



AUSTRALIAN CAPITAL TERRITORY

SUBMISSION TO THE COMMONWEALTH GRANTS COMMISSION'S DISCUSSION PAPER 2008/12: ADMINISTRATIVE SCALE

February 2009



VIEWS ON THE COMMISSION'S ASSESSMENT POSITION

INTRODUCTION

The 2010 Review has been run as an iterative process between the Commonwealth Grants Commission (the Commission) and the States and Territories (the States) over the course of the past four years. As part of this process the ACT has provided a number of submissions in response to the Staff and Commission Discussion Papers, incorporating subsequent multilateral and bilateral discussions with Commission staff and other States. These submissions outlined the ACT's position as to the validity of the conceptual case behind a number of assessments and the proposed assessment methodologies.

It is noted that in some instances the position adopted by the Commissioners, as detailed in the latest Commission Position Papers, is at odds with that of the ACT. In the interests of brevity, the ACT has not sought to reiterate the entirety of its previously stated position unless new data or new thinking has been applied. In this light, a lack of objection does not imply support where such support has not been previously stated. As such, this submission encompasses the ACT's views solely on major issues.

THE QUANTUM OF FUNDING

In its submission to Discussion Paper 2007/09 *Assessing Scale disabilities in the 2010 Review*, the ACT indicated its concern that the proposed quantum of funding would understate the relative financial burden on the smaller States. The ACT demonstrated areas where it considered that the growth in certain elements of fixed costs should be recognised in the assessment and provided evidence to substantiate these claims. In particular it highlighted the growth in fixed Information and Communication Technology (ICT) costs.

The Commission has indicated in Position Paper 2008/12 *Administrative Scale – Including Functionalising Superannuation and Depreciation Expenses*, that the proposed assessment is not attempting to measure the State's fixed costs of service delivery. Rather, the assessment's focus is on measuring the minimum size of a bureaucracy required before any unit of service is delivered.

In light of this, it is important to note that the ACT's ICT costs, which are a permanent requirement for a minimum sized bureaucracy, comprise both capital and recurrent expenditure. Spending on capital represents acquiring actual ICT infrastructure, such as a database management system, whereas recurrent spending includes the staffing costs to operate and maintain this infrastructure, for example, the cost of employing a database administrator.

The Commission indicated that it considers capital costs to be adequately captured through the Capital Assessment and that capital disabilities related to administrative scale are captured through the application of expense weighted disabilities. Whilst the capital costs may be captured in the capital assessment, the ACT considers that the recurrent costs associated with ICT employee expenses are not adequately recognised in either the capital or the administrative scale assessment. The appropriate place for recognition of these costs is within the administrative scale assessment.

Why increased spending on ICT recurrent costs should be included in the assessment

Many ICT services provided to government staff are specifically for internal operations, not service delivery. Where all States adopt a common policy to use ICT to perform an internal

function, for example, the adoption of an electronic accounting system, the ACT considers the use of ICT to be standard state policy.

Employees that manage or maintain internal ICT systems are not delivering services to State populations. Rather, they are delivering services that enable the operation of State bureaucracies. Because these services are fundamental to State administrations, the ACT considers these ICT employees to form a part of the minimum State bureaucracies.

The ACT is unaware of any State government or government department that is not heavily reliant on ICT services. Evidence of this reliance is contained in recent publications pertaining to government use of ICT. For example, in the ATO's Annual Report for 2007-08, the Commissioner of Taxation states that:

“We have a fundamental reliance on information technology to deliver our operational outcomes...”

...We have an ambitious information technology strategy, which includes aspects of our ongoing change agenda. It supports our current processing systems, government policy and cyclic changes and, at the same time, prepares us for the next wave of technology change. We continue to work with the Australian Government and state and territory agencies to deliver whole-of-government services.”¹

Similarly, in its submission to the *Review of the Australian Government's Use of Information and Communication Technology*, the Australian Computer Society states:

“ICT now underpins virtually all aspects of our work lives and national productivity. It is essential to the effective and efficient running of Government and Government agencies...”

Costs associated with implementation, management and maintenance of ICT systems are often amongst the most significant ongoing costs for agencies...”²

Between the 2004 and 2010 Reviews ICT recurrent expenses have increased significantly as a result of, for example, the need for:

- cross-jurisdictional information sharing, which is often driven by the Australian Government, for example the Health sharing authorised patient data between hospitals;
- standardised output and compliance reporting;
- rising citizen expectation of on-line and mobile services such as online payment gateway, SMS absentee messages to parents, and Electronic patient discharge messaging; and
- new digital requirements in security, record keeping, automated workflow and collaborative virtual work environments.

