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Executive Summary of the
Economic Cost Benefit Analysis of Community Legal Centres
June 2012
A report prepared for NACLC by Judith Stubbs & Associates

Major finding

An independent economic cost-benefit analysis of community legal centres found that, on average, community legal centres (CLCs) have a cost benefit ratio of 1:18; that is, for every dollar spent by government on funding CLCs, these services return a benefit to society that is 18 times that cost. To express this in dollar terms, if the average held constant for CLCs across Australia, the \$47.0 million spent on the program nationally in 2009/10 would yield around \$846.0 million of benefit to Australia.

Introduction

The Australian Government funding program for community legal centres (CLCs), the Commonwealth Community Legal Services Program, has the goal of 'equitable access to legal assistance services for disadvantaged members of the Australian community and those with special needs'.¹

Equity is one economic goal of government; economic efficiency is another. As a competitor for public funds, the community legal sector in Australia faces increasing pressure to justify economically the value of the services CLCs provide, in an environment where public policy decision-makers must allocate very limited community resources, and where needs outweigh available resources.

The National Association of Community Legal Centres Inc (NACLC) believes that it is important that the CLC sector understands and participates in an informed discussion of the economic value of CLCs.

In order to analyse CLCs' contribution to meeting government objectives of economic efficiency, an appropriate framework is required. There are different possibilities, but NACLC chose to commission an independent economic cost-benefit analysis of CLCs.

Why conduct an economic cost benefit analysis?

Economic cost benefit analysis is a method favoured by government for assessing whether the community will obtain value from funding a particular activity – be it a major infrastructure

¹ The outcome statement for the Commonwealth Community Legal Services Program is set out in the Program Guidelines and was approved by the then Attorney-General in October 2005 (*Community Legal Services Program Guidelines*, p6).

project or a community service. Government decision-makers assess what quantified benefit to the community is being returned for taxpayers' money and consider whether the benefit adequately exceeds the cost.

The use of cost benefit analysis is best practice and is in line with the stated values of the Australian Government.²

Cost-benefit analysis is a powerful tool for the analysis of policy but it is not the only basis for such analysis; other considerations such as equity and distribution of impacts are equally important.

The Report notes that CLCs perform an important equity function, providing access to legal services for those who often face significant barriers, but makes clear that assessment of the contribution of CLCs to equity is outside the scope of the study.³

It is important to acknowledge that there are criticisms of the cost-benefit approach and that it has some subjective elements. NACLAC agrees however that *'[e]ven when it is difficult to estimate some costs or benefits with precision, CBA makes clear and transparent the assumptions and judgements made. Further, attempting to quantify costs and benefits encourages analysts to more closely examine these factors.'*⁴

Judith Stubbs & Associates, the authors of the Report, have included considerable detail of their processes in order to be transparent and facilitate consideration and discussion of the methodology.

Economic analysis focuses on the whole of society

Economic analysis is concerned with costs and benefits across the whole of society.

This 'whole of community viewpoint' can be challenging for legal practitioners and other service providers, as their primary concern is, understandably, largely concerned with obtaining the best outcome for their client, rather than the best outcome for society and may be informed by equity considerations. The two may intersect, but they are not necessarily the same.

Thus a cost benefit analysis takes a 'whole of community' approach to the assessment of cost and benefits, including the direct or financial costs of a program or project as well as its indirect or hidden costs ('externalities') that are nonetheless *real* costs to the community. Even where all impacts cannot be quantified or valued, it allows for a clear decision making framework. It includes quantitative and qualitative information about the likely effects of a program or proposal.

² The position of the Australian Government with respect to best practice in evaluation of policy is set out in Australian Government (2010), *Best Practice Regulation Handbook*.

³ NACLAC continues to advocate that these approaches should also be used to assess the value of CLCs, particularly in order to recognise the important equity function that CLCs perform by providing access to legal services for those who face significant barriers.

⁴ Australian Government (2010), *Best Practice Regulation Handbook*

Methodology

The approach was based on a review and analysis of randomly selected matters across four community legal centres in a mix of metropolitan and regional and remote locations. There were eight key components to the approach:

- Selection of community legal centres
- Assessment of operating costs
- Selection of matters from the categories of information, advice and casework
- Evaluation of matters using the framework
- Discussion and review with community legal centre staff
- Finalisation and quantification of benefits
- Calculation and reporting of cost-benefit ratio
- Interviews with key staff on programs provided by each centre

Each of these is discussed briefly in turn.

Selection of community legal centres

The four centres were selected to reflect a range of CLCs: three generalist centres and one specialist centre, with two in metropolitan locations, one in an inner regional location⁵ and one in an outer regional location⁶ and servicing remote areas.

