceptual basis for CGC decision-making is logical and has the support of the States.

- The CGC uses judgment extensively due to the absence of good quality data. That judgment is usually applied conservatively, ie closer to Equal Per Capita (EPC), because of data problems. The use of judgment and the potential for alternative judgment is particularly evident in relation to the determination of nearly all indigenous and Cultural and Linguistic Diversity cost weights, the cost weight for urban influences on Roads and for urban traffic management and the adjustments for the profitability of mines.

- Some cost weights border on immateriality or are hard to justify given the poor quality of the data. Examples include vandalism and security in schools, humanitarian refugees in schools and humanitarian migrants in Homelessness and General Welfare.

- It is known that the socio-demographic characteristics of the non-government schools differ from those of the government schools in each State however this is irrelevant since the CGC is concerned with the impact on State budgets which in turn depends on the drivers of State government school costs.

## 2. THE CONSULTANCY TASK

The consultancy task is to:

- Review the overall decision framework and process for deriving a cost weight, including the costing methodology;
- Consider the reliability and fitness of purpose of information on cost weights, and form a view about the reliability of judgments implicit in the cost weights;
- Consider in general terms the implications on cost weight calculations of reasonable alternative judgments; and
- Prepare a report expressing an opinion on the above.

The consultancy task fits within the overall scope of a work program agreed at MinCo, March 2004 that covers the following areas:

- Whether the present approach, which is based on a comprehensive assessment of virtually all receipts and expenses in the operating statements of States is appropriate and necessary;
- The size and trend of the redistributions;
- Simplification – the Commission's current approach is based on high levels of disaggregation and large numbers of adjustments. Is this necessary and does it deliver a better equalisation outcome than possible alternatives? and
- Data issues – a consultative examination of the robustness and comparability of key data sets and likely data availability in the future.

The consultancy task is made specific by focussing on the following nine cost weights:

| Cost weight | Cost driver |
|---|---|
| Isolation | Labour and freight costs |
| Pre-Schools, Government Primary and Secondary Education | Socio-economic status, location (including urban influences), Cultural And Liguistic Diversity ("CALD") and indigeneity |
| Non-Government Primary and Secondary Education | Socio-economic status, location (including urban influences), CALD and indigeneity |
| Homelessness and General Welfare | CALD and indigeneity |

| Cost weight | Cost driver |
|---|---|
| Non-Inpatients and Community Health Services | Location (including urban influences), CALD and indigeneity |
| Police | Age, sex, indigeneity and urban complexity |
| Roads | Urban influences and urban traffic management |
| Mining | Discounts applied in areas such as coal and value based minerals |
| Corrective Services | Indigeneity |

## 3. TERMINOLOGY

In this report States and Territories are collectively referred to as States. Conventional abbreviations for the Australian Capital Territory (ACT), New South Wales (NSW), Northern Territory (NT), Queensland (QLD), South Australia (SA), Tasmania (TAS) and Western Australia (WA) have been used.

Other abbreviations used are:

| | |
|---|---|
| ABS | Australian Bureau of Statistics |
| AIHW | Australian Institute of Health and Welfare |
| CGC | Commonwealth Grants Commission |
| CALD | Cultural and Linguistic Diversity |
| EPC | Equal per Capita |
| IFI | Indigenous Funding Inquiry 2001 |
| LEF | Low English Fluency |
| SAAP | Supported Accommodation Assistance Program |
| VMO | Visiting Medical Officer |

## 4. GENERAL OBSERVATIONS

### 4.1. **Data limited to one or few States**

It appears that the CGC is sometimes compelled to rely on data from a few or even only one State. In such cases it is usually more difficult to ensure that the extrapolation to all jurisdictions is justified. In circumstances where other States are likely to benefit from this adjustment, it would not be unreasonable to expect those States to contribute data. Unless the subject matter is demonstrably unique in its nature or magnitude to the State providing the data

in question, it might be better to await additional data rather than proceeding on a limited data set.

### 4.2. **Data assurance at source**

Where the data used by the CGC is generated from the States in a highly disaggregated fashion, such data is more likely to be non-comparable due to differing recording and classification procedures in departments in different States and where required, assumptions regarding cost allocations. The proble is exacerbated when the Sates provide estimates. The CGC appears to have concerns about the comparability and reliability of the ABS Government Finance Statistics at the four digit level. (2004 Review paragraph 46). While the CGC undoubtedly makes every endeavour to test the data for reasonableness, some errors introduced at the initial recording and reporting phases may resist discovery and remediation. A data audit at the departmental or lesser relevant cost unit by the CGC or its agent should be undertaken to provide assurance that the originating data are comparable and thus fit for further analysis. It is not sufficient in my opinion for data checking to be performed merely by performing reasonableness checks and inter-State comparisons. Any problems, if they exist will lie at the initial data recording stage and also at data transcription and summarisation at the State level. Such audit might be regarded as overly intrusive into State affairs and records but in its absence, doubts must remain over the quality of the data.

### 4.3. **Inherent tendency for increasing complexity**

The nature of system is such that States are compelled in their own financial interests to raise a multiplicity of issues in relation to each area of State expenditure and revenue source where they perceive that consequential redistributions would have favourable effects. There is no incentive to States to raise issues that would threaten their share of funds. There is in theory no limit to the number of special cases that could be proposed or introduced into the assessment system. The independent moderating influence of the CGC, the generally poor quality of data and the counterbalance of the contentions of States that would suffer from these redistributions are brakes on unlimited proliferation of detailed cost weights but at what cost in terms of administrative and analytical resources?

### 4.4. **Simplification and disaggregation**

The CGC has noted that simplification of its methods was on the agenda during the 1999 Review but States also sought greater transparency and greater accuracy in the assessments. Its scope for simplifying the assessments was therefore limited. (2004 Review page 37). The CGC also notes that the greater the level of disaggregation and complexity in the assessments, the greater is the risk that because of data problems, CGC process may be picking up changes

that are not reflecting actual changes in States' circumstances. Yet analysis of any category of expenditure can seemingly only be done with confidence and precision if the category is disaggregated into its components and the subsequently further disaggregated into individual expenditure items that are examined at a very high level of detail.

