



COMMONWEALTH GRANTS COMMISSION

DRAFT ASSESSMENT PAPER CGC 2003/31

FAMILY AND CHILD SERVICES

Prepared for the Commission's 2003 Conferences on Draft Assessments

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NOTE

Included in this paper are the results of preliminary calculations based on the methods proposed throughout the paper and using the data currently available. Those results are indicative only and should be seen as work in progress. Ongoing changes are being made to standards and factor calculations as new data come to hand. Moreover, the calculations have been done using a prototype assessment system and are subject to ongoing revision as checking processes proceed.

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INTRODUCTION

1. This paper presents the draft assessment for the Family and Child Services category for the 2004 Review. It is based on the staff proposals set out in *Discussion Paper CGC 2002/32 Family and Child Services* and issues raised by the States about the assessment for this category provided in the States' main and rejoinder submissions.

BACKGROUND

Scope of the category

2. In the 1999 Review, the Family and Child Services category comprised expenses on welfare services supporting families and children. More specifically, the category covered: children's services; institutions for children and adolescents; children's boarding homes, hostels, and residential nurseries; youth refuges; child day care centres; crèches and play centres. It also included expenses on child protective services, occasional care, foster care and other services to support children, youth and their families.

3. Revenue for this category, which was relatively minor and consisted of miscellaneous fees and charges, was assessed by the equal per capita method.

4. Specific Purpose Payments (SPPs) associated with the Family and Children Services category were treated by the exclusion method which means that expenses associated with these payments were not included in the category standard.

5. Table 1 shows the standard expenses for six financial years. In 2001-02, this category represented 1.79 per cent of total gross standard expenses.

Table 1 FAMILY AND CHILD SERVICES — GROSS STANDARD EXPENSES, 2003 UPDATE

	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02
\$pc	50.22	54.67	76.05	80.17	85.40	89.83
% of total gross standard expenses	1.36	1.42	1.67	1.73	1.76	1.79

Structure of the assessment

6. The assessment structure used in the 2003 Update is shown in Table 2.

7. In the 2003 Update, the category redistributed \$87.9 million from New South Wales, Victoria, South Australia and the ACT to Queensland, Western Australia, Tasmania and the Northern Territory.

8. The factors with the greatest impact on grant shares were the socio-demographic composition factors, which redistributed \$80.8 million in the 2003 Update assessment.

Table 2 1999 REVIEW ASSESSMENT STRUCTURE — FAMILY AND CHILD SERVICES

Expenses Component	Component weight %	Factors	Basis of calculation
Scale-affected expenses	2.42	Administrative scale	General method.
		Input costs	General method with weights of 80% for wages, 2% for accommodation and 1% for electricity.
Juvenile detention	19.48	Socio-demographic composition	Derived by applying weights to population sub-sets for age, Indigeneity, low English fluency, remote Indigenous and low income status.
		Dispersion	General method.
		Input costs	General method with weights of 70% for wages, 2% for accommodation and 1% for electricity.
Residential care and other services	69.92	Cross-border	Assessed for New South Wales and the ACT by the general method.
		Socio-demographic composition	Derived by applying weights to population sub-sets for age, Indigeneity, low English fluency, remote Indigenous and low-income status.
		Dispersion	General method.
Children's services	7.99	Input costs	General method with weights of 70% for wages, 2% for accommodation and 1% for electricity.
		Socio-demographic composition	Based on proportion of the population aged 0-12 years.
		Dispersion	General method.
Isolation	0.19	Input costs	General method with weights of 70% for wages, 2% for accommodation and 1% for electricity.
		Cross-border	Assessed for New South Wales and the ACT by the general method.
Revenue	100.0	Isolation	General method.
			EPC

PROPOSED CATEGORY DEFINITION AND ASSESSMENT STRUCTURE 2004 REVIEW

9. **1999 Review.** In the 1999 Review there were three components in the Family and Children Services category: juvenile detention; children's services — covering the provision and subsidisation of child care services; and residential care — covering all other services provided to children and families, including early intervention and residential services, child protection, out of home care and adoption services.

10. **Preliminary staff proposal.** In *Discussion Paper CGC 2002/3 Scope and Structure of the Equalisation Budget*, the Commission proposed that State expenses on juvenile detention services would be removed from this category and included in the Corrective Services category.

11. **Preliminary State views.** New South Wales argued that the residential care services component was not well defined in the 1999 Review. Its scope did not appear to correspond with the range of programs and services delivered by the Department of Community Services.

12. The Northern Territory supported the Commission proposal to relocate the juvenile detention component to Corrective Services as long as disabilities associated with juvenile detention continued to be assessed — in particular, that the socio-demographic weights continued and the component weights in the Corrective Services category were recalculated.

13. **Staff proposal.** *Discussion Paper CGC 2002/32 Family and Child Services* confirmed that State expenditure on juvenile detention services would be removed from the Family and Children's Services category and placed in the Corrective Services category.

14. The paper stated that the residential care component included a range of services provided to support children and youth. The paper proposed to:

- rename the *residential care and other services* component to *child and youth support services* to better reflect the types of services provided to support children and youth — not just those in residential care; and
- retain the *children's services* component and rename it *child care*.

15. **Further State views.** None of the States commented further on the proposed assessment structure for the 2004 Review.

16. **Analysis.** Expenses associated with juvenile detention are included in the Government Financial Statistics (GFS) prisons and corrective services classification group. Relocating juvenile detention will align well with the Australian Bureau of Statistics (ABS) GFS classification.

17. **Commission decision.** The Commission has decided:

- (i) to change the scope of this category to exclude juvenile detention expenses;
- (ii) to assess the category using two service delivery components;
- (iii) to rename the service delivery components as *child and youth support services* and as *child care* to better reflect the scope of the components;
- (iv) to estimate component weights for the service delivery components — children and youth support services and child care —using GFS data and information provided by the Productivity Commission;
- (v) to adopt a fixed cost component weight derived from the fixed costs analysis reported in *Draft Assessment Paper CGC 2003/60 Administrative Scale* and the analysis of GFS data; and
- (vi) to adopt an isolation component weight using the general approach adopted for the isolation factors.

18. Commission decisions are summarised in Table 3.

Table 3 COMMISSION DECISIONS — CATEGORY DEFINITION, ASSESSMENT STRUCTURE AND COMPONENT WEIGHTS

Decision	Reason
Change definition. Expenses on juvenile detention services to be excluded from Family and Child Services category.	This change will better match the GFS classifications.
Component structure. To change the name of the residential and other services component to child and youth support services, and to change children services to child care services.	This change will better reflects the type of services that are covered under these two components.
Assessment structure and component weights^(a): Fixed costs: 0.94% Children and youth support services: 94.9% Child care: 4.08% Isolation: 0.08%	These components were separated because evidence available from AIHW, States and the Productivity Commission suggested that these were the most important groups of services offered to people with different demand characteristics. ABS GFS data and data obtained from the Productivity Commission were used to determine the component weights.

(a) Component weights are for 2001-02.

FIXED COSTS COMPONENT

19. Consistent with the general assessment framework adopted for most expenditure categories, the fixed costs component recognises that in providing a full range

of State type services to their populations, each State needs to establish a basic administrative structure. That structure needs to cover the costs of core head office functions of departments and services that must be provided for the whole of the State, the costs of which tend to be greater in per capita terms to less populous States. Two factors will be assessed for this component: administrative scale and input costs.

Administrative scale — fixed costs component

20. **1999 Review.** The administrative scale factor was assessed to account for differences in per capita costs of providing central office functions and whole of State services. The scale-affected expenditure for the welfare function was assessed as \$9 million, of which \$4 million was considered fixed cost and \$5 million variable cost. The Family and Child Welfare category was allocated \$2.6 million on a proportional expenses basis. The scale-affected expenses component represented 2.42 per cent of expenses in this category.

21. **2004 Review.** *Draft Assessment Paper CGC 2003/60 Administrative Scale* discusses the issues raised by the States regarding the assessment of this factor. The paper sets out the Commission’s decisions on the general method of assessment adopted for the 2004 Review and on the size of the fixed costs component in each category. The States did not raise issues specific to this category.