To put into perspective the increasing complexity of ICT, and the need for more ICT employees to deal with this, is the fact that the ACT government's:

¹ Commission of Taxation Annual Report 2007-08:

<http://www.ato.gov.au/corporate/content.asp?doc=/Content/00166129.htm&page=74>

² <http://www.acs.org.au/attachments/GershonReview.pdf>

- monthly email SPAM has risen from 34,000 in 2005 to 1.4 million in 2008 – representing an annual growth rate greater than 240 per cent; and
- data storage has increased from 16,000 GB in 2004 to 53,000 GB in 2008 – an annual growth rate of 35 per cent annually, or total growth of 231 per cent over the period.³

The ACT considers there to be a strong conceptual case that ICT is essential to the internal operation of government, not just government service delivery. As such, there is a compelling case for the Commission to capture the growth in State government spending on ICT employees, which provide these essential services, in the administrative scale assessment.

How the quantum of funding should be updated to reflect State government use of ICT

Growth in recurrent spending on ICT employees has outpaced any wage or price related index. Evidence of this is presented in the following two tables. The table immediately below demonstrates the growth the ACT has experienced in spending on ICT staff for the period 2006-07 to 2008-09.

STAFFING ICT EXPENSES \$

Department	2006-07	2007-08	2008-09
ACT Health	2,744,194	3,503,896	4,077,513
Territory & Municipal Services	2,364,230	3,054,062	4,259,890
ACT Planning & Land Authority	709,903	814,114	1,053,699
Justice & Community Safety	673,284	852,346	1,265,958
Emergency Services Authority	789,257	866,815	1,039,510
Chief Ministers Department	78,581	81,315	92,949
Total	7,359,449	9,172,548	11,789,519
Growth rate (% year to year)	-	24.60	28.50

Source: InTACT.

Further evidence is provided by the results of the ABS periodical survey of Government Technology. Data from this survey are presented in the table below.

ICT STAFF WAGES AND SALARIES

\$million	1993-94	1997-98	1999-00	2002-03
State/Territory departments and agencies	169.4	284.0	435.0	710.0
Annual Growth factor (%)				17.7

Source: ABS cat. 8119.0 versions 1993-94, 1997-98, 1999-00 and 2002-03.

The Australian average growth rate for State spending on wages and salaries for ICT staff was 17.7 per cent per annum over the period of the survey.

In light of this evidence, the ACT has developed a proposal that it considers to be a reliable and robust method for updating the quantum of administrative scale funding to reflect the faster growth in the cost of ICT staff required to operate a minimum bureaucracy, since the 2004 Review.

³ Data supplied by INTACT.

The proposal is to:

- use 2004 as a base year with its indexation rate set to 100;
- determine the difference between the growth in administrative scale expenses (measured using the Commission's actual indexation rate) and the growth in State spending on ICT staff (measured using the ABS Government Technology survey growth rate) over the period of the 2004 Review; and
- apply the difference to the ICT-related share of the \$80.0 million injection (assumed to be \$26.7 million), made in the 2004 Review.⁴

Further details of this proposal are outlined in the following sections.

2004 as a base year

The appropriateness of using 2004 as a base year is conditional on whether the \$26.7 million injection by the Commission in the 2004 Review adequately captured the ICT staffing costs required for States to operate a minimum bureaucracy. The ACT considers the injection was adequate.

Growth in administrative scale expenses

For illustrative purposes the ACT has simulated expected annual growth using a combined wage and price index, weighted to reflect relative State expenditure. The wage price index carries a weighting of 80 per cent and the consumer price index 20 per cent. The growth factor has been projected over the forward years using the average growth for the period June 2004 to December 2008, however the actual assessment would be based on the Commission's indexation rate of administrative scale expenses.

Growth in State ICT staffing costs

The ACT proposes using the growth rate implicit in the ABS Government Technology survey data as a proxy for the growth in ICT staffing costs throughout the 2004 Review period of application.

It is acknowledged that the use of historical growth rates is less than ideal. However, in the absence of a further data request for the States, the ACT considers 17.7 per cent to be a conservative estimate of current growth.

Suitability of 17.7 per cent

A derived estimate of the current growth rate in State spending on ICT employees can be used to determine the suitability of using 17.7 per cent. For example, in 2007-08, the ACT Government spent \$31.8 million on wages and salaries for ICT employees⁵. Assuming the ACT's level of expenditure is reflective of all State Governments suggests that States had a combined total

⁴ \$26.7 million represents 1/3 of the \$80 million injection made in the 2004 Review. The Commission noted the injection was intended to capture legislation, technology and regulation impacts.