The question of whether analysis can be substituted at a higher level of cost aggregation than currently employed while producing acceptable precision with less complexity, can only be resolved empirically and on a case-by-case basis. A consequential benefit of any move in the direction of more aggregated analysis would be that there would be fewer problems with data reliability than at present. However trade-offs are inevitable.

## 4.5. **Indigeneity**

The source for the number and distribution of the indigenous population used by the CGC is the Census. Census data on indigeneity is by way of self-identification. The large increase in the Census count of Aboriginal and Torres Strait Islanders between 1991 and 1996 could not be explained in terms of demographic variables such as births and deaths. There may be a similar difficulty in deriving reliable and consistent data for the calculation of cost weights for indigeneity due to the issue of self-identification..

There is no dispute that there should be cost weights for indigeneity in any of the cost weights considered in this report but the size of the cost weight is often difficult to estimate with any degree of confidence. Cost weights for indigeneity are uniformly judgmental in character. Cost data is generally partial in coverage, poor in quality and difficult to relate in any precise quantitative way to the particular disability at issue.

## 4.6. **Conceptual basis for CGC decision-making**

The conceptual basis for the CGC determination of cost weights is set out in the Cost Weights Framework paper. The framework has four discrete steps, namely:

Has a conceptual case been established?
Is the conceptual case supported by evidence?
Can it be measured and is the margin of error acceptable?
Is the cost weight material?

Materiality is assessed in terms of financial impact on States but there are no firm rules.
A value-based approach ($X per capita) may be adopted when testing for materiality of disability when there is no interaction with other disabilities.

The CGC accepts that the level of evidence necessary to support a decision will differ between individuals. Its test is whether the conclusion is likely to match that of an informed and impartial observer.

When judgment is being heavily relied on in the assessment of a disability factor, the CGC will assess the cost weight conservatively ie closer to EPC.

If the level of uncertainty attaching to the method and data used in the assessment of the disability would result in a margin of error greater than the amount redistributed, the assessment is not proceeded with.

Thus there are situations where the CGC accepts that there is the need for a disability but declines to determine a cost weight. This may occur when the

CGC forms the view that the data are such that the CGC judges that the disability cannot be measured with confidence.

The CGC may also decline to determine a cost weight when it judges that the disability is likely to be too small to have an impact on relativities.

This framework is logical and has the support of the States. It is the application that sometimes causes disagreement.

### 4.7. **Implicit evidence of the extent of CGC judgement**

Cost weights are expressed as decimals to zero, one, two or even three places, for example 1.0, 1.01. 1.001. Implicit in that statement is the perceived precision of the estimate. For example a cost weight of 2 applied by the CGC for people in remote communities within Community Health Services implies that the weight is probably judged to lie between 1.5 and 2.5 and generally, between one half of the decimal place beyond that provided in the weight. That in turn will be one indicator of the extent to which the CGC has used judgement in the determination of the weight. Alternative judgments to those made by the CGC would at least on an ***a priori*** basis lie within this range and if alternative assumptions to those made by the CGC were factored in, the difference in the outcome could be more.

### 4.8. **Program for data improvement**

I assume that the CGC has a forward program that has been agreed with the States, the ABS and other relevant bodies, that will systematically improve the quantity and quality of the data required for the assessment of cost weights. This program needs to rank data requirements according to the impact on those cost weights that contribute to the largest dollar value of uncertainty in the current calculations.

The CGC emphasised the importance of improving the collection and availability of data in the IFI 2001 but the issue is much more general than the class of cost and use weights affected by indigeneity. For example the data used for police weights is out of date and not of high quality.

## 5. THE COST WEIGHTS

### 5.1 **Isolation**

The brief requests a review of labour and freight costs. The stated reason for inclusion of this item is that it is contentious as there is limited data available. Isolation redistributes a lot of money. The brief did not include any reference to a consideration of medical travel related subsidies.

5.1.1 Labour related costs

Isolation related labour costs include the cost of recruiting and retaining staff that generally came from other States. Labour related costs include additional service costs associated with leave fares, rental subsidies, recruitment expenses, additional recreation leave and fringe benefits tax. It also includes professional infrastructure costs that arose from the need to bring in professional expertise not available locally

The States beneficially affected are WA, TAS and NT.

The briefing material suggested that the inclusion of labour related costs is contentious.
I examined the assessment procedure described in the 2004 Review.

The allowance for the Northern Territory of $42.581m was based on the State 2002-03 data return for labour-related costs. The NT was requested to provide estimates of expenditure with separate details for the major departments together with explanations of how the estimates were made. As stated in the introduction, State supplied data should be independently audited prior to use by the CGC.

Professional infrastructure costs for NT are not discounted for consultancies for advice from outside the public service that would be paid for in other States in similar circumstances. In such cases, only the additional costs involved in interstate consultant travel and accommodation expenses are justified as an isolation cost – not the total consultancy cost. In my opinion, the labour related cost allowance for NT is overstated for this reason. However in this respect I do not adopt the views of those States that contended that the recruitment of interstate experience in preference to local expertise was a policy choice and therefore that a cost disability should not be assessed.

The allowances for WA and TAS were determined by assigning the same proportional relationship to these States as provided in the 1999 Review.

The problem for this approach is that the degree of self-sufficiency is likely to have increased substantially in WA over the five years and that both WA and TAS might reasonably be required to continue to justify their requirements based on data for the labour-related component. I note that WA was requested to supply labour related costs estimates for the 2005 update. In my opinion, the indicative data from the WA Department of Education previously supplied was not sufficient for this purpose.

5.1.1.1 *ACT claim in relation to specialists*

The ACT claim for labour related costs in the 2004 Review rested on statistics relating to the mobility of the ACT workforce and the cost of employing Visiting Medical Officers (VMOs) in the ACT. The CGC was not convinced that the first of these grounds was actually measuring the effects of isolation while the second appeared to be counter-intuitive when the VMO cost per separation was compared to the same statistics for TAS and NT.

