

Addendum 1

Funding Distribution Models

This addendum provides further detail on the Funding Distribution Models (FDMs) used to distribute baseline Commonwealth legal assistance funding. It is recommended that stakeholders read this document in conjunction with the Issues Paper.

Overview

The three FDMs were originally developed in 2015 to facilitate the equitable distribution of baseline Commonwealth legal assistance funding within the LAC, CLC and ATSILS subsectors. The development of these models was guided by several principles, namely:

- ensuring that funding allocation aligns with the need for services in each jurisdiction
- accounting for jurisdictional variations in service costs, including the cost of providing service infrastructure
- ensuring the model is readily understood without comprising the first two principles.

In line with these principles, each model is structured similarly and contains these four components:

- operational component
- population component
- needs component
- cost factor component.

The amount of funding allocated to each jurisdiction is determined by adding their respective population, needs, and operational components, and multiplying it by the cost factor component; that is,

$$\begin{aligned} \text{Funding allocation} \\ &= (\text{Operational component} + \text{Population component} + \text{Needs component}) \\ &* \text{Cost factor component} \end{aligned}$$

Even though all three FDMs are structured similarly, inputs into each component and their values may differ. Differences in the inputs and the calculations underpinning each of the four components, are described in greater detail below. The models were used to determine funding allocations in each year of the NLAP agreement.

Operational component

The operational component accounts for the operational cost of delivering legal assistance services, e.g. rent and overheads.

While these costs are higher for larger populations (from servicing a broader client base), this increase is moderated for 'economies of scale', in recognition of the cost advantages linked with operating larger organisations. As such, smaller jurisdictions receive a relatively larger proportion of this funding, relative to their share of the population.

Inputs into this component include:

- fixed cost base (α)
- economies of scale factor (β)
- jurisdiction population.

To moderate the cost escalation from larger population sizes, the jurisdiction's population is raised to the power of the economies of scale factor, before it is multiplied by the fixed cost base.

$$\text{Operational component} = \alpha * \text{Population}^{\beta}$$

The value for these inputs, does vary across the three models. Notably, for the LAC and CLC FDMs, population is estimated based on the total number of people in a particular jurisdiction, whereas population is estimated based on the number of Aboriginal and Torres Strait Islander people in the ATSILS FDM.

Population component

The population component allocates a share of funding to each jurisdiction, based on its share of national population. Population estimates are based on Need for Legal Assistance Services (NLAS) indicators as developed by Law and Justice Foundation of New South Wales.

NLAS indicators are used since it provides a more accurate estimation of vulnerability in each jurisdiction. In particular, NLAS(CLC)¹ is used for the LAC and CLC funding models, whereas NLAS(ATSILS)² is used for the ATSILS funding model.

NLAS(CLC) provides a count of people aged 15 and over with low educational attainment and a low household income. On the other hand, NLAS(ATSILS) provides a count of:

- people aged 10 to 17 who identify as Aboriginal and/or Torres Strait Islander, and
- people aged 18 and over with low personal income who identify as Aboriginal and/or Torres Strait Islander.

Inputs into this component include the:

- population share weight (γ) to determine how much of the available funding is allocated to this component.
- jurisdiction's share of the national NLAS population.

To determine the population component for a particular jurisdiction, these inputs are multiplied together:

$$\text{Population component} = \gamma * \text{Population share} * \text{Available funding}$$

While not illustrated above, the growth rate for the overall population also affects the population component as its influence is captured through the changes in population share over time. If a jurisdiction's population is growing faster than the national average, it will receive a progressively larger share of funding for the population component.

For the LAC and CLC models, the growth rate is calculated based on the year-on-year change in the general population. Calculations for the ATSILS model are similar, though it uses the Aboriginal and Torres Strait Islander population as the population estimate.

Needs component

The needs component distributes funding based on the number of people in specific high-need groups, in recognition of the differences in the relative cost of delivering services. If a jurisdiction has a relatively higher proportion of its population within these high-need groups, it will receive a higher proportion of available funding.

Inputs into this component includes:

- population estimates for different high-need groups in each jurisdiction.
- weightings for each of these groups.

To determine the needs component for a particular jurisdiction, population estimates for different high-need groups are multiplied by their respective weightings, providing a composite measure of high-need groups. The jurisdiction's share of the composite measure is then considered when allocating the available funding.

¹ Law and Justice Foundation of NSW. 2019. [An indicator of need for community legal centres: introducing NLAS\(CLC\)](#)

² Law and Justice Foundation of NSW. 2020. [aboriginal and Torres Strait Islander Legal Services National Picture 2018-19](#)

The key difference across FDMs lies in the selection of high-need groups. The LAC and CLC models use the same high-need groups, namely:

- People in regional and remote areas
- Young people in detention
- Adult prisoners
- Children in out-of-home care
- Children on care and protection orders
- People who speak other languages and speak English not well or not at all
- Single parents with dependent children
- Estimated homelessness
- Estimated female experiences of violence
- Aboriginal and Torres Strait Islander people
- People in need of assistance for core activities
- People on income support payments.