22. The Commission has decided that administrative scale will be assessed for this category to recognise the unavoidable costs each State would incur to have the policy and administrative infrastructure necessary to provide the service regardless of the size of the task.

23. The administrative scale factors for this category, shown in Table 4, have been calculated using the 2004 Review general method. Fixed costs for this category have been estimated to be \$1.45 million per State. The Commission also assessed extra fixed costs of \$0.25 million for the Northern Territory to recognise the extra costs it incurs through the dual policy development tasks it must perform because of the high proportion of Indigenous people in its population. Total fixed costs for the category are \$11.8 million, which represents 0.94 per cent of the category standard.

Table 4 ADMINISTRATIVE SCALE FACTORS — FIXED COSTS COMPONENT

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
1997-98	0.31523	0.43090	0.58181	1.10045	1.34115	4.21269	6.43423	24.80853
1998-99	0.31519	0.43144	0.57959	1.09557	1.34956	4.27186	6.46359	24.66816
1999-2000	0.31520	0.43172	0.57712	1.09334	1.35841	4.32577	6.47631	24.55729
2000-01	0.31513	0.43182	0.57440	1.09275	1.36965	4.38067	6.48052	24.52287
2001-02	0.31551	0.43157	0.57085	1.09232	1.37971	4.42813	6.49357	24.66745

24. The factor is based on estimated resident population (ERP) and the component weight will be updated annually.

Input costs — fixed costs component

25. **1999 Review.** The input costs factor was assessed to recognise differences between States in per capita costs of labour, office accommodation and electricity. A separate factor was calculated for each of those inputs. For the scale-affected costs component, those factors were applied to the following proportions of standard expenses:

- wages and salaries 80 per cent;
- accommodation 2 per cent; and
- electricity 1 per cent.

26. **2004 Review.** *Discussion Paper CGC 2003/04 Input Costs* sets out the issues raised by the States regarding the assessment of wages and salaries costs. The paper sets out the Commission’s proposals for the general method of assessment to be adopted for the 2004 Review and on the size of the standard expense proportions in each category for wages and salaries. *Draft Assessment Paper CGC 2003/79 Input Costs — Electricity and Accommodation* sets out the issues raised by the States regarding the assessment of input costs relating to accommodation and electricity. The paper sets out the Commission’s decisions on the general method of assessment to be adopted for the 2004 Review and on the size of the standard expense proportions in each category for accommodation costs and electricity costs. The States did not raise issues specific to this category.

27. The Commission considered that the prices of labour, accommodation and electricity used in providing family and child services differ across States for reasons beyond the control of individual States. It has therefore decided that input costs will be assessed for this category.

28. The input costs factors for the fixed costs component of this category, shown in Table 5, have been calculated according to the 2004 Review general methods. The standard expense proportions applied were 80 per cent for wages and salaries, 2 per cent for accommodation and 1 per cent for electricity.

Table 5 INPUT COSTS FACTORS — FIXED COSTS COMPONENT

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
1997-98	1.03302	0.98766	0.98151	0.98039	0.97094	0.93703	1.00802	1.09279
1998-99	1.03482	0.98866	0.97958	0.97693	0.96902	0.93459	1.01228	1.08820
1999-2000	1.03762	0.98781	0.97671	0.97892	0.96546	0.92795	1.01666	1.08353
2000-01	1.03819	0.98920	0.97482	0.97886	0.96427	0.92509	1.01589	1.08084
2001-02	1.03714	0.99034	0.97354	0.97996	0.96824	0.92479	1.01291	1.07737

29. The factors will be updated annually. The proportions represented by wages and salaries, accommodation and electricity will not be re-examined until the next review.

CHILD AND YOUTH SUPPORT SERVICES (CAYSS) COMPONENT

30. The child and youth support services component includes a wide range of child protection and support services. The aim of child protection and support services is to protect children and youth aged 0-17 years who are at risk of harm within their families, or whose families do not have capacity to protect them. Child protection and support services are the responsibility of the community services department in each State. Protection services receive and assess allegations of abuse, neglect and/or harm to children and young people, refer clients to family support, and intervene to protect children. Support services include out-of-home care and supported accommodation and assistance services.

Socio-demographic composition — child and youth support services component

31. **1999 Review.** In the 1999 Review, the socio-demographic composition factor took account of the cost and use of child and youth support services by different population groups. The target population for this component was defined as those aged 0-17 years, divided into the age ranges 0-14 years and 15-17 years. Different use and cost weights were applied to the following population groups:

- (i) a use weight of 1.75 was applied to the population aged 0-14 years and a weight of one was applied to the 15-17 years old population. These weights were derived from child abuse and neglect data obtained from the AIHW report, *Australia's Welfare, 1997*;
- (ii) a use weight of 1.4 was applied to all Indigenous children aged 0-17 years after allowing for the effects of age and low-income. This reflected the greater need for child protection services by Indigenous children;
- (iii) a cost weight of four was applied to people aged 0-17 living in families with annual incomes of \$26 000 or less. The weight was assigned by judgement;
- (iv) a cost weight of 1.5 was applied to people aged 0-17 who spoke a language other than English at home, and who spoke English: 'not well' or: 'not at all'. A weight of one was applied to the remaining population aged 0-17. The weight was assigned by judgement;
- (v) a cost weight of 1.5 was applied to Indigenous people aged 0-17 living in remote areas (areas defined as 'remote centres' and 'other remote' in the RRMA classification) on the basis that States incurred higher costs when providing services for Indigenous children in these areas. The weight was assigned by judgement.

32. **Preliminary State views.** *Measure of socio-economic status.* Tasmania advocated using ABS Socio-Economic Indexes for Areas (SEIFA) rather than just income status to measure the demand for these services. New South Wales suggested that an index specifically developed by the ABS for use by the New South Wales Department of Community Services in its Resource Allocation Model (RAM) would be more reflective of demand than using the population group or pool as a whole.

33. *Low income weight.* Victoria argued that the existing use weight applied for people with low-income status overestimated the level of need associated with this population group. It also provided data showing that the number of children in out-of-home care was greater for persons aged 15-17 years than for the 0-14 age group.

34. **Staff proposals.** *Measure of socio-economic status.* Discussion Paper 2002/32 did not support using SEIFA as the measure of socio-economic status. This was in line with *Discussion Paper CGC 2002/21 Socio-Demographic Composition*¹.

35. *Low income weight.* Staff proposed retaining the use weight of 4 applied to the low income population in the 1999 Review. Victoria's argument for a higher weight for 15-17 year olds was not accepted because it was based on data for a sub-set of child and youth support services. Staff considered that data for notifications of child abuse and neglect were a better indicator of demand for these services than the number of children in out-of-home care as proposed by Victoria. States were asked to provide recent data on rates of child abuse and neglect.

36. **Further State views.** *Measure of socio-economic status.* Queensland in its rejoinder submission, and at its bilateral discussion, argued against the use of SEIFA-type measures as they are broad indicators of socio-economic status and are area-based, making matching difficult with person-based socio-demographic composition data. It also noted that the ABS had identified a number of statistical problems with the construction of the indexes.

37. *Low income weight.* All States that commented supported the retention of a weight for persons in low income families. However, Queensland and the Northern Territory joined Victoria in seeking a review of the weight. Western Australia and Tasmania argued for retention of the present weight. No State was able to provide relevant data.

38. *Age weights.* Queensland, Western Australia and the Northern Territory supported higher weights for the 0-14 year old group. They differed on the size of the weight. Based on notifications of child abuse, Queensland said the weight should be at least three (its data showed 3.7). The Northern Territory pointed to data taken from the AIHW report *Child Protection Australia 2000-01*, which it said supported a weight of 2.25.

39. *Indigenous weights.* Western Australia argued that the existing weight of 1.4 applied to the Indigenous population was not a true reflection of the greater needs for these services by Indigenous people. It submitted that it was essential to expand the current

¹ Paragraph 59.

weight to facilitate the higher cost associated with a disproportionately high prevalence of child abuse and neglect in the Indigenous population. It noted that the Gordon inquiry into *Response by Government Agencies to Complaints of Family Violence and Child Abuse in Aboriginal Communities* recognised a need for higher funding for child protection for the Indigenous population and showed a substantial unmet need for services.