In my opinion the CGC exercised appropriate judgment in relation to the ACT claim at that time. However, the ACT now argues that there is a difficulty in attracting and retaining specialist medical officers. The ACT has a low number of specialists per person equivalent to somewhere between the average for an Outer Regional Area and Remote Area (Health Insurance Commission data). The ACT has fewer specialists per capita than Tasmania. It contends that it faces additional costs in recruiting and relocating medical staff and has supplied figures. It has higher VMO costs per separation.

The ACT argues that it is not greatly less isolated than Hobart. It cites the ACT-Sydney (288km), ACT-Melbourne (647km), Hobart-Sydney (1247km) and Hobart-Melbourne (284km) separations.

In my opinion, the ACT has made out a prima facie case for some assessment on the basis of isolation even when the factor of isolation is interpreted narrowly in terms of the distance of the ACT from other State capitals. However, the distances cited for Hobart-Melbourne include the Bass Strait crossing and it is unclear to what extent there are policy considerations that affect costs, eg the substitutability of staff specialists for VMOs.

While I am not able to judge whether the amount would be material, the onus is on the CGC to refute the ACT case.

5.1.2 Freight costs

Freight costs include the cost of movement of goods and materials used in service provision where the source of supply is another State. Costs are assessed for WA, SA, ACT, NT and TAS.

Costs for NT and TAS are based on data supplied by them. Costs for WA, SA and ACT are based on judgment.

The NT and Tasmanian data are unaudited. The NT data used in the 2004 Review Report excluded information on freight costs that were subject to commercial-in-confidence agreements with suppliers and the CGC did not adjust the data for this exclusion. It may be observed that presumably some or all of these perceived restrictions probably were operative in the previous year. If so, NT managed to supply the full data despite the restrictions.

The effect of data exclusions is that the NT data are unreliable at least to that extent and in my opinion it is not reasonable to expect that the CGC should adjust the data based on judgment. WA and SA suffered a flow-on detriment but I understand that the amount was under $1.5m in total. I understand that the NT has revised its data for the 2005 Update so that the shares for WA and SA should return to normal.

If good quality data were provided by WA and SA, that would lessen the current reliance on CGC judgment.

The current methodology depends upon State estimates of purchases of interstate goods multiplied by an estimated freight cost percentage applied to the value of those goods. Both are estimates, and there is no indication of the reliability of either estimate or even whether the estimates have been produced using sources with comparable reliability. Without access to the original sources of State data, I was unable to take this issue further.

## 5.2 **Pre-schools, Government Primary and Government Secondary Education**

The brief requests that I review the framework for assessing cost weights that reflect additional expenses incurred in providing services to students from low socio-economic background (measured by income), students living in some urban centres, students with low English fluency (LEF), Indigenous students and Indigenous students living in remote areas. The stated reason is that the schools assessments comprise a wide range of factors and collectively they redistribute a large amount of money.

### 5.2.1 Socio-economic status cost weight

The CGC derived a cost weight of 1.15 for students with low socio-economic status in the 1999 Review. This figure was derived by judgment after analysis of available data from the States. The data from the Productivity Commission ("Report on Government Services 2003") and reproduced as Table 5 in the Schools Education – General Issues

chapter of the Report 2004, give support to that judgment. Unfortunately the classification of disadvantage is not identical to that used by the CGC however, it implies a weight for the most disadvantaged of between 10 and 17%. The weight of 1.15 adopted by the CGC is thoroughly consistent with this data.

Adjustment is required for disabilities of the order of 15% and in my opinion the CGC has exercised appropriate judgment in the determination of the cost weight.

5.2.1.1 *Limitations of the current approach*

The "Schools Education – General Issues" chapter in the 2004 Review Report sets out the background and outlines the CGC approach.

Available data and the preferred basis of analysis limited the CGC to the assessment of the effect of socio-economic status as measured by the number of students in each state from families with an annual household income of less than $31,200. This figure is derived from the top of the 11$^{th}$ income band for families derived from Census data collated by the ABS. Persons in households below the cut-off are "low socio-economic status" Those not in this category are designated as "other".

There are obvious difficulties from such an approach even though it is conceded that it might be impractical to vary the approach.

First, the hard cut-off at $31200 ignores the impact of the effect of socio-economic status on slightly higher annual household incomes. The socio-demographic weight for low socio-economic status with LEF is 1.25 while that for the 'other' group with LEF is 1.10. The weight for the low socio-economic group deemed to be "fluent" was 1.15 whereas the "other" group with fluency was assigned a weight of 1.00. It follows that this variation of around 15% for socio-economic status should preferably be phased in rather than have a rigid cut-off and the error introduced into the assessment is likely to be material.

Conceptually the determination should be based a larger number of sub-groups. This would enable the model to map the variations in the population characteristics more closely. However the socio-economic factors are data intensive.

Concerns about the data integrity limit the number of sub-groups that can be considered.

Second, the cut-off ignores the impact of household composition. The household with an income slightly above the cut-off but with additional dependent students is likely to be as disadvantaged in socio-economic terms as households below the cut-off but with fewer dependents. The CGC accepts that there is strong evidence of the need for an adjustment based on family size and has had discussed the issue with ABS officers. The CGC has accepted that there is conceptual merit in using an alternative measure (household equivalised income) but it concluded that there was not enough time to consider the implications of the method change or to present the results for debate to the States.

Additionally, the CGC uses "notional" enrolments for the group aged 15 and over. The whole purpose of this calculation is to vary the target population from the actual population of students in this age group to reflect what it would be if socio-economic influences operated uniformly Australia wide. The CGC has justified its approach on the basis of its research that found that both socio-economic status and urban centre size contribute to differences in participation rates. (paragraph 87 1999 Review). Yet costs will be dependent on an annual basis on the actual enrolments with some adjustment for the costs of measures to make the continued education more attractive to the target group. the notional population approach achieves a more equitable outcome. Student participation above the compulsory school age could be seen as at least partly due to rational decision making by consumers. To this extent it should not be compensable by the CGC procedures.

The net result of these considerations is that I doubt that it is sensible to attempt to further fine tune the cost weights for influences such as housing costs and the costs of vandalism and security.