Most of these high-need groups are also relevant for the ATSILS model, though there are two key differences:

- estimates for these groups are limited to Aboriginal and Torres Strait Islander people (i.e., a subset of those used in the other two models)
- estimated female experiences of violence and Aboriginal and Torres Strait Islander people are excluded.

Cost factor component

The cost factor component accounts for the differences in the cost of delivering legal assistance across jurisdictions. Inputs into this component include three Commonwealth Grant Commission (CGC) input cost factors, namely the interstate wage levels factor, CGC service delivery scale factor and CGC regional factor.

These factors capture variations in:

- wages across jurisdictions (interstate wage levels factor)
- diseconomies from the provision of services to small, isolated communities (service delivery scale factor)
- remoteness of service location (regional factor).

Unlike other components where the underlying inputs may differ across sub-sectors, these input cost factors are the same for all three funding models.

In recognition of the costs borne by LACs associated with granting legal aid to residents of other jurisdictions for Commonwealth law matters, there is an additional input into the LAC funding model: cross-border factor.

To determine the cost factor component, these factors are multiplied together:

$$\begin{aligned} \text{Cost factor component} \\ &= \text{Interstate wage levels factor} * \text{Service delivery scale factor} * \text{Regional factor} \\ &* \text{Cross-border factor (LACs only)} \end{aligned}$$

Model application

These three models were applied to determine the funding allocation set out in Table 4 of the NLAP agreement. In particular, this involved allocating baseline Commonwealth funding over a five-year period, from the 2020-21 to 2024-25 financial year.

In allocating baseline funding under the NLAP, a 'no state or territory loses' principle was adopted from the first year, meaning each subsector across every jurisdiction received at a minimum, their baseline funding levels from the preceding year.

In line with this principle, each jurisdiction was provided with their base amount from 2019-20 and the FDMs were applied using the difference in total available funding between 2019-20 and 2020-21 (and same calculation was performed for each forward year of the NLAP agreement).

It is also noted that following the model application, there was a further small redistribution for the CLC and LAC subsectors, to address minor anomalies in funding. These adjustments were relatively small across all components and years, ranging between a reduction of 1.73% to an increase of 0.35%.

Actual allocated funding

Application of the above calculations has resulted in the following allocations for LACs, CLCs and ATSILS.

Table 1.1 Allocation of Commonwealth baseline funding

Jurisdiction	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
LAC baseline funding						
New South Wales	\$66.2m	\$70.5m	\$71.5m	\$72.5m	\$73.7m	\$74.8m
Victoria	\$50.5m	\$53.9m	\$54.7m	\$55.6m	\$56.5m	\$57.4m
Queensland	\$44.5m	\$47.6m	\$48.4m	\$49.1m	\$50m	\$50.8m
Western Australia	\$25.5m	\$27m	\$27.3m	\$27.7m	\$28m	\$28.4m
South Australia	\$16.3m	\$17.4m	\$17.7m	\$18m	\$18.3m	\$18.6m
Tasmania	\$5.9m	\$6.5m	\$6.6m	\$6.7m	\$6.9m	\$7m
Australian Capital Territory	\$4.9m	\$5.2m	\$5.3m	\$5.3m	\$5.4m	\$5.5m
Northern Territory	\$5.9m	\$6.3m	\$6.4m	\$6.5m	\$6.6m	\$6.6m
CLC baseline funding						
New South Wales	\$9.3m	\$15m	\$15.3m	\$15.5m	\$15.8m	\$16.1m
Victoria	\$7m	\$12.6m	\$12.8m	\$13m	\$13.2m	\$13.4m
Queensland	\$5.9m	\$10.8m	\$11m	\$11.2m	\$11.4m	\$11.6m
Western Australia	\$3.7m	\$7m	\$7.1m	\$7.2m	\$7.3m	\$7.4m
South Australia	\$2.5m	\$4.6m	\$4.7m	\$4.8m	\$4.8m	\$4.9m
Tasmania	\$1m	\$1.8m	\$1.8m	\$1.9m	\$1.9m	\$1.9m
Australian Capital Territory	\$0.7m	\$1.3m	\$1.3m	\$1.3m	\$1.3m	\$1.3m
Northern Territory	\$1m	\$1.8m	\$1.8m	\$1.9m	\$1.9m	\$1.9m
ATSILS baseline funding						
New South Wales	\$17.5m	\$18.9m	\$19.3m	\$19.7m	\$20.1m	\$20.6m
Victoria	\$5m	\$5.4m	\$5.5m	\$5.6m	\$5.7m	\$5.8m
Queensland	\$22.2m	\$23.9m	\$24.3m	\$24.7m	\$25.1m	\$25.5m
Western Australia	\$12.7m	\$13.3m	\$13.5m	\$13.7m	\$13.8m	\$14m
South Australia	\$4.9m	\$5.2m	\$5.3m	\$5.4m	\$5.4m	\$5.5m
Tasmania	\$2.5m	\$2.7m	\$2.7m	\$2.8m	\$2.9m	\$2.9m
Australian Capital Territory	\$0.7m	\$0.8m	\$0.8m	\$0.8m	\$0.8m	\$0.8m
Northern Territory	\$14.3m	\$15.1m	\$15.3m	\$15.5m	\$15.7m	\$15.9m