40. *Remote Indigenous weights.* States raised no issues in their main and rejoinder submissions regarding the current weight for the remote Indigenous population.

41. *CALD weight.* The cost weight applied to persons with low English fluency was not a matter of contention in the States main or rejoinder submissions. However, New South Wales and Victoria made general cases across a wide range of government-provided services for additional costs associated with the greater complexity of service provision that accompanies cultural and linguistic diversity.

42. *Analysis — measure of socio-economic status.* We do not think a conceptual case for using ABS SEIFA as the measure of socio-economic status has been established. The SEIFA indexes are broad measures of socio-economic status. Their general use in the Commission's assessments was rejected in the 1999 Review because of possible double-counting with the assessments of age-sex, Indigeneity and place of residence. They are also area-based (rather than people-based), which makes them inconsistent with other socio-demographic data used in assessments.

43. If SEIFA indexes were used, they would replace the age-sex, Indigeneity and place of residence measures in the current assessment. This would reduce the transparency of the assessment because it would not be possible to identify or separate out which influences (for example, age-sex and Indigeneity influences) were important within the SEIFA index. In addition, data which link service use and cost to SEIFA characteristics are not as frequently available as characteristic-based data.

44. *Commission decision.* The Commission does not accept that a conceptual case has been established for changing the measure of socio-economic status. The numbers of people by income level in each State are comparable, representative and policy neutral. They provide an adequate basis of measuring socio-economic status². The Commission proposes to continue to assess socio-economic status using numbers of people.

45. *Analysis — weight for low income.* Several studies have identified that child neglect is commonly associated with low income, poor living conditions, low education and employment levels and families who are in receipt of government benefits.

46. A 1995 Victorian study found that families on a pension or benefit were about four times as likely to be investigated by child protection services than the rest of the population (58 per cent compared with 26 per cent). A New South Wales study also found that reports (or notifications) of child abuse and neglect to the Department of Community Services were correlated with poverty and unemployment. The national child protection

² In *Draft Assessment Paper CGC 2003/59 Socio-Demographic Composition*, the Commission notes that data are not usually available to allow refinement of this measure of socio-economic status to recognise the differential impact of housing costs or State poverty line levels (paragraph 69).

data show that children from one-parent families and from step or blended families are over represented in child protection substantiations³. Another study based on a sample of 500 referrals from the child protection services in South Australia showed a strong link between poverty and child abuse. The study showed that place of residence for 82 per cent of the children studied was identified as ‘suburban areas in the lowest two socio-economic clusters’, and that 35 per cent of the families in the study were in receipt of pensions or benefits (compared with 17 per cent in the wider community)⁴.

47. The above findings confirm that children who are in greater need of child protection services are more likely to be from low-income families. However, there are no systematic data available on the use of child protection services by families according to income status. In the 1999 Review the weight of 4 was carried over from the 1993 Review and was based on the information presented in States submissions and at workplace discussions. The weight was also aligned with that assigned to low income status in the juvenile detention assessment.

48. We conclude that there is sufficient evidence to warrant the retention of a weight for low income status in the assessment. On the size of the weight, the patchy data set out above suggests that a weight of 4 would be appropriate for children in low income families.

49. The cut-off point between low and high income is defined as family income less than \$31 200 per annum in the 2001 Census. As set out in *Draft Assessment Paper CGC 2003/59 Socio-demographic Composition*, this income level was chosen because it is the income level available from the Census that is closest to the latest estimate of the poverty line for a family with two dependent children⁵.

50. **Commission decision.** The Commission considers that there is a conceptual case that the demand for child and youth support services is greater for children in families with low income status. While national data are not available to show the magnitude of the difference in demand between high and low income families, the Commission accepts that there is sufficient information available to warrant retaining a use weight of 4 to be applied to the numbers of persons aged 0-17 years in low income families.

51. **Analysis — weights for age groups.** The 1999 Review use weights for the aged bands 0-14 and 15–17 were based on rates of substantiation of child abuse and neglect obtained from the AIHW report *Australia’s Welfare 1997*. The most recent edition of this publication does not contain this type of data. However, the AIHW report *Child Protection Australia 2000-01* is a substitute source of data that can be used for this assessment.

52. Table 6 shows the proportion of children who were the subject of child protection substantiations by age in 2000-01.

³ For details of the above studies and of national child protection data see AIHW, *Australia’s Welfare 2001*, p 177.

⁴ Hood M. (1998). ‘The interplay between poverty, unemployment, family disruption and all types of child abuse’, *Children Australia*.

⁵ See *Draft Assessment Paper CGC 2003/59 Socio-Demographic Composition* paragraph 69.

Table 6 RATES OF SUBSTANTIATION FOR CHILD ABUSE AND NEGLECT, BY AGE, 2000-01 (PER 1000 CHILDREN)

Age (years)	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
<1 years	6.2	8.2	10.2	11.4	9.3	10.6	9.0	9.4	8.5
1-4 years	21.0	26.8	24.8	23.0	24.8	28.2	23.9	25.1	24.3
5-9 years	30.9	29.5	30.7	29.7	34.5	29.4	34.8	29.6	30.6
10-14 years	31.0	26.1	28.4	28.9	26.5	29.4	29.4	29.9	28.3
Total 0-14 years	22.3	22.6	23.5	23.2	23.8	24.4	24.3	23.5	22.9
15-17 years	10.9	9.4	5.9	7.0	4.8	2.4	3.0	6.0	8.3
Children aged 0-14/15-17 years ratio	2.0	2.4	4.0	3.3	5.0	10.2	8.1	3.9	2.8

Source: *Child Protection Australia 2000-01*, AIHW Child Welfare series 29, table 2.8.

53. Table 6 shows that the overall rates for children aged 0-14 years were 22.9 per 1000, compared with 8.3 per 1000 children aged 15-17 years. This indicates that children aged 0-14 years are 2.8 times more likely to be the subject of substantiations than children aged 15–17 years.

54. **Commission decision.** The Commission considers that a conceptual case exists for assessing different use weights for the population aged 0-14 compared with the population aged 15-17. There are national data available from which the use weights can be calculated. Based on these data the Commission has decided that the use weights will be 2.8 for persons aged 0-14 years and one for persons aged 15-17.

55. **Analysis — Indigenous weights.** Table 7 shows rates of children subject to care and protection orders and in out-of-home care in 2001-02 by Indigenous status.

Table 7 RATE OF CHILDREN SUBJECT TO CARE AND PROTECTION ORDERS AND IN OUT-OF-HOME CARE, 2001-02 (PER 1000 CHILDREN)

Rate per 1000 children	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
Care and protection order									
Indigenous	31.9	40.6	15.1	15.7	20.3	2.8	18.1	5.2	22.1
Non-Indigenous	4.0	3.9	3.3	2.0	3.1	4.0	2.9	1.9	3.6
Indigenous/non-Indigenous ratio	8.0	10.4	4.6	7.9	6.5	0.7	6.2	2.7	6.1
Out of home care									
Indigenous	33.5	39	12.2	17.1	20.2	3.6	15.3	4.4	21.7
Non-Indigenous	3.8	3	2.9	2.2	2.8	4.6	2.5	1.6	3.2
Indigenous/non-Indigenous ratio	8.8	13.0	4.2	7.8	7.2	0.8	6.1	2.8	6.8

Source: *Report on Government Services 2003*: Productivity Commission, Table 15A.8

56. As shown in Table 7, in 2001-02, the rate of Indigenous children subject to care and protection orders was over six times that of non-Indigenous children and the rate of out of home care was nearly seven times the rate of non-Indigenous children. We think this is sufficient evidence to retain an overall implicit weight of 6 for Indigenous children. After adjusting for the effects of low income and of age, this will mean an explicit weight of 0.9 will be included in the assessment. The adjusted weight is less than one because Indigenous people are over-represented in the younger age groups and in the low income group. Table 9 below shows details of the data used in the calculation of the adjusted Indigenous use weight.