5.2.1.2 *Adjustment for housing costs*

The cut-off in household income ignores the effect of differing cost of living and especially housing costs among the States. It is reasonable to suppose that socio-economic disadvantage increases at a given level of income when living costs increase relative to that income. However, there was no data in the materials provided that demonstrated that increased cost of a

particular nature eg housing, results in socio-economic disadvantage that translates into additional educational expenses for such students.

Any further consideration of the influence of housing costs would also be complicated by the extent to which the use of public housing ameliorates the situation. In most States public housing rents are capped as a percentage of income. This results in a rent expense far below that of an equivalent dwelling in the private sector. It would also tend to shift the basis of determination from income as a proxy for socio-economic disadvantage to some less measurable construct. Finally, if it is necessary to make a change in this direction, it seems conceptually unsound to focus on housing rather than cost of living as a whole.

Given my qualitative assessment of the uncertainties introduced by the adoption of the hard cut-off and the lack of any adjustment for household composition, I doubt that equity is enhanced by consideration of the variation between States of housing costs or cost of living unless there is high quality, comprehensive, relevant data. The CGC has declined to make this adjustment although on slightly different grounds, and I agree with its conclusion.

5.2.2 Location cost weight

5.2.2.1 *Vandalism*

The costs of vandalism and security have been shown to vary between metropolitan and other regions. The CGC has used such data to introduce a cost weight of 1.010 to students from Sydney and Melbourne and a cost weight of 1.005 to students from Brisbane, Perth and Adelaide. This adjustment is based on data from Victorian and Queensland. However, the data provided by ACT, Tasmania and WA are at odds with this conclusion. In each case vandalism and security costs were at or above 1% of the cost of school services ie in excess of the percentages reported by Victoria and Queensland.

In addition, the CGC accepted that conceptually "there was little doubt that social stress affects vandalism and security costs." However, the CGC determined that "there was not enough evidence to include an additional allowance for it in the general socio-economic status cost weights assessed for schools education."

The CGC made its assessment for vandalism and security costs notwithstanding the lack of data from NSW, its judgment that the available data was "patchy", Queensland's observation that "there was a greater proportion of vandalism in school facilities located in socially stressed communities regardless of size" and the WA experience that "a policy of increasing security expenditure had resulted in a much greater decrease in vandalism costs".

In my opinion, it would have been better to omit this adjustment because of the difficulties cited above.

5.2.3 Cultural and Linguistic Diversity

The CALD cost weight is applied to students from families who speak a language other then English at home and who report low English fluency ("LEF"). The cost weight adopted by the CGC is 1.100 which is the cost weight derived in the 1999 Review from an analysis of schools cost data.

The CGC was provided with Victorian data for students for whom English was a second language and who had been enrolled at an Australian school for less than seven years. Victoria said that there was an additional per student cost of $789 for English as a Second Language programs above the average per student cost of $4755 in 2002. The CGC concluded that the Victorian data were consistent with the 1999 Review cost weight since the latter applied to a broader group, namely students from families who speak a language other than English at home and who report LEF. Most of the other States supported no change for this cost factor. All States continued to provide additional resources to students with LEF and the 1999 Review cost weight of 1.1 was derived from an analysis of schools costs data for all States.

In my opinion it would have been unsound to vary the 1999 Review cost weight without more comprehensive data involving all States that addressed all of the costs associated with students with LEF.

5.2.4 Humanitarian refugees

The CGC assessed a weight of 5 for this group. The CGC acknowledged that the costs due to this sub-population were small enough to fail a materiality test and that cost data was of "lesser quality" [than the good data available to measure the total number of refugees arriving annually in each State]. The CGC made its decision to include the adjustment "on balance".

The comments made previously continue to apply ie that in my opinion, the socio-economic factor is not very precise. Therefore immaterial adjustments unless based on high quality data should not be made on additional socio-economic grounds.

In this case, the number of humanitarian settlers at school is less than 5600 which is less than 0.03% of the total Australian population. (Table 6 "Schools Education – General Issues"). In addition, the CGC had no data from VIC or WA where the humanitarian population is relatively (but not in absolute terms) high.

In my opinion the determination of a cost weight for humanitarian refugees was at variance with the framework of the CGC since it was not based on data of high quality and in any case was immaterial.

5.2.5 Indigeneity

The CGC determined the cost weight for non-remote indigenous students as 1.1 and for remote indigenous students as 1.3 (1.1 plus 0.2 for remoteness).
The three pieces of evidence were:

The Indigenous Funding Inquiry found that the costs of education services for indigenous students living in remote areas were 35 to 75% above the Australian average;

The Commonwealth applies a cost differential of two for funding directed to indigenous students in remote areas;

NSW applies a cost weight of 1.75 in its Indigenous education funding for remote areas. (IFI p262 Supporting Materials)

The first piece of evidence is broadly consistent with the cost weights assessed by the CGC. The 2004 Review assessed cost weights ranging from 1.70 for low fluency, low socio-economic indigenous students in remote areas to1.30 for fluent students with "other" socio-economic status. These cost weights align with the 35% (1.35) to 75% (1.75) cost range cited above. They are also somewhat comparable to the NSW funding weight since it may be assumed that most indigenous students in remote NSW areas will fall into the low fluency, low socio-economic group.

The Commonwealth funding practice has to be discounted by some portion because it reflects costs associated with population dispersion and service delivery in small rural schools.

In my opinion, the cost weights for indigenous students are consistent with the findings of the IFI.

5.2.6 Special needs students

In the 2004 Review the CGC considered whether or not to assess a weight for special needs (disabled) students. The CGC accepted the conceptual case that students with disabilities cost more to educate but decided that the available data were not good enough to objectively and reliably measure the differential costs of these students. Therefore the CGC decided not to assess a cost weight for special needs students but said that it would review its decision should suitable data become available.

The reasoning of the CGC is set out a paragraph 104 in the 2004 Report and it appears to be sound.

## 5.3 Non-Government Primary and Secondary Education

Non-government Primary and Secondary Education categories comprise expenses associated with subsidies, grants and services provided to non-government schools. Cost weights are assessed for socio-economic status, CALD, Indigeneity etc. The cost weights assigned by the CGC are exactly the same as the weights for government schools. An alternative view is that the factor should be based on the State per student cost differences implied by Commonwealth financial assistance to non-government schools because this was closer to reflecting the disabilities of non-government schools.

