

NSW Treasury Response to Justice Final Paper

Summary

NSW Treasury maintains concerns raised in our initial submission to CGC. We believe some of these concerns were not fully addressed by the CGC in the Final Paper and should be further considered. These concerns relate to the central cost allocation split of 50:50, global cities assessment not being included and appropriateness of the service deliver scale in prisons.

Central Cost Allocation

NSW Treasury believes the reasons provided by the CGC (see below) do not justify a shift from a data informed 75:25 to a 50:50 ratio for the allocation of central costs. Reflecting actual state data follows the principles of what states do and is consistent with methods used in other assessments by the CGC.

The Commission provides several reasons to justify a shift from a 75:25 ratio to 50:50 ratio. The clear implication of the Commission's reasoning is these factors led to the current available data showing a bias towards central costs being driven by district expenses. NSW Treasury strongly disagrees with this conclusion due to the reasons below.

- *differing levels of central cost function aggregation*
 - Differing levels of aggregation would have been balanced by the Commission using the average of all states. Given the Commission did not take a population-weighted average, the smaller states' levels of aggregation would be overstated.
- *some central cost functions being plausibly influenced by multiple drivers*
 - While we acknowledge that FTE staff numbers and district expenses are not perfect proxies to allocate central expenses, we believe they are the best currently available for the purposes of the CGC. In moving away from a data driven 75:25 to 50:50 ratio, the CGC is making a very strong assumption that the missing allocation proxies are closely aligned with district expenses rather than FTE staff. We see no evidence to support such an assumption.
 - NSW highlighted in our previous submission that central costs for specialised groups such as counterterrorism are likely driven by service use and provided the Commission disaggregated data. NSW Treasury disagrees with district expenses as an appropriate proxy for specialist unit central costs.
- *not all states being able to provide disaggregated central cost data*
 - While acknowledging that not all states were able to provide data, there is no reason to believe that the missing data will differ significantly from the data provided by other states. Discounting to 50:50 requires a very strong assumption that the unknown data is radically different from other states and reflects central costs being driven overwhelming by district expenses. This assumption is as uncertain as saying it would shift the ratio entirely to FTE allocation. The best option would be to use the 75:25 as that reflects the data the Commission has.
- *ambiguity on the tasks or functions completed by some state-identified central costs*
 - Ambiguity on state central cost function is likely unavoidable due to the different organisation structures of state police systems. Again, it is unclear how data

ambiguity introduces bias to the data currently available to the CGC. Resolving any data ambiguities could be addressed in the Data Working Group.

NSW would like further reasoning as to why a population-weighted average was not used when calculating the FTE:Expenses ratio.

NSW Treasury finds it appropriate to population-weight the average given the costs are applied in a regression model where the coefficients are then multiplied across the populations of all states. To only take the average of states without weighting them for population will overstate the central cost allocation method of less populous states.

Global cities

NSW Treasury recognises that introducing a global cities driver would add complexity to the justice assessment. We believe that this added complexity is justified, as it would contribute to a more equitable outcome consistent with the Commission's mandate to equalise as much as possible.

We appreciate that the Commission's decision to exclude the global cities driver was based on concerns about increased complexity, rather than a lack of conceptual basis. NSW Treasury encourages the Commission to further investigate the potential benefits of including a global cities driver, as this would support the goal of improved equalisation.

Prisons service delivery scale (SDS)

Concerns around the appropriateness of the general service delivery scale from NSW and some other states (ACT, VIC) have, in our view, not been adequately addressed in the Commission's final position paper.

The Commission acknowledges that using a general SDS gradient instead of regression gradient from the 2020 Review introduces an additional level of uncertainty as it contains no components related to the justice system. NSW Treasury understands that the previous regression is no longer fit for purpose, however, applying a general gradient does not necessarily better capture factors that impact prisons expenses. Given limited options, discounting of the general SDS gradient would better acknowledge the additional uncertainty.

The Commission argues that this level of uncertainty cannot be exactly quantified and therefore increasing the discount to the SDS gradient is not warranted. However, NSW Treasury argues the opposite. Given a conceptual case has not been proven by data, this brings an additional level of uncertainty to the gradient, and it would be more appropriate to apply a further discount of 50 per cent to reflect this. This is consistent with several states having raised an issue with the proxy gradient.