57. **Commission decision.** The Commission accepts that a conceptual case exists for Indigenous people having a higher than average use weight for child and youth support services. While it has decided that sufficient information is available to set the explicit use for Indigenous people at 6, it recognises that this weight must be adjusted for the weights already assigned for age and income. It has calculated the implicit use weight for the Indigenous population at 0.9.

58. **Analysis — remote Indigenous population weight.** The 1999 Review cost weight cost weight of 1.5 applied to Indigenous people living in remote areas recognised the higher costs associated with the provision of child and youth support services to Indigenous people in remote areas because of greater cultural differences. Several studies support a conclusion that Indigenous Australians are ethnically and culturally distinct from the rest of the population and they remain disadvantaged when compared with non-Indigenous Australian in almost all aspects of socio-economic indicators⁶. The Commission's *Report on Indigenous Funding* provided evidence that showed disadvantage among Indigenous people was greater in remote areas⁷. It concluded the cost of providing services to Indigenous people varies according to remote location and the degree of socio-economic disadvantage and traditional affiliation. On the basis of this evidence, we are prepared to use our judgement to assess a cost differential of approximately 50 per cent between the cost of providing services to Indigenous people in non-remote and remote areas.

59. **Commission decision.** The Commission accepts that a conceptual case has been established that the cost of providing services to Indigenous people varies according to remote location. The conceptual case is supported by limited evidence, but the Commission is satisfied that the strength of the conceptual case, and the indications provided by the data are sufficient to consider equalisation would be improved by assessing a cost weight for Indigenous people in remote areas. Therefore, the Commission decided to continue to apply a cost weight of 1.5 to the remote Indigenous population.

60. **Analysis — CALD weight.** In the 1999 Review, a cost weight of 1.5 was applied to the low -income population with low English fluency to reflect the additional cost of providing interpreting and translating services. Queensland and Tasmania suggested a lower weight should be used for communities which had large numbers of low fluency

⁶ ABS, *The Health and Welfare of Australia's Aboriginal and Torres Strait Islander Peoples*, ABS, Canberra, 1999, p. 2.

⁷ CGC, *Report on Indigenous Funding, 2001*, p. 9.

people because it would be easier to find people with appropriate knowledge or background to provide assistance to people with different cultural and language. They did not provide data to support their argument. In the absence of additional information, we consider that the unit cost of providing translating and interpreting services is likely to be similar for all welfare categories. Consistent with the other two welfare categories we propose that the cost weight for the low English fluency population for this component should be set at 1.5. This weight is the same as those assigned for aged, disability and child and youth support services.

61. ***Commission decision.*** The Commission accepts that a conceptual case exists for assessing a cost weight for the additional cost of providing interpreting and translating services. The conceptual case is supported by limited data. The limited data do not support a case for changing the current weight of 1.5. The Commission is satisfied by the strength of the conceptual case and in the absence of evidence to the contrary, it proposes to continue the 1999 Review approach of using a weight of 1.5 across all the welfare categories.

62. The Commission's decisions for the socio-demographic composition factor for the child and youth support services component are summarised in Table 8.

Table 8 COMMISSION DECISIONS — SOCIO-DEMOGRAPHIC COMPOSITION FACTORS — CHILD AND YOUTH SUPPORT SERVICES

Decision	Reason
Apply a use weight of 2.8 for children aged 0-14 years and one for children aged 15-17 years.	Children aged 0-14 years have higher substantiation rates. The weight is based on data obtained from AIHW <i>Child Protection Australia 2000-01</i> .
Apply a use weight of 4 to children aged 0-17 years who live in families with low-income status.	There is strong support from the States and several studies also suggest that there is a link between child protection and low-income status. There is no systematic data available on the use rate of child protection by family income status. The weight is set by judgement by reference to available research findings. Low-income families were defined as households with income less than \$31 200 per annum based on data published by the Melbourne Institute of Applied Economic and Social Research and the ABS 2001 Census income intervals.
Apply a use weight of 0.9 to all Indigenous children aged 0-17 years (calculated to remove the effects of age and income status).	To account for differences in usage rates between Indigenous and non-Indigenous population sub-groups after age and income have been accounted for. The weight is based on data from the Productivity Commission.
Apply a cost weight of 1.5 for children aged 0-17 years who speak a language other than English at home and who speak English: 'not well'.	A conceptual case exists for assessing a cost weight for the additional cost of providing interpreting and translating services. In the absence of robust data, we will continue the 1999 Review approach of using a weight of 1.5. This weight is based on judgement and is consistent across all the welfare categories.
Apply a cost weight of 1.5 for Indigenous children aged 0-17 years who live in remote areas.	Cultural and lifestyle differences in remote areas result in higher costs for providing services to the Indigenous population living in remote areas. In the absence of robust data on unit cost differentials between serving this population subgroup and the population as a whole the weight is based on judgement.

63. ***Proposed method of calculation.*** The factor was calculated by following method.

- (i) The target population was defined as those aged 0-17 years.
- (ii) *Age weights:* Use weights for the age bands 0-14 and 15-17 years of 2.8 and 1 were derived from data for substantiated notifications obtained from the AIHW report, *Child Protection Australia 2000-01*.
- (i) *Low income weight:* A weight of four was applied to people aged 0-17 living in families with annual incomes of \$31 200 or less. A weight of

1 was applied to people aged 0-17 living in families with incomes above \$31 200.

- (ii) *Indigenous use weights*: Details of the data used in the calculation for adjustment of the Indigenous use weight are set out in Table 9.

Table 9 ADJUSTED INDIGENOUS USE WEIGHT

INDIGENOUS WEIGHT (OVERALL INDIGENOUS WEIGHT = 6.0; LOW INCOME WEIGHT = 4)					
Age group	Income Group	Population of age group	Proportion of total Indigenous pop., 0-17	Income weight	Age weight
0-14	Income < \$31 200	95 916	0.4618366	4	2.8
0-14	Income > \$31 200	82 765	0.3985118	1	2.8
15-17	Income < \$31 200	15 337	0.0738474	4	1
15-17	Income > \$31 200	13 666	0.0658041	1	1

- (iii) The adjusted Indigenous use weight of 0.9 is derived by the formula:

Adjusted Indigenous weight =

Overall Indigenous weight 6 / (2.8*(pop. prop. 0-14 low income*4 + pop. Prop. 0-14 high income) + (pop. prop. 15-17 low income * 4 + pop. prop. 15-17 high income))

- (iv) *Low English fluency weight*: A weight of 1.5 was applied to people aged 0-17 who speak a language other than English at home and who speak English: 'not well' or: 'not at all'. A weight of one was applied to the remaining population aged 0-17.
- (v) *Remote Indigenous cost weight*: An Indigenous cost weight of 1.5 was applied to Indigenous people aged 0-17 living in remote areas (using the ABS ARIA index that interprets remoteness as accessibility to service centres with a population greater than 5000).
- (vi) A joint weights matrix was derived by combining the weights detailed above.
- (vii) A 2001 Census of Population and Housing cross-tabulation of data by age (ranges 0-14 and 15-17 years), Indigeneity, English proficiency, remoteness and low-income status was obtained.
- (viii) The joint factor weights matrix was applied to the respective population groups of the States and Australia to obtain weighted population.

- (ix) An index was calculated for each State and Australia by dividing each State's (and the Australian) weighted population by its unweighted population.
- (x) The factors set out in Table 11 were calculated for each State by dividing its index by the comparable Australia figure.

64. Table 10 shows the ratios of weighted populations to unweighted populations derived by the application of the total weights, to the unweighted population aged 0-17.

Table 10 CALCULATION OF THE SOCIO-DEMOGRAPHIC COMPOSITION FACTOR — CHILD AND YOUTH SUPPORT SERVICES

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
Weighted pop ('000)	7195.7	5079.9	4321.8	2207.2	1652.1	588.6	298.2	381.2	21728.0
2001 Census pop ('000)	6332.2	4669.1	3517.7	1822.8	1468.9	458.9	308.6	183.8	18762.1
Ratio ^(a)	1.13637	1.08797	1.22859	1.21086	1.12470	1.28256	0.96637	2.07389	1.15808

(a) Equals weighted pop/2001 Census pop.