The Productivity Commission Report on Government Services 2004 shows that there are marked differences in composition between government and non-government schools nationally and to a lesser degree between the composition of non-government schools between States. All of the characteristics tabulated by the Productivity Commission (indigeneity, language background other than English, disabilities and remoteness) show these differences. The extent of these differences varies among the States.

There are no data in the Productivity Commission Report on other socio-economic factors such as income but conceptually similar differences are likely to exist between the government and non-government systems. Indeed the very fact that the parents of children enrolled in non-government schools have exercised a right to opt out of the government school system at considerable additional cost would seem to point to the probability of quite marked differences in their socio-economic characteristics.

However, the CGC found that "the subsidies which the States provided from their own revenue were affected by the number of enrolments in non-government schools and the disabilities that affected the cost of providing government school education" (paragraph 262, 2004 Review). This is because most States provided an average grant per non-government school student that was calculated as a fixed proportion (ranging between 20% and 26.5%) of total costs per student in the government sector (paragraph 256, 2004 Review).

I conclude that under the current interpretation of horizontal fiscal equalisation, the socio-economic and other characteristics of the pupils attending non-government schools are irrelevant. That is, the CGC's assessments reflect the drivers of State government costs, not the drivers of non-government school's costs.

## 5.4 **Homelessness and general welfare**

The brief requested a review of the cost weights assigned for CALD and indigeneity in relation to Supported Accommodation Assistance Program (SAAP) and Other Welfare. The reason stated is that cost weights are based on limited data.

The CALD influence on costs in this instance relates to Low English Fluency (LEF). The CGC accepts that these (and other) cost weights for LEF are based on limited data and using judgment.

### 5.4.1 Cultural and Linguistic Diversity

A cost weight of 1.5 was assessed for SAAP for clients with LEF. This was the weight assessed in the 1999 Review and the CGC judged that no evidence had been presented that would support a change.

In the 1999 Review, States said that people with LEF cost more to provide services to than the general population. Qualitative evidence of the ways in which costs were increased was provided during workplace discussions and referred to the need for interpreters, bilingual assistants and the extra time taken to make welfare workers understood. However neither the States nor staff of the CGC, were able to obtain any comprehensive data to quantify the additional cost incurred for these groups. The CGC judged that 50% more would be sufficient to capture the additional cost associated with translating and interpreting services to all people with LEF.

The CGC assigned cost weights of 1.5 to LEF clients in Child and Youth Support Services, Aged Care and Disability Services. In each case the cost weight is assumed to cover the additional time taken to deal with LEF clients and any possible translator and interpreter costs.

It would be a very curious coincidence if the actual costs were affected in this uniform manner. It appears that the identical
Weights reflect the paucity of quantitative data.

No cost weight was assessed for LEF or any other more general CALD factor for Child Care. The CGC judged that the representation of NESB is too low to justify inclusion of a cost weight. The data supports that conclusion.

No CALD cost weight was assessed Municipal Rate Concessions. This is because rate concessions are dependent on pension or similar status and are independent of CALD considerations.

A cost weight of 2 was assessed for SAAP for humanitarian migrants. This is based the contention that humanitarian migrants often require additional services due their experiences prior to coming to Australia.

The CGC was provided with only patchy evidence of costs.

Humanitarian migrants represented just 0.26% of the Australian population in 2002 and the impact on overall service delivery costs was considered to be very small. It was therefore difficult to justify a specific disability weighting for the Humanitarian settlers. However, because there were very large differences between the States in terms of the number (and percentage of the State populations) of humanitarian migrants to whom services must be provided the CGC concluded that it would do so where sufficient information was available to allow a factor to be assessed.

So far as I can determine, the cost weight is heavily based on judgment. However, the reasonably conservative cost weight assigned and the lack of overall materiality implies that any error in judgment would have immaterial consequences.

5.4.2 Indigeneity

Cost weights assessed in welfare categories are shown in the following table.

| Category | Component | Cost Weight |
|---|---|---|
| Family and Child Services | Child and Youth Support Services | 1.5 |
| | Child Care | - |
| Aged and Disabled Services | Aged Care | 1.25 |
| | Disability Services | 1.25 |
| | Municipal Rates Concessions | - |
| Homelessness and General Welfare | Supported Accommodation Assistance Program | 1.25 |
| | Other Welfare | 1.25 |

The cost weight for Child and Youth Support Services is 1.5 for remote indigenous people. In this context, "remote" means the "remote" and "very remote" categories of the five category ARIA classification. The conceptual case is that indigenous persons will use these services more intensively and that the cost of each occasion of service will be greater than non-remote indigenous clients.

The cost weight for remoteness is based entirely on judgment.

The cost weight of 1.5 for Child and Youth Support Services differs from the cost weights of 1.25 assessed for remote indigenous people in the components of Aged Care, Disability Services, SAAP and Other Welfare. Information provided to the CGC at workplace discussions during the 1999 Review indicated that more resources were devoted to remote indigenous child welfare because this is where welfare officers considered that they could achieve the most.

The size of the differential is clearly based entirely on judgment.

The cost weight of 1.25 for remote indigenous people was derived by judgment from the implied cost weight of 1.16 for all indigenous clients of SAAP. The cost weight of 1.16 is the ratio of the number of support periods per client for indigenous people to the number of support periods for all clients averaged over data for 1999-2000 (1.03) and 2001-02 (1.29).

In my opinion the additional weighting for remote indigenous clients though highly judgmental, is not inconsistent with the (variable) data.

There is no cost weight for Municipal Rate Concessions because the entitlement to a concession is unrelated to indigeneity.

There is no cost weight for Child Care because the CGC judged that the representation of Indigenous children was too low to justify a disability. The data support this judgment.

## 5.5 **Non-Inpatients and Community Health Services**

The brief requests a review of cost weights assessed for location, CALD and indigeneity. The reason stated is that cost weights are based on limited data from which there are extrapolations.