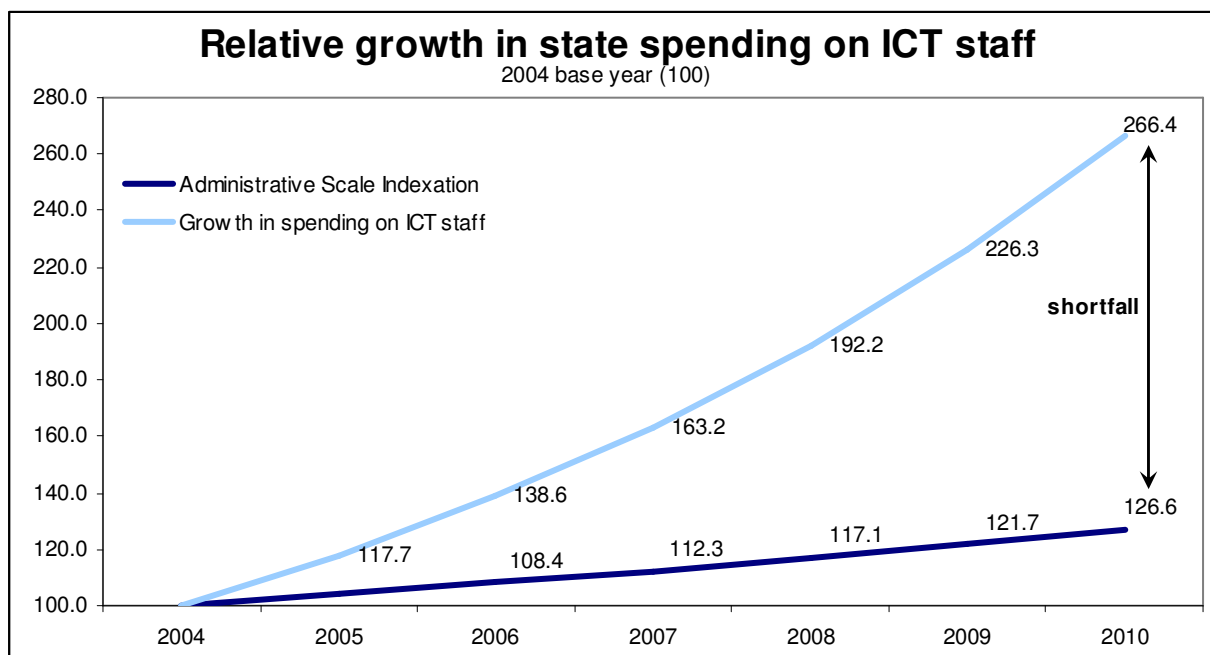
⁵ \$31.8 million includes employee superannuation expenses and excludes payment for contractors.

spend on ICT employees, in 2007-08, of \$1,988 million⁶. Relating this figure to the combined spend in 2002-03 produces an estimated annual growth rate of 22.9 per cent⁷.

As such, and in the absence of updated ABS data, the ACT is confident that 17.7 per cent is a reasonable and conservative proxy to use in measuring the growth of ICT wage costs.

Measuring the difference

The following diagram plots the difference between the estimated administrative scale growth and the constant growth in ICT staffing costs over the 2004 Review period based on the methodology outlined above.



Source: ABS cat. 8119.0: Government Technology;
 ABS cat. 6435.0: Labour Price Index – Australia – Table 20; and
 ABS cat. 6401.0: Consumer Price Index.

Application of the difference to State spending on ICT staff in the minimum bureaucracy

The projected difference in total growth over the 2004 Review operation period is 139.8 per cent. Applying this difference to the original 2004 funding injection of \$26.7 million yields an additional administrative scale cost of \$37.8 million in excess of the annually updated quantum. The ACT urges the Commission to provide a once-off injection of funding into the administrative scale assessment based on this suggested approach to reflect the growth in ICT staffing expenses experienced by all jurisdictions throughout the 2004 Review application period.

The ACT considers this method to be a robust and reliable approach that reflects the:

- growth in costs associated with ICT staff - forming an essential part of a State’s minimum bureaucracy – which has outpaced the growth in other administrative scale costs; and
- importance of ICT to State Governments.