65. The socio-demographic composition factor for this component is shown in Table 11.

Table 11 SOCIO-DEMOGRAPHIC COMPOSITION FACTOR — CHILD AND YOUTH SUPPORT SERVICES

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
All years	0.98126	0.93946	1.06088	1.04557	0.97118	1.10749	0.83446	1.79080

66. **Updateability.** The use weights and populations can be updated at each annual update using the latest available data on child protection obtained from the annual AIHW report *Child Protection Australia* and population estimates based on 2001 Census data.

Economic environment — child and youth support services component

67. **1999 Review.** In the 1999 Review, an economic environment factor was not assessed for children and youth support services component.

68. **Preliminary State views.** Tasmania argued for the inclusion of an economic environment factor to reflect the relative levels of activity of philanthropic agencies in the States.

69. **Staff proposals.** In *Discussion Paper CGC 2002/32 Family and Children Services*, staff did not support the inclusion of economic environment factor because of the difficulty in measuring:

- government policy influences on the levels of non-State provision; and
- the combined effects of low household incomes, population distribution, economic climate and the number of small businesses.

70. **Further State views.** The Northern Territory supported the inclusion of an economic environment factor to reflect the additional cost it incurs as a sole provider of child and youth support services due to the lack of private service providers in the Territory.

71. **Analysis.** While there may be higher demand for government services in some States due to a lack of private welfare agencies, it is plausible that the viability of privately funded welfare agencies is positively related to the socio-economic status of a State's population. Volunteer data are available from the ABS publications *Voluntary Work, Australia 2000*. These data will not, however, provide a policy neutral measure of the above standard use of government provided services, because the level of privately provided services and the number of volunteers can be influenced by government policies.

72. The socio-demographic composition factor for this component gives higher use weights to children from low income families, Indigenous children and to all children aged less than 15 years. This is a fairly comprehensive measure of standardised use in each State of child and youth support services.

73. **Commission decision.** The Commission does not accept that a conceptual case existed for the inclusion of an economic environment factor in this component. We do not have a policy neutral measure by which we can determine the relationship between the level of privately funded service providers and the level of State provided services required. The Commission decided not include an economic environment factor in this component.

74. The Commission's decision is summarised in Table 12.

Table 12 COMMISSION DECISION — ECONOMIC ENVIRONMENT FACTORS

Decision	Reason
Not to not to assess an economic environment factor.	It is difficult to measure government policy influences on the levels of non-State provision and the combined effects of other socio-economic influences on the provision of family and child welfare services in each State.

Input costs — child and youth support services

75. **1999 Review.** The following standard expense proportions were applied to each of the factors assessed for this component:

- (i) wages and salaries 70 per cent;

- (ii) accommodation 2 per cent; and
- (iii) electricity 1 per cent.

76. **2004 Review.** The input costs factors for the children and youth support services component of this category, shown in Table 13, have been calculated according to the general method outlined in *Discussion Paper CGC 2003/04 Input Costs* and in *Draft Assessment Paper CGC 2003/79 Input Costs – Electricity and Accommodation*. The standard expense proportions applied were 70 per cent for wages and salaries, 2 per cent for accommodation and 1 per cent for electricity.

Table 13 INPUT COSTS FACTORS — CHILD AND YOUTH SUPPORT SERVICES COMPONENT

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
1997-98	1.02932	0.98903	0.98351	0.98292	0.97413	0.94405	1.00688	1.08142
1998-99	1.03090	0.98991	0.98183	0.97989	0.97245	0.94192	1.01061	1.07740
1999-2000	1.03335	0.98917	0.97931	0.98163	0.96934	0.93610	1.01444	1.07331
2000-01	1.03385	0.99038	0.97766	0.98158	0.96830	0.93360	1.01376	1.07096
2001-02	1.03293	0.99138	0.97654	0.98254	0.97177	0.93334	1.01116	1.06793

77. The factors shown in Table 13 were also applied in the child care component within this category.

Dispersion — child and youth support services

78. **1999 Review.** The dispersion factor was assessed to account for differences in per capita costs of providing services arising from differences between States in the spread of their population. The factor reflects the effects of population dispersion on State expenses associated with telecommunication, freight, travel and staffing on-costs.

79. There were seven indexes within the dispersion factor, each reflecting the effect of interstate differences in population dispersion on a separate type of dispersion-affected cost. The indexes were weighted by the proportions of standard expenses affected by each type of dispersion-affected cost and combined to form the overall dispersion factor. The proportions of standard expenses estimated for this component are shown in Table 14.

Table 14 COST WEIGHTS FOR DISPERSION, 2003 UPDATE

Telephone	Freight	Air Travel	Road Travel		Remote Removals	Locality Allowances
			Inter Regional	Local		
0.01065	0.00151	0.00272	0.01886	0.00528	0.00000	0.00287

Source: 2003 Update Working Papers, Volume 4, p362

80. **2004 Review.** *Draft Assessment Paper CGC 2003/63 Dispersion* discusses the issues raised by the States regarding the assessment of the dispersion factor. The paper sets out the Commission's decisions on the general method of assessment adopted for the 2004 Review and on the size of the standard expense proportions estimated for each of the nine elements of dispersion-affected expenses. The States did not raise issues specific to this category.

81. The Commission noted that the expenses incurred in providing child and youth support services include costs that are affected by population dispersal. It has therefore decided that a dispersion disability will be assessed.

82. The dispersion factors for child and youth support services have been calculated according to the 2004 Review general method. There were nine indexes within the dispersion factor for the 2004 Review. Table 15 shows the proportions of standard expenses estimated for each of the nine elements of dispersion affected expenses for this component.

Table 15 DISPERSION COST WEIGHTS — CHILD AND YOUTH SUPPORT SERVICES COMPONENT, 2004 REVIEW

Telecommunications		Freight	Air Travel	Road Travel		Building Maintenance	Remote Removals	Locality Allowances
Voice	Broadband			Inter Regional	Local			
0.79	-	0.05	0.30	0.75	0.03	0.14	0.04	0.54

83. Table 16 shows the dispersion factors assessed for this component for the 2004 Review.

Table 16 DISPERSION FACTORS — CHILD AND YOUTH SUPPORT SERVICES COMPONENT, 2004 REVIEW

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
Dispersion factors	0.99864	0.99567	1.00359	1.00788	0.99584	0.99564	0.98346	1.07760

84. Neither the factor nor the dispersion costs weights will be updated before the next review.

85. The dispersion disabilities shown in Table 16 were also applied in the child care component within this category.

CHILD CARE

86. This component covers State provision of child care services, funding for which is primarily a Commonwealth responsibility. The Commonwealth is responsible for direct funding for over 95 per cent of child care services. This component, although small, is included in the assessment framework because the nature of the service is different from the child and youth support services and the potential disabilities attaching to it are also different.

Socio-demographic composition

87. **1999 Review.** In the 1999 Review, the socio-demographic composition factor was based on the population aged 0-12 years, and no adjustment was made for the costs and use of these services by different population groups.

88. **Preliminary State views.** Victoria argued that children from sole parent families are greater users of child care. It stated that the children from sole parent families were more likely to experience stress not only because of their low-income status but also because of their social isolation and lack of support from immediate family.

89. New South Wales argued that agencies involved with children's services face increased costs because of the need to develop and provide culturally appropriate services when caring for children with different language and cultural backgrounds.

90. **Staff proposal.** In *Discussion Paper CGC 2002/32 Family and Children Services*, staff did not support introducing additional elements to this assessment because States' primary responsibility is to licence, regulate and maintain standards of child care, rather than provide operating subsidies.

91. States were asked to provide information about the representation of NESB/CALD children in State provided child care services and any services that were specifically designed to meet the needs of those children.

92. **Further State views. Age weights.** Queensland emphasised that a differential use weight was needed for children aged 0-5 years and for those aged 6-12 years. Children in the younger age range tended use more child care.