### 5.5.1 Location

#### 5.5.1.1 *Cost weight for remote areas*

The cost weights for remoteness are shown in the table below.

| | Remote | Non-remote |
|---|---|---|
| Indigenous | 6.6 ie 2.0*3.3 | 3.3 |
| Non-Indigenous | 2.0 | 1.0 |

The CGC applied a cost weight of 2 to all people living in remote areas in the community health services component because it considered that there were disabilities affecting remote areas not reflected in the other disabilities assessed. This disability acts independently of other factors such as indigeneity. The cost weight was continued from the 1999 Review.

In the 2004 Review at page 378, the CGC stated that the evidence indicated that the cost differentials between the provision of community health services for remote and non-remote populations were material. While there was evidence to support the conceptual case, there were little data available to estimate cost weights.

A justification for the cost weight of 2.0 for remoteness is that the Commonwealth's Primary Healthcare Access Program that is used to fund community health provides a cost weight of 2 for remote areas. I was unable in the time available to

determine the reliability of the Commonwealth cost weight or if it was consistent with the remoteness weight used by some States in their funding formulae for community health services. In my opinion, the cost weight for remoteness is highly judgmental but it was not possible to assess whether the CGC was either too conservative or too generous.

5.5.1.2 *Cost weight for remote emergency and outpatient services*

There is no cost weight for remoteness for emergency or outpatient services because there was insufficient data or evidence to support an assessment and because the CGC judged that these services are less likely to be provided in remote communities than community health services. While I have not perused the relevant data, this reasoning appears sound on it face. But is this the correct formulation?

In my opinion the question is better stated as whether emergency and outpatient services are provided in remote areas in any material sense. If they are provided, one has to address the availability of data.

It is useful to consider a couple of examples of towns that are classified as remote. These include Echuca, Burke, Mt Isa, Cooktown, Broome and Port Hedland.

Data from the Australian Institute of Health and Welfare ("AIHW") and ABS cited by the CGC as part of the justification indicate that there are quite substantial numbers of persons employed within the "hospitals except psychiatric hospitals" in remote and very remote areas and the numbers are actually substantially higher by a factor of three or more than the employees in the "community health centres" classification. The structure of the tabulated data makes it impossible to make any true comparison because it might be necessary to further aggregate numbers into one or other of these service providers. However it seems reasonably clear that there are hospitals in remote areas and that are quite likely to devote a considerable proportion of their effort to outpatient and emergency services.

From my consideration of the kind of data used by the CGC to determine the cost weight for remote community health services it is not clear that the quality of the data for emergency and outpatient services would be of any lesser standard.

In my opinion, there is a prima facie case for assessing a cost weight for remote emergency and outpatient services.

5.5.2 Cultural and Linguistic Diversity

The CGC assessed a weight of 1.5 for LEF in Emergency department services and for Outpatient services. The CGC assessed a cost weight for LEF of 2.0 for community health services. The judgment is based on data from the 1999 Review on translator costs supplemented by some more recent Victorian data.

The Victorian data considered the examples of a LEF client requiring a bilingual worker and bilingual worker and an interpreter and compared these with the costs of an English-speaking client. Costs were 2.3 times and 7.6 times the cost of the latter based on the postulated longer times involved. The examples were not referenced to any workplace statistics but they were indicative of the additional work involved if the resources of the bilingual worker and interpreter/follow-up visit were required respectively. There was no discussion of the extent to which these resources were actually employed in practice and whether practice was uniform across all community health services. There were no statistics supplied on the duration of LEF consultations compared to those for English-speaking clients.

Clearly the CGC was mindful of the difficulties of extrapolating the data from the examples supplied and it assessed a weight (2.0) that was lower than was warranted by either of the two examples cited. However in my opinion, the CGC should have required additional data on the extent to which bilingual workers and interpreters are employed as additional resources before using the Victorian example as the basis for adjusting the cost weight. It is also surprising that there was no systematic data from other States.

5.5.3 Indigeneity

A cost weight of 3.3 for the community health services component is applied to indigenous populations. The calculation of the weight involves the use of the ABS National Health Survey data on indigenous use of community health services and the AIHW report Expenditures on Health Services for Aboriginal and Torres Strait Islander People.

In my opinion the cost weight has been correctly derived from the data sources mentioned above.

## 5.6 **Police**

The brief requests a review of the (combined use and cost) weights for age, sex, indigeneity and urban complexity. The stated reason is that weights are based on a model from the 1999 review that was not updated in the 2004 Review.

### 5.6.1 Socio-demographic influences

#### 5.6.1.1 *The regression model*

The socio-demographic influences on policing expenses were determined from a regression model. The model used data obtained from a 1995-96 Police Special Data Collection and used population data from the 1996 Census. The model suffers from the problem that the crime rate statistics do not take into account hidden crime or crime not reported to police. Also, it appears that the crime rate used in the model was derived from a simple aggregation of the component crime rates eg homicide, assaults, other offences against the person, robbery, motor vehicle thefts etc. No weights were applied to these offences to take account of the time that police spend on each type of offence.

The model structure is curious in that it attributes the per capita expenditure to variations in the crime rate, an indigenous variable and a young male variable but the crime rate is specified as being dependent on police expenditure, an indigenous variable and the young male variable. The modelling was subjected to peer review but it is not clear to me why it was necessary to construct such a counter-intuitive and circular structure.

The model tested independent socio-economic variables for LEF, low income and unemployment. However the unemployment variable was removed at an early stage because it exhibited some collinearity with the aboriginal variable. The study appears to have made proper use of all of the potential socio-economic variables that were available at the time in the data collection.

The model produced final weights (combined and cost and use) for indigenous people of 3.8, males aged 17-25 of 2.6 and a Sydney/Melbourne weight of 1.1. However the CGC applied a judgmental “rounding” adjustment to the first two weights because it considered that there may be some double counting

between indigeneity and young males. The indigenous weight was adjusted from 3.8 to 3.5 and the young male weight from 2.6 to 2.5.

The R squared value is not stated but appears it appears to be of the order of 0.8 for police expenditure per capita and 0.9 for the crime rate. On its face the degree of fit seems quite acceptable. However, the weights for indigenous and young males were calculated by substituting data from both relationships ie police expenditure and crime rate, so the reliability of those weights is less than indicated by the reliability of either of the separate relationships.