Assessment of operating costs

Operating costs were determined from the accounts of the various centres. Where a community legal centre was part of a larger organisation, staff from the organisation identified the component of cost attributable to the community legal centre.

Selection of matters

A sampling approach was used to estimate the average benefit associated with a matter for a particular community legal centre. Over 160 matters were assessed across the four legal centres:⁷ twenty random cases and twenty random advices were selected and evaluated.

Evaluation of matters using the framework

Each file was assessed as to whether a benefit was evident in the three areas of the law, the process and externalities. The benefit was then quantified using a range of methods such as avoided cost or willingness to pay, with recourse to other studies or to reported costs. This was

⁵ Australian Standard Geographic Classification Remoteness Structure.

⁶ *Ibid.*

the major part of the study, and many different approaches were used, details are provided in the individual case studies with the study's report.

Discussion and review with community legal centre staff

Following an initial review and assessment by the researcher, the matters were then discussed with community legal centre staff to see if, first, the matter was properly understood, and secondly, whether there were other circumstances associated with the matter that may have contributed additional benefit that had not been identified.

Finalisation and quantification of benefits

The identified and quantified economic benefits were then finalised.

Calculation and reporting of cost benefit ratio

An average benefit per case and per advice was calculated. This average benefit was then multiplied by the number of cases and advices recorded by the centre over a twelve month period; and the benefit then divided by the operating cost of the CLC to return a cost benefit ratio. A further comparison was made of high benefit cases with operating costs to determine how many high benefit cases would be required to offset the operating cost of the centre.

Interviews with key staff on programs provided by each centre

Interviews were also conducted with key staff on programs provided by each centre to provide a more comprehensive understanding of the centres' functions, and provide a more qualitative perspective on the value of the CLCs.

Summary of Results

From this process the consultant was able to estimate an evidence-based average economic cost benefit ratio for CLCs.

The study finds that, on average, CLCs have a cost benefit ratio of 1:18; that is, for every dollar spent by government on funding CLCs, they return a benefit *to society* that is 18 times that cost. To express this in dollar terms, if the average held constant for CLCs across Australia, the \$47.0 million spent on the program nationally in 2009/10 would yield around \$846.0 million of benefit to Australia.

This assessment of net economic benefits provides a very strong rationale for funding CLCs, and provides a clear justification of CLCs in economic terms.

⁷ While a larger sample will always reduce over or under estimates arising from sampling error, there is a trade-off between the cost of assessing larger and larger samples and the reduction in sampling error. For a randomly distributed continuous variable, such as the benefit associated with a matter, a sample size of 30 is considered sufficient to return good results hence the sample of 160 matters can be expected to provide defensible results.

As noted though, not everything that is done by CLCs can (or indeed should) be quantified. The study assessed only direct legal services (such as information, advices and casework) and did not include the community legal education and policy and law reform activities that are commonly undertaken by centres in order to prevent legal problems or to intervene early to prevent problems escalating.

The activities that *have* been quantified indicate a very high rate of return compared, for example, to the cost benefit ratio of 1:2 or 1:3 that government typically regards as sufficient justification to proceed with a major infrastructure project involving, in some cases billions of dollars in public expenditure.

As the costs considered included the cost but not the benefit of all the centres' activities, the resulting ratio is likely to be conservative.

The average benefit of information and advices was found to be similar to the average benefit of cases; however, the number of information and advices that can be provided for the same cost considerably exceeds the number of cases, so that the total benefit of information and advices exceeded the total benefit of cases across the four centres. The Report recognised though that other benefits can be derived from conducting casework, for example, one strategic test case may resolve an issue that avoids the burden (and cost) on the legal system of many other individual cases.

There were very significant differences in the cost benefit ratios of the centres considered in this review, but every CLC had a cost benefit ratio that justified their value in economic terms.

The Report notes that there are a variety of reasons why economic cost benefit ratios may vary for individual CLCs, including that:

- the costs considered were the total costs for the CLC and all its activities (eg including community legal education and law reform), but the benefit was assessed only from direct legal service matters
- different types of law are associated with greater and lesser economic benefits, consequently centres focussing on areas of law underpinned by equity considerations will be assessed as having lower economic benefits compared to centres focussing on areas of law underpinned by efficiency considerations
- centres have triage assessment processes and different intake policies (especially for initial assistance) and may allocate, or are able to allocate, more or less resources to this stage, and
- greater costs may derive from the profile of the centres' underlying client base and/or the catchment (geographic or community of interest) upon which they draw. For example, services targeted at Indigenous or particular immigrant or seniors groups may require service providers to go out into the communities to engage with potential clients before legal needs can be expressed or identified, and services provided. The cost of providing services in this way, including the use of interpreters or taking into account cultural sensitivities, can significantly affect an economic assessment.