93. Western Australia supported basing the socio-demographic composition factor on the population aged 0-12 years. It noted that there were different industry set ups used in different States in relation to child care provision. For this reason, it was difficult to determine which elements of socio-demographic composition influenced cost of child care services the most. Western Australia submitted that it maintained 40 community based child care centres with a total capital value of \$5.8 million and an annual maintenance cost of \$480 000.

94. *Additional elements.* Tasmania said that there was an intrinsic link between demand for childcare services and low socio-economic status. It considered that low-income was a better indicator of demand for childcare services as it incorporated the demand by all types of low-income families.

95. The Northern Territory submitted that employment status had an impact on use of child care services and suggested investigating this prior to making any changes to the assessment. It said that in 2001-02, the Northern Territory government provided \$2.1 million of funding to child care centres in addition to the administrative cost associated with licensing and support services.

96. New South Wales reiterated its argument for including a CALD factor in this component. It said that the New South Wales Department of Community Services (DoCS) provided services specially designed for CALD children, apart from interpretation and translation services.

97. Queensland submitted that it provided interpreter and translator services on a needs basis for client support and additional support funding for community pilot projects under the *Bridging the Gap in Multicultural Communities* program.

98. The Northern Territory supported the inclusion of a weight for people with a non-English speaking background to account for the extra costs it incurred in providing services to children from Indigenous backgrounds. It indicated that establishment and operating costs associated with child care provision in remote Indigenous communities were high because of the need for extensive community consultations and the development of programs that met the special needs of Indigenous people.

99. *Analysis — age weights.* Table 17 shows the number of children using child care services by age groups 0-5 and 6-12 years.

Table 17 NUMBER OF CHILDREN USING STATE FUNDED CHILD CARE, 2001-02 (PER 1000 CHILDREN AGED 0-12 YEARS)

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
Tot pop aged 0-5 years('000)	511.2	364.2	291.7	148.4	108.9	36.6	24.7	19.6	1505.3
Children aged 0-5 years using child care/per 1000	179.5	3.0	6.0	0.0	21.3	32.2	60.0	10.8	66.3
Tot pop aged 6-12 years('000)	629.4	455.2	366.2	189.1	138.9	47.3	31.2	22.8	1880.0
Children aged 6-12 years using child care/per 1000	32.2	0.0	0.8	0.0	1.4	1.8	0.1	0.0	11.1
Children aged 0-5/6-12 years ratio	5.6	0!	7.4	0	14.8	17.9	624.0	0!	6.0

Source: *Report on Government Services 2003*, Productivity Commission, Tables 14A.21, 14A.30, 14A.39, 14A.48, 14A.57, 14A.66, 14A.75, 14A.84.

100. As shown in Table 17 children aged 0-5 years are 6 times more likely to use child care than the children aged 6-12 years — indicating an adjustment of age specific use weights split by age bands 0-5 and 6-12 years should be applied to account for a greater use of child care services by the younger age band.

101. **Commission decision.** The Commission accepts that a conceptual case exists for including use weights for the age groups 0-5 and 6-12. There are national data from which a weight can be calculated. The Commission is satisfied that the different pattern of use has a material effect on State budgets, and has decided to apply a use weight of 6 to the population aged 0-5, and a use weight of one to the 7-12 year old population.

102. **Analysis — additional elements.** The States proposed that the socio-demographic composition assessment be expanded to include a measure of socio-economic status and a cost weight for CALD people. In considering these requests we have kept in mind the size of this component (about 4 per cent of the category standard) and the nature of the ancillary nature of the States involvement in the provision of child care services. If good data were available from which the proposed weights could be calculated and the difference between the States were of a reasonable magnitude, then there would be a case for proceeding with the inclusion of a weight.

103. Data on the use of child care by parent income status is not available, although data on the use of child care services by workforce status can be obtained.

104. However, the question remains as to whether these elements are relevant to the assessment of a service in which the States' main role is regulation, and expenses are very low.

105. There is no information available regarding State expenses on NESB or CALD populations. Queensland provided data on the attendance of NESB children in State

funded care. This indicated that in 2001-02, only 0.02 per cent of all children using State funded child care were from NESB groups.

106. Table 18 shows the proportion of children attending Commonwealth funded child care in 2001-02 and the representation of NESB and Indigenous children in each State. While we have no national data on NESB or Indigenous children in State funded child care, data show that NESB and Indigenous children's participation rates in Commonwealth funded child care was low compared with their representation in the community. We consider that the situation would be similar for State funded child care. Such low participation rates suggest that weights for the NESB or CALD population are not justified given the small component weight for the child care services component.

Table 18 PROPORTION OF NESB AND INDIGENOUS CHILDREN ATTENDING COMMONWEALTH FUNDED CHILD CARE COMPARED WITH POPULATION PROPORTIONS, 2001-02

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
	%	%	%	%	%	%	%	%	%
NESB population aged 0-14 as a proportion of total 0-14 population	20.4	19.9	7.1	11.0	11.2	2.6	13.1	29.0	15.6
Indigenous population aged 0-14 as a proportion of total 0-14 population	4.1	1.1	6.6	6.5	3.4	7.1	2.3	41.6	4.6
NESB children using C'wealth funded child care as a proportion of children using child care	16.6	12.3	6.0	7.4	6.3	2.4	11.1	8.1	10.9
Indigenous children using C'wealth funded child care as a proportion of children using child care	1.5	0.5	2.5	1.7	1.3	1.2	0.7	9.9	1.6

Source: *Report on Government Services 2003*: Productivity Commission, Table 14A.16.

107. **Commission decision.** The Commission did not accept that a conceptual case had been made for the inclusion of additional elements (other than use weights for age groups) in the socio-demographic composition assessment for the child care component. It concluded that insufficient data were available to measure the effects of socio-economic status. It also concluded that available data pointed to low participation of NESB and Indigenous children in State funded child care services. The Commission was not satisfied that the impact on State budgets of socio-demographic characteristics other than age of children using State funded child care services was material.

108. The Commission's decisions are summarised in Table 19.

Table 19 COMMISSION DECISION – SOCIO-DEMOGRAPHIC COMPOSITION FACTORS

Recommendation/proposal	Reason
To include a use weight of 6 for children aged 0-5 years and a weight of 1 for children aged 6-12 years.	Children aged 0-5 years have a higher use of child care services. The weight is based on data obtained from the Productivity Commission.
Not to introduce any additional weights for elements such as the CALD or low-income populations.	The component is very small and the States' involvement in the provision of child care services is of an ancillary nature. Insufficient data were available to decide whether the effects of socio-economic status were material. Available data showed extraordinarily low participation of CALD children in State funded child care services.

109. ***Proposed method of calculation.*** The factor was calculated by following method.

- (i) The target population was defined as those aged 0-12 years.
- (ii) *Age weights.* Age weights for the age bands 0-5 and 6-12 years were derived from differential pattern of use of child care services between this two age groups. Data was obtained from the Productivity Commission's: *Report on Government Services 2003*.
- (iii) A 2001 Census of Population and Housing cross-tabulation of data by age bands 0-5 and 6-12 years was obtained.
- (iv) A use weight of 6 was applied to the number of children in the age group 0-5 years and a weight of 1 was applied for children aged 6-12 years.
- (v) A ratio was calculated for each State and Australia by dividing each State's (and Australian) weighted population by its unweighted population.
- (vi) The factors were calculated for each State by dividing its ratio by the comparable Australia figure.

110. Table 20 shows the ratios of total weighted populations of 0-12 year olds to total populations.

Table 20 CHILD CARE COMPONENT — SOCIO-DEMOGRAPHIC COMPOSITION FACTOR — UNWEIGHTED AND WEIGHTED POPULATIONS

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
Weighted pop ('000)	3696.3	2640.5	2116.4	1079.5	792.5	267.0	179.5	140.2	10911.9
2001 Census pop ('000)	6332.2	4669.1	3517.7	1822.8	1468.9	458.9	308.6	183.8	18762.1
Ratio ^(a)	0.58374	0.56552	0.60165	0.59221	0.53950	0.58192	0.58169	0.76249	0.58374

(a) weighted pop/2001 Census pop.