The derivation of the weight of 1.1 for Sydney and Melbourne required the assumption that a one per cent increase in population per square kilometre is equivalent to a one per cent increase in population. This is obviously not necessarily the case but the factor was significant and there was no alternative way of proceeding.

It is obvious that the weights require recalculation because the original data is now nearly ten years old. However the CGC considered that it was not cost effective to redevelop the Police model until better data were available. The CGC apparently hopes that the work that the ABS is currently doing in developing a new national law and order data set will improve the quality of the data in this area.

5.6.1.2 *The impact of "unpacking" police expenses*

The policing expenses considered in the model included those for crime investigation and judicial processes, road safety and traffic management and community safety and support. In the 2004 Review the CGS "unpacked" the policing expenses into above three smaller components. Three issues arise due to the unpacking:

First, should the CGC have re-run the data separately for each of the new components? In my opinion, it should not have. The data are now considerably out of date.

Second, should the CGC have varied the weights for one or more of the variables for one or more of the components on the basis of data supplied by the States? In my opinion the CGC made the correct decision not to do so because the weights would undoubtedly change if the model were run separately on

each of the three components of police expenditure. It would be invalid to make selective or partial amendments to the 1999 weights. Consequently the advantages of splitting the components are minimal at this stage.

Third, it will be necessary to separately estimate revised weights now that the unpacking has occurred because it is prima facie unlikely that all of the current components are equally affected to the same degree. For example the data supplied by the ACT and which relates to Queensland, WA, SA and the ACT may indicate that there needs to be an increase in the weight for young males in the crime investigation component. However as stated above, the re-estimation should be done for all variables or none. The re-estimation requires more current data. I understand that the States have informed the CGC that data quality has not improved in this area. This requires attention.

5.6.2 Urban complexity

Identical issues to those above arise due to the re-use of the 1999 Review regression study.

## 5.7 **Roads**

The brief requests a review of the cost weights for urban influences and urban traffic management. The stated reason is that there is limited information about urban influences. Urban traffic management is based on data provided by the States.

5.7.1 Urban influences

The urban influences factor reflects the extra costs of maintaining urban arterial roads compared to rural arterial roads. The extra costs are in relation to factors such as night maintenance, significant detouring and limited time for repairs and higher cost of materials. There may be additional costs with an overlay treatment within an urban area because of the need to pay greater attention to underground utility services. The factor operates in addition to road traffic volumes. An assessment is made for all States.

The CGC relied heavily on Victorian data. This data showed that urban arterial roads cost 1.8 times as much to maintain as rural arterial roads. This is conceptually a weighted average of the costs of urban arterial roads with AADT > 40000 and urban arterial roads with AADT with AADT < 40000 relative to the costs of maintaining rural arterial roads

(cost weight 1.0). The CGC judged that urban arterial roads with AADT > 40000 had additional costs of $1500 per km lane length per annum so, knowing the lengths of the lane kms of urban arterial roads with greater than and less than 40000 AADT, it was able to calculate weights of 2.2 and 1.7 respectively.

However, these weights include the influence of a different arterial road component ie road use. In attempting to exclude the cost due to increased use, the same proportions of use and physical environment as used in the arterial roads component were applied. That is, it was assumed that of the extra 0.8 cost, 40% (or 0.32) was due to road use. These costs for use were therefore excluded from this component. This meant that urban arterial roads were 1.5 times as expensive as rural arterial roads for reasons other than higher use.

The CGC assessment process thus depended on a series of assumptions:

First, that Victorian data truly recorded distinct categories of road maintenance and road rehabilitation.

Second, that the Victorian experience was representative of Australian road maintenance as a whole.

Third, that 1999 Review differential of $700 and its increase to $1500 were reasonable.
Fourth, that the dissection of extra costs due to road use followed the 40%-60% proportions adopted.

Any one of these assumptions could be challenged and when taken together they represent a quite tenuous chain of logic. In particular, I have found that it is rare to find that road authorities can record maintenance and rehabilitation expenses separately with any degree of reliability. In practice, they tend to merge at the boundary and they are judged differently between different cost centres. Once rehabilitation costs are included, it depends very much on the age profile of the State roads on the extent of those costs relative to road maintenance costs. That profile and other variables would make any combined road costs useless for the task in hand.

I note that the CGC itself remarked that it suspected that the urban/rural distinction should have applied to less than 20% of expenses because it was intended to relate to expenses on night repairs, the need for more expensive surfaces and so on. (2004 Review, Roads paragraph 204).

In my opinion, this particular cost weight is not likely to be very reliable for the reasons given above. I suggest that more data from other States are required to lend greater credence to the assessments.

5.7.2 Urban traffic management

An urban traffic management component is assessed to allow for the extra costs incurred because of the need to provide and maintain complex traffic management systems. The component has a small weight and was 1.71% in 2002-03.

Actual data was used for all States except Victoria and NT. Victoria was assessed to have costs that were lower than NSW but higher than Queensland. The NT was assessed to have slightly lower per capita costs than TAS.

The CGC judged that there was a high margin of error associated with the use of State data but had no alternative data source. The low component weight reduced the overall impact on the category of any errors in the factor.

In my opinion, once it was decided to treat this component separately, the CGC appears to have made a defensible assessment.

## 5.8 **Mining**

The brief requested a review of the discounts applied in coal and value based minerals. The stated reason is that there is limited data available; mining is the revenue category that redistributes the largest amount of money; and the mining assessment has been contentious in the past.

5.8.1 Coal

The brief states that the recent increase in NSW coal royalty rates casts some doubt on the extent to which the difference between its royalty rate and the national average is due to policy or the high cost/low profitability of its mines

The CGC accepted the conceptual case for assessing a lower capacity for coal royalty in NSW because its value of production data did not sufficiently allow for higher operating costs and lower profit margins. The CGC applied a 20% discount to NSW underground and open cut coal. This was based on Productivity Commission data that indicated that profit margins in NSW were 25% below average.