⁶ Calculated as \$31.8 million / 1.6 per cent (ACT’s population share)

⁷ Calculated as $\left(\frac{1988}{710}\right)^{\frac{1}{5}}$

This proposal also acknowledges that only a proportion of ICT staff can be considered to form part of the minimum bureaucracy. Accordingly, such an injection would be consistent with the assessment's focus of assessing the minimum bureaucracy, rather than the fixed costs of service delivery. In addition, an injection maintains simplicity by avoiding the need for including an ICT staff expenditure related indexation factor, either by inclusion in, or in addition to, one of the assessment's proposed indexation rates.

OUTSTANDING ISSUES ON WHICH STATE VIEWS ARE SOUGHT

States have been invited to provide any information that might assist the Commission in understanding the extent to which intergovernmental workloads have increased, and specifically, provide any information that would allow the Commission to quantify the impact on States' minimum administrative costs.

The ACT is heartened that the Commission conceptually agrees there is an argument for reviewing the Administrative scale quantum to reflect the changes in intergovernmental workloads.

However, to quantify this impact in the manner asked by the Commission is difficult and next to impossible at this juncture. As clearly enunciated in the communication between the Commission and the Department of Prime Minister and Cabinet, significant changes to the level of activity stemming from COAG through its reform agenda for Federal Financial Relations and the broader economy, including the development and implementation of policies underpinning the three nation building funds, is clearly evident. The latter Department has restructured itself partly in response to the perceived need by the new Secretary to realign past structures with the new reform agenda and to set about increasing resources accordingly.

This realignment and additional increase in resources has been reflected in the Federal Treasury of recent times with a cascading effect through the many Commonwealth agencies in train against a background of ongoing efficiency dividends. What would be of interest is if the Commission were to ask the same question of the Australian Public Service as to how it has implemented, from a staffing perspective, the new reform agenda and importantly, what plans the major central agencies have for taking the reform agenda forward.

Clearly, the reform agenda encompasses all aspects of State service delivery, so one could expect a relative flow-on effect to State administrations based on the Federal experience.

From the ACT experience, it would be fair to say that most of the high level policy formulation underpinning the development of the architectural principles leading to the adoption by COAG of the new *Intergovernmental Agreement of Federal Financial Relations* were developed by key personnel in both the Treasury and Chief Ministers Department additional to their ongoing responsibilities.

Likewise, key senior personnel in the line agencies were tasked with additional duties via the many COAG Working Groups with flow on costs in travel, overtime, and allowances.

However, it is the next stage of the COAG agenda which could better reflect the resource implications required for the future. The various schedules to the IGA have now to be implemented across government requiring a fundamental redevelopment and implementation of a new performance reporting framework underpinning the five new national SPP agreements.

Likewise, a similar apparatus is required for the development and implementation of the New Partnership agreements to facilitate the COAG reform agenda.

Consequently, while we all understand what has been done to date and what is required for the future, resource allocation decisions are still pending. Clearly, and as reported in the national media, the heavy workloads of so few impacting on so many will need to be addressed in the not too distant future.

When the current fallout of the international economic crisis is taken into account in the sense of the stimulatory packages announced by the Commonwealth Government and the associated resources required to implement the policies as quickly as possible, a somewhat confused and difficult scenario arises particularly for the smaller jurisdictions as to how to manage the human resource process against diminishing budget bottom lines. The policy and implementation issues are the same for all jurisdictions; it is just a fact that smaller jurisdictions will have an increased burden relative to their larger state counterparts.

From a Commission 2010 perspective, the ACT would propose that the Commission explore the possibility of using the 2004 base as a placeholder in the planned interim report [subject to other adjustments, including the ITC proposal by the ACT] and seeking a head office staff survey to be conducted across all governments through their respective Public Service Commissions to ensure some consistency in approach for measuring the full time equivalent staffing impact of COAG.

INDEXATION

The ACT supports annually updating the administrative scale quantum to reflect the increase in State government costs. The Commission has proposed updating the assessment using a state and local general government price deflator. The ACT has concerns that this method will not accurately reflect the growth in the specific State costs that the Commission is attempting to capture in this assessment.

The Commission has indicated that ‘The Administrative scale assessment captures mainly salary costs’⁸. It has consistently applied this focus throughout the proposed assessment. For example, the Commission noted that the costs captured through the administrative scale assessment do not include the costs associated with providing floor space or capital equipment to a State’s minimum bureaucracy as they are picked up indirectly.

To maintain consistency throughout the proposed assessment, the adoption of a labour price index is required to measure the growth in administrative scale costs. The ACT is concerned that the application of a different index, in particular a price index, to State Government salary costs will not accurately reflect a State’s growth in administrative scale costs.

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⁸ Paragraph 13, Position Paper 2008/12: *Administrative Scale – including functionalising superannuation and depreciation expenses.*