111. The socio-demographic composition factors for this component are shown in Table 21.

Table 21 CHILD CARE COMPONENT — SOCIO-DEMOGRAPHIC COMPOSITION FACTORS

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
All years	1.00368	0.97236	1.03448	1.01825	0.92762	1.00056	1.00017	1.31103

112. **Updateability.** The assessments and factors can be updated every year using estimated resident population aged 0-12 years and Mean Resident Population.

Economic environment factor — child care component

113. **1999 Review.** In the 1999 Review, economic environment factor was not assessed for child care component.

114. **Preliminary State views.** States made no comment on this issue in their main submissions.

115. **Staff proposals.** In *Discussion Paper CGC 2002/32 Family and Child Services*, staff proposed that the same range of factors be applied as in the 1999 Review.

116. **Further State views.** Tasmania argued for the inclusion of an economic environment factor in the assessment for this component. It said that private providers of long-day care services were limited in Tasmania, and that State governments had the main responsibility for the provision of childcare to those who were socio-economically disadvantaged.

117. **Analysis.** The provision of childcare is generally shared between the government and non-government sector. The Commonwealth government plays a central role in providing childcare services, while the States' share of operational subsidies is

relatively low with only 3.5 per cent of total participation in child care occurring in State funded services. Given this low participation rate and the low level of States expenses, it seems unlikely that the cost burden is substantially higher in some States because of the limited number of private providers of child care.

118. **Commission decision.** There are insufficient data allowing the Commission to determine whether there is a conceptual case that the economic environment affects the States' levels of expense for child care services. It is unlikely that differences in economic environment would have a material effect on the assessment for the category given the small size of the child care component.

119. The Commission's decision is summarised in Table 22.

Table 22 COMMISSION DECISION — ECONOMIC ENVIRONMENT FACTOR

Decision	Reason
Not to assess an economic environment factor for the child care component for 2004 Review.	Insufficient data on which to base a conclusion that the effects of economic environment are material.

Input costs — child care services

120. **1999 Review.** In the 1999 Review, the input costs factors assessed for this component were the same as those for the child and youth support services component.

121. **2004 Review.** The Commission considers that approach remains appropriate for the 2004 Review because the proportion of costs affected by wages and salaries, accommodation and electricity in the child care components remains similar. The input costs factors shown in Table 13 above have also been applied in the child care component.

Dispersion — child care services

122. **1999 Review.** In the 1999 Review, the dispersion factors assessed for this component were the same as those for the child and youth support services component.

123. **2004 Review.** The Commission considers that the previous approach remains appropriate for the 2004 Review because the proportion of dispersion-affected costs in the child and youth support services and child care components remains similar. The dispersion factors shown in Table 16 above have also been applied in the child care component.

Cross-border — child care services

124. **1999 Review.** In the 1999 Review, cross border factors were assessed for the ACT and New South Wales for child care services. The Commission considered that child care services provided by the ACT were accessible to residents of New South Wales. A

cross-border factor was assessed by reference to 50 per cent of the population aged 0-12 years in four LGAs very close to the ACT, and 20 per cent of the same population range in 11 LGAs that were slightly more distant.

125. **State views.** The ACT supported the continued assessment of a cross-border factor for children services. It argued that its proposed modified general method of assessment be used.

126. **Analysis and Commission decision.** Given the nature of child care services and the daily flow of commuters into the ACT from surrounding regions of New South Wales, it seems reasonable to continue to allow for the impact of cross-border populations on the demand for child care services. No data are available which would enable a direct calculation of this disability. We intend to use the general method developed for the 2004 Review to frame our judgements about the size of this disability. Using the method set out in *Draft Assessment Paper CGC 2003 68 Cross-border Factors*, we assume that those coming to the ACT to work would be the most likely clients for child care services for their young children so the highest weight should be attached to residents of the closer SLAs. Based on judgement we have applied a weight of 0.5 to the population aged 0-12 in closer SLAs and a weight of 0.2 to SLAs that are more distant from the ACT.

127. The Commission’s decision is summarised in Table 23.

Table 23 COMMISSION DECISION — CHILD CARE COMPONENT, CROSS—BORDER FACTOR

Decision	Reason
Cross border factor to be assessed for child care component for the 2004 Review.	Adjusts for services provided to residents of New South Wales who use ACT services.
To include different weights according to proximity to Canberra.	There is a conceptual case that use would vary with distance. These weights are based on judgement.

128. Consistent with the socio-demographic factor, the 0-12 year old population was used to calculate the factors shown in Table 24.

Table 24 CROSS—BORDER FACTORS — CHILD CARE COMPONENT

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
All years	0.99839	1.00000	1.00000	1.00000	1.00000	1.00000	1.03203	1.00000

ISOLATION

129. **1999 Review.** The isolation factor was assessed to account for differences in per capita costs of service provision for some States because of their economic and geographical isolation from the main interstate sources of supply in South Eastern Australia. It reflected the combined effect of isolation on labour-related costs, interstate freight costs, professional infrastructure costs, commercial goods costs, airfares, travel allowances and other travel-related subsidies. The isolation-affected expenses component represented 0.19 per cent of expenses in this category.

130. **2004 Review.** *Draft Assessment Paper CGC 2003/65 Isolation* discusses the issues raised by the States regarding the assessment of isolation. The paper sets out the Commission's decisions on the general method of assessment adopted for the 2004 Review and on the size of the isolation-affected expenses component for relevant categories. The States did not raise issues specific to this category.

131. The isolation factors for the isolation component, shown in Table 25, have been calculated according to the 2004 Review general method. Isolation-affected expenses for this category have been estimated to be 0.08 per cent of the category standard.

Table 25 ISOLATION FACTORS — ISOLATION COMPONENT

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
Isolation	0.05107	0.10737	0.17783	0.74776	0.56469	3.49490	1.51842	68.27218

132. The factor and component weight will not be updated until the next review. This means that isolation-affected expenses will grow at the same rate as category expenses.

PROPOSED ASSESSMENT STRUCTURE FOR THE 2004 REVIEW — EXPENSES

133. Table 26 summarises the proposed assessment for the 2004 Review.

Table 26 PROPOSED ASSESSMENT STRUCTURE FOR THE 2004 REVIEW

Component	Component weight	Factors	Basis of calculation
Scale-affected expenditure	0.94	Input costs	General method.
		Administrative scale	General method.
Children and youth support services	94.9	Socio-demographic composition	Derived by applying use weights to population sub-sets for income status, age and Indigeneity, and cost weights for low English fluency and remote Indigeneity.
		Dispersion	General method.
		Input costs	General method.
Child care	4.08	Socio-demographic composition	Based on proportion of the population aged 0-12 years and a differential use weight for children aged 0-5 years and 6-12 years.
		Dispersion	General method.
		Input costs	General method.
		Cross-border	Assessed for New South Wales and the ACT by the general method.
Isolation	0.08	Isolation	General method.
User charges	100.00	Nil	EPC.

SUMMARY OF RESULTS – EXPENSES

Calculating the category factor

134. Table 27 summarises the components, component weights and disability factors for this category for 2001-02. It shows the calculation of the category factor.