The increases in royalty rates in NSW (announced 6 April 2004 and effective 1 July 2004) appear to have been prompted by sharp increases in the prices of both coking and steaming coal from January 2004 (ABARE data, Australian Mineral Statistics June Quarter 2004). The ad valorem rates of 5% for deep underground coal, 6% for underground coal and 7% for open cut coal now compare favourably with the the rates for QLD (6.49% for both open cut and underground coal). Presumably profitability has improved with the increase in coal prices although the quantitative relationship is not apparent. This tends to support the NSW contention that it sets royalty rates that have regard to profitability.

5.8.2 Value based minerals

The CGC bases capacity to pay by applying a national average royalty rate to the value of production. The royalty rates reported by States are net of any royalty, payroll or other concessions.

5.8.2.1 *The discounts applied for NSW and TAS*

The CGC decided to apply a discount to NSW for the financially stressed Broken Hill mine and to Tasmania because of the age and low profitability of its mines.

For NSW the CGC accepted that the actual royalties collected from Broken Hill in recent years represented what the company could pay. The CGC decided to reduce the NSW revenue base by 20% in 2001-02 and 5% in 2002-03.

The CGC found that the implied effective tax rate on value-based minerals in NSW was approximately 50% and 20% below the Australian average rate in these years respectively. The value of production from the Broken Hill mine (approximately 50% of state) implied that the shortfall in the effective royalty rate due to Broken Hill was approximately 25% and 10% in the respective years. The reductions actually applied represented a small conservative adjustment down to 20% and 5% for 2001-02 and 2002-03 respectively.

Tasmania argued that it had extracted as much royalty revenue as it mines could bear and its case implied a discount of 45% for 1998-99 to 2001-02 and a discount of 80% for 2002-03. TAS submitted that the lower than usual rates were set to help keep the mines operating and to stimulate production. The CGC decided to apply a 35% discount for 1998-99 to 2001-02 and a 70% discount for 2002-03 on the basis that some of the

difference in royalty rates was due to a policy choice to attract exploration and mining.

It is undoubtedly true that any State government has an incentive to encourage and retain mining activity since it generally correlates with economic activity in regions of the State that would otherwise suffer from unemployment and a lack of development. It was a matter of judgment for the CGC to ascertain that this factor was sufficiently and additionally to the fore in the Tasmanian case such that the full Tasmanian case was not accepted to the extent of ten percentage points. Similarly, in the case of the Broken Hill mine in NSW, it was a matter of judgment to accept that the actual royalties collected represented what the company could pay and the size of the discount (five percentage points) to be applied.

In my opinion there is an uneasy balance between the valuation basis as the general standard for evaluation of royalty rates and the selective adjustment for profitability. Once embarked on the adjustment for profitability a high degree of judgment is introduced especially since the actual profitability statistics are not necessarily produced.

It is unclear whether equivalent discounting processes were applied to NSW and TAS in the above cases.

5.8.2.2 *The cases for discounts from NT and WA*

The CGC declined to allow a discount for the NT bauxite royalty rate. I understand that the NT has had the opportunity to renegotiate the royalty since the time that the original rate was struck by the Commonwealth. If so, in my opinion the CGC was correct in declining to apply a discount to this production on this ground.

WA said that it provided relief to some mines but not always in the form of direct royalty relief. In some cases it provided other assistance equal in value to the royalties paid, in others it provided relief from other State charges and/or infrastructure assistance however no data were supplied. If it is correct that States report net royalty payments and that as the CGC noted, the effective royalty rate in WA was above average, the CGC appears to have acted correctly in declining to apply a discount for WA.

## 5.9 **Corrective Services**

The brief requests a review of the cost weight for indigeneity. The reason stated is that it is a large cost weight where there is limited data availability.

### 5.9.1 Prisons

The indigeneity cost weight measures the additional costs associated with providing services to indigenous clients.

The cost weight of 1.1 (it excludes the use weight) was used in the 1999 Review. The CGC continued to adopt this weight based on evidence from NT and WA. Additional costs arise from the provision of medical and education services and the need to address cultural sensitivities.

The CGC noted that there were little data on the additional costs imposed by indigenous persons (2004 Review Correction Services page 104). In the circumstances the CGC adopted a conservative stance and assessed a small cost weight rather than the larger cost weight suggested by the NT. The CGC assessment is based on information such as the NT expenditure of $1.5m in 2001-02 on addressing the health needs of indigenous prisoners and that WA allocated over $2.9m in the 2003-04 budget for initiatives and prevention strategies that address special needs of indigenous people. Unfortunately the CGC did not provide any discussion of how these additional costs were related quantitatively to the costs for non-indigenous prisoners.

There is also the issue of whether this cost weight should only apply to remote indigenous clients as for community based corrections and juvenile detention.

In my opinion, this cost weight is highly judgmental but in the absence of good quality data it is impossible to assess whether the cost weight for all indigenous prisoners is either too low (as inferred from the CGC approach above) or too high. It follows that the data is unlikely to be sufficiently good enough to differentiate reliably between remote and non-remote prisoners.

### 5.9.2 Community based corrections

The CGC accepted evidence from Queensland and NT that indicated that the costs associated with indigenous community-based order populations were higher than for non-indigenous people. The CGC assigned a cost weight of 1.1 for remote indigenous clients.

The CGC judgment was based on evidence presented during workplace discussions in every State and including remote communities. I was provided with a qualitative summary of the factors that were said to involve additional costs. The relevant factors include the cost of finding a suitable person to supervise the community based order in remote communities for reasons of culture as well as qualifications, the cost of repeat visits, the cost of having police officers find clients who have absconded and the cost of equipping supervisors with expensive four-wheel drive vehicles with powerful communication equipment.

Data were limited in the case of this expenditure category and the cost weight is judgmental. The limited data seem to support a cost weight for remote community based corrections compared to non-remote corrections or non-indigenous clients but it is unclear how the CGC arrived at the assessed weight.

5.9.3 Juvenile detention

States said that it cost more to provide services to service remote indigenous juveniles. No one argued against the 1999 Review cost weight of 1.5 for these clients. In the absence of arguments to the contrary and better data, the CGC decided to continue the 1999 cost weight in the 2004 Review.

In my opinion, the basis for the CGC cost weight is not strong even though it appears to be uncontroversial.