Source: Australian Attorney-General's Department

Component calculations

To illustrate how the components combine and offset each other in practice, Table 1.2 presents how the LAC model distributes funding for the operational, population and needs components, to the different jurisdictions in 2020-21. It also shows each jurisdiction’s share of the overall population for the corresponding period – this serves as a reference point from which we can compare how funding is allocated within each component.

Each jurisdiction’s share of the operational component can differ from its proportion of overall population. These discrepancies are reflective of the adjustments for economies of scale.

Unlike the operational component, each jurisdiction’s share of the population and needs component is broadly similar to their proportion of overall population. Discrepancies in these proportions are mostly reflective of the size of the vulnerable population (for the population component) and high-need groups (for the needs component).

If the jurisdiction’s share of needs component is greater than its proportion of overall population, it means that the jurisdiction has a relatively large share of the high-need groups compared to its jurisdictional counterparts; and vice versa. This same relationship also holds for the population component.

Over time, each jurisdiction’s share of the operational and population components may change. Jurisdictions with relatively high population growth will progressively capture a larger share of these components. In reality, these changes are relatively small as the population growth is broadly similar across jurisdictions.

The operational, population and needs components are multiplied by the cost factor component, to finalise the allocations determined by the model. The cost factor component does not change over time and is as follows:

- New South Wales: 1.056
- Victoria: 0.96
- Queensland: 0.988
- Western Australia: 0.983
- South Australia: 0.947
- Tasmania: 1.015
- Australian Capital Territory: 1.131
- Northern Territory: 1.267

Table 1.2 Funding shares based on the LAC model and share of national population

Jurisdiction	% of operational component	% of population component	% of needs component	% of overall population
New South Wales	26%	32%	31%	32%
Victoria	22%	25%	22%	26%
Queensland	19%	22%	23%	20%
Western Australia	12%	9%	9%	10%
South Australia	10%	8%	7%	7%
Tasmania	4%	3%	5%	2%
Australian Capital Territory	4%	1%	1%	2%
Northern Territory	3%	1%	3%	1%

Source: Australian Attorney-General’s Department

For completeness, 2020-21 funding allocations as determined by the CLC (Table 1.3) and ATSILS models (Table 1.4) are also presented below. It is noted that the for the ATSILS subsector, the reference point (i.e., proportion of overall population) is based on the Aboriginal and Torres Strait Islander people only, not the general Australian population.

Deviations in the jurisdiction’s proportion of allocated funding from its share of overall population, can be interpreted in the same manner as those from the LAC model.

Similar to the LAC model, each jurisdiction’s share of the operational and population components may change depending on the relative rate of population growth. For the CLC subsector, the growth rate is calculated based on the year-on-year in change in overall population; for the ATSILS subsector, it is calculated based on the year-on-year change in the Aboriginal and Torres Strait Islander population.

Jurisdictions with relatively high population growth will progressively capture a larger share of these components. In reality, these changes are relatively small as the population growth is broadly similar across jurisdictions.

The cost factor component remains unchanged over time and is applied in the same manner as the LAC model. This component is also the same across the CLC and ATSILS models and is as follows:

- New South Wales: 0.992
- Victoria: 0.984
- Queensland: 1.013
- Western Australia: 1.014
- South Australia: 0.981
- Tasmania: 1.032
- Australian Capital Territory: 1.013
- Northern Territory: 1.31

Table 1.3 Funding shares based on the CLC model and share of national population

Jurisdiction	% of operational component	% of population component	% of needs component	% of overall population
New South Wales	24%	32%	31%	32%
Victoria	21%	25%	22%	26%
Queensland	18%	22%	23%	20%
Western Australia	13%	9%	9%	10%
South Australia	10%	8%	7%	7%
Tasmania	5%	3%	5%	2%
Australian Capital Territory	5%	1%	1%	2%
Northern Territory	3%	1%	3%	1%

Source: Australian Attorney-General’s Department

Table 1.4 Funding shares based on the ATSILS model and share of Aboriginal and Torres Strait Islander population

Jurisdiction	% of operational component	% of population component	% of needs component	% of overall population
New South Wales	25%	33%	31%	33%
Victoria	10%	7%	6%	7%
Queensland	22%	28%	29%	28%
Western Australia	14%	12%	12%	13%
South Australia	8%	5%	5%	5%
Tasmania	6%	4%	4%	4%
Australian Capital Territory	3%	1%	1%	1%
Northern Territory	11%	10%	11%	9%

Source: Australian Attorney-General’s Department