Table 27 FAMILY AND CHILD SERVICES — DERIVATION OF CATEGORY FACTOR, 2001-02

Factors	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
Fixed costs (FC) (component weight 0.94%)								
Administrative Scale Factor	0.31551	0.43157	0.57085	1.09232	1.37971	4.42813	6.49357	24.66745
Fixed Costs Input Costs Factor	1.03714	0.99034	0.97354	0.97996	0.96824	0.92479	1.01291	1.07737
Component factor	0.32483	0.42427	0.55167	1.06258	1.32610	4.06507	6.52925	26.38127
Cont. to category factor	0.00305	0.00399	0.00519	0.00999	0.01247	0.03821	0.06137	0.24798
Child and youth support services (CYASS) (component weight = 94.90%)								
Dispersion (d)	0.99864	0.99567	1.00359	1.00788	0.99584	0.99564	0.98346	1.07760
Input costs (ic_oth)	1.03293	0.99138	0.97654	0.98254	0.97177	0.93334	1.01116	1.06793
Socio-demographic composition (sdc_rc)	0.98126	0.93946	1.06088	1.04557	0.97118	1.10749	0.83446	1.79080
Component factor	1.01120	0.92635	1.03875	1.03450	0.93876	1.02778	0.82912	2.04932
Cont. to category factor	0.95965	0.87912	0.98579	0.98176	0.89091	0.97539	0.78685	1.94485
Child care (CC) (component weight = 4.08%)								
Dispersion (d)	0.99864	0.99567	1.00359	1.00788	0.99584	0.99564	0.98346	1.07760
Input costs (ic_oth)	1.03293	0.99138	0.97654	0.98254	0.97177	0.93334	1.01116	1.06793
Socio-demographic composition (sdc_cs)	1.00368	0.97236	1.03448	1.01825	0.92762	1.00056	1.00017	1.31103
Cross border (x_cs)0.99864	0.99839	1.00000	1.00000	1.00000	1.00000	1.00000	1.03203	1.00000
Component factor	1.03286	0.95899	1.01311	1.00768	0.89684	0.92874	1.02582	1.50061
Cont. to category factor	0.04212	0.03911	0.04131	0.04109	0.03657	0.03787	0.04183	0.06119
Isolation (ISO) (component weight = 0.08%)								
Isolation	0.05107	0.10737	0.17783	0.74776	0.56469	3.49490	1.51842	68.27218
Component factor	0.05107	0.10737	0.17783	0.74776	0.56469	3.49490	1.51842	68.27218
Cont. to category factor	0.00004	0.00009	0.00014	0.00060	0.00045	0.00280	0.00121	0.05462
Category Factor	1.00486	0.92230	1.03243	1.03344	0.94040	1.05427	0.89128	2.30864

135. **Calculation formula.** The following formulas were used to calculate the contribution of each expenses component to the overall category factor. In each case, the contributions are calculated as the expenditure component weight multiplied by the component factor (the bracketed terms in the formulas). Each contribution to category factor was rescaled to ensure that, for each of them, the sum of standardised equals the sum of actual expenses.

$$FC = 0.011 (s * fc_ic)$$

$$CYASS = 0.947 sdc_cyass (d + ic - 1)$$

$$CC = 0.041 sdc * x_cc(d + ic - 1)$$

ISO = 0.001 (iso)

CATEGORY FACTOR = FC + RC + CS + ISO.

136. Table 28 shows the category factors calculated for the draft assessment for the 2004 Review compared with the category factors assessed for this category in the 2003 Update

Table 28 COMPARISON OF CATEGORY FACTORS, 2003 UPDATE AND THE DRAFT ASSESSMENT FOR THE 2004 REVIEW

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
2003 Update	0.97248	0.87000	1.04903	1.09026	0.92498	1.16014	0.90803	3.64384
Draft assessment - 2004 Review	1.00486	0.92230	1.03243	1.03344	0.94040	1.05427	0.89128	2.30864

Standard expenses

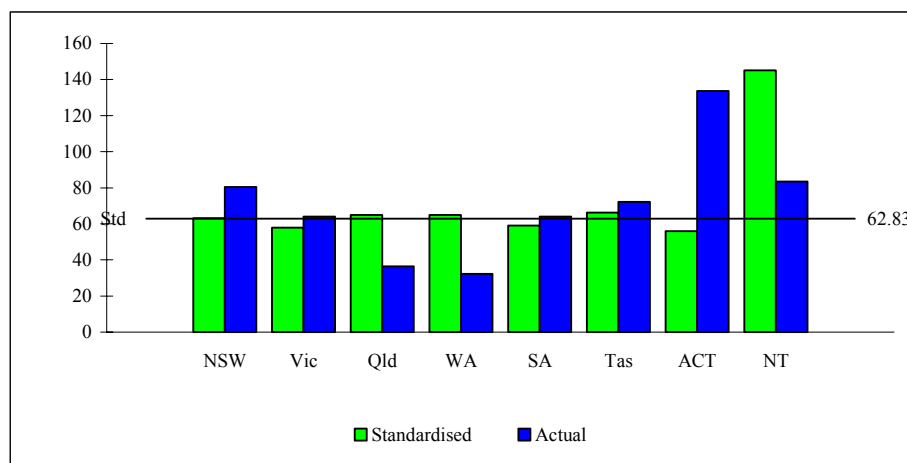
137. Table 29 shows the standardised expenses assessed for this category for 2001-02 in the draft assessment compared with that assessed in the 2003 Update.

Table 29 ACTUAL AND STANDARDISED AND EXPENSES, 2001-02

	Standard	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
2003 Update									
Estimated expenses									
\$m		631.143	658.154	121.531	148.677	95.828	40.076	48.680	16.506
\$ per capita	89.83	95.04	135.56	33.11	77.51	63.10	84.70	150.87	82.56
Standardised expenses									
\$m		580.144	379.430	345.889	187.867	126.187	49.313	26.320	65.446
\$ per capita	89.83	87.36	78.15	94.24	97.94	83.09	104.22	81.57	327.33
2004 Review									
Estimated expenses									
\$m		533.962	310.921	133.513	61.936	97.147	34.151	43.142	16.673
\$ per capita	62.83	80.41	64.04	36.37	32.29	63.97	72.17	133.70	83.39
Standardised expenses									
\$m		419.291	281.348	238.103	124.555	89.732	31.344	18.070	29.003
\$ per capita	62.83	63.14	57.95	64.87	64.93	59.09	66.24	56.00	145.06

138. Figure 1 shows the gross expenses per capita for 2001-02 for the 2004 Review in terms of standardised, estimated and gross standard expenses.

Figure 1 FAMILY AND CHILD SERVICES— GROSS EXPENSES PER CAPITA
— STANDARDISED, ESTIMATED AND STANDARD, 2001-02



Effect of assessment on grants

139. Table 30 shows the redistribution of grants resulting from the assessment in the 2003 Update and the new assessment.

Table 30 EFFECT OF ASSESSMENT ON GRANT DISTRIBUTION — FAMILY AND CHILD SERVICES

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total ^(a)
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Contribution to 2003 Update relativities^(b)	-17.9	-57.7	17.1	16.3	-9.7	6.9	-2.6	47.6	87.9
Composition	4.3	14.0	-4.1	-3.9	2.4	-1.7	0.6	-11.5	21.3
Assessment	19.9	23.1	-5.6	-10.7	1.6	-4.4	-0.3	-23.7	44.7
Interaction	-4.8	-5.6	1.4	2.6	-0.4	1.1	0.1	5.8	10.8
Contribution to 2004 Review Draft Assessments relativities^(c)	1.5	-26.2	8.8	4.2	-6.1	1.9	-2.2	18.1	34.5
Total Change	19.4	31.5	-8.3	-12.0	3.6	-5.0	0.4	-29.5	54.9

(a) Total redistribution.

(b) Assuming same pool and a constant population.

(c) This figure shows the change in the amount redistributed among the States between the 2003 Update and the 2004 Review Draft Assessment. It does not necessarily equal the difference in the total contributions to the relativities between the two inquiries.

140. Compared to an equal per capita assessment, the draft assessment redistributed \$34.5 million away from Victoria, South Australia, the ACT to New South Wales, Queensland, Western Australia, Tasmania and the Northern Territory, \$54.9 million less than in the 2003 Update.

141. The main reasons for the change are:

- (i) changes to wages input costs due to a recognition that the 'location effect' (a broader measure of cost-of-living) is higher for New South Wales (particularly in recent years) and the Northern Territory, which moves grants to these two States;
- (ii) a reduced estimate of the Indigenous use weight, a key element of the socio-demographic composition factor, which lead to decreased grants for the Northern Territory; and
- (iii) a reduction in the category standard due to the reclassification of juvenile detention expenses to the Correction Services category, which increased the grant for Victoria and reduced the grant to the Northern Territory.