

ADMINISTRATIVE SCALE

- 1 This working paper describes the expense assessment for Administrative Scale and provides information on its impact on GST revenue distribution for the 2008 Update. The development of the assessment method is discussed in Volume 7 of the 2004 Review Working Papers.
- 2 Administrative scale factors were assessed to recognise the per capita difference in the costs of operating the minimum administrative structures required to provide State services. These minimum structures comprise the part of State head offices which provide corporate services, policy and planning functions and some whole of State services (such as those provided by Treasuries and museums). The Commission decided the costs of operating minimum structures were the same for each State¹. That is, an equal per State assessment (hereafter fixed costs).
- 3 These fixed costs impose a greater per capita financial burden on the less populous States, so the assessment increased the GST revenue shares of the five less populous States and reduced the shares of New South Wales, Victoria and Queensland.
- 4 Estimates of the costs of operating minimum structures were made for each category. The fixed costs component weights, which reflect the proportion of total category expenses accounted for by fixed costs, are based on those estimates.

DERIVING THE SCALE FACTOR

- 5 Administrative scale factors are calculated by dividing a States' per capita fixed costs by the average per capita fixed costs. The factor is calculated as:

$$\text{Administrative Scale Factor} = \frac{FC_i}{P_i} \bigg/ \frac{FC_s}{P_s} = \frac{FC_i}{FC_s} \bigg/ \frac{P_i}{P_s} = \frac{\text{Fixed Costs Share}_i}{\text{Population Share}_i} \quad (1)$$

Where: FC = fixed costs amount
 P = population
 i, s signify individual States (i) or the States as a whole (s).

- 6 For most categories, the fixed cost expenses are the same for all States. In this case, the calculation simplifies to:

¹ For some categories, an adjustment was made for the ACT and/or the Northern Territory. These adjustments are discussed later.

$$\text{Administrative Scale Factor} = \frac{12.5 \text{ per cent}}{\text{Population Share}_i}$$

7 Table 1 shows the 2006-07 administrative scale factor for these categories.

Table 1 General administrative scale factors, 2006-07

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
Fixed costs share	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	100.0
Population share	32.9	24.8	19.8	10.0	7.6	2.4	1.6	1.0	100.0
Factor	0.38031	0.50456	0.63046	1.25230	1.65373	5.30328	7.74403	12.25245	1.00000

8 For some categories the fixed costs are not the same for all States. This occurs because adjustments are made to the assessed fixed costs for the ACT and the Northern Territory, discussed below. The administrative scale factor for these categories will be different from that shown in Table 1, the factor is calculated by dividing each State's per capita fixed costs by the average per capita fixed costs for all States.

9 The fixed cost amounts assessed for each category are updated annually for movements in price (measured using the consumer price index) and wage levels (measured using the public sector wage price index). Updating for the movement in price and wage levels increases the level of fixed costs assessed for each year but it does not change States' shares of those costs. Equation (1) shows that if States' shares of fixed costs do not change, the assessed factors do not change. Administrative Scale factors are updated annually for changes in mean resident population. Equation (1) shows that if States' population shares change, the assessed factors will change.

Calculating scale factors

10 Fixed costs are the minimum head office and whole of State expenses that each State needs to incur regardless of the size of its population. They are not the total administrative or head office costs. Administrative and head office costs in excess of the fixed costs amount are considered to be influenced by the size of the relevant service delivery task. They are included in other components of categories where disability factors that reflect the relative size of the task (such as socio-demographic composition factors) are applied.

11 The Commission used information from many sources to estimate fixed costs. It referred to annual reports, its own special data collections, the Productivity Commission, Australian Institute of Health and Welfare and Ministerial Council on Education, Employment, Training and Youth Affairs (MCEETYA) reports. The purpose was to obtain information about the head office and whole of State services expenses in the smallest States to give an indication of the smallest amount of fixed costs incurred in providing the services. Simulations were also undertaken of the cost of the minimum staffing numbers required to provide particular services.

12 The Commission undertook considerable work in the last two reviews to estimate fixed costs. Data on fixed costs were available for most expense categories or groups of categories but comprehensive estimates were derived using judgment. The Commission considered that the

estimates it made were robust. The general approach was largely supported by the States. They were provided with an opportunity to comment on the proposed estimates of fixed costs. They did not present evidence to cause the Commission to make major changes.

- 13 In the 2004 Review, the orders of magnitude of the fixed cost estimates used in the 1999 Review were largely confirmed. They were revised for changes in wages and price levels between the reference years in the two reviews and to recognise new head office functions, such as increased regulation and accountability responsibilities. In particular:
- the fixed costs were calculated by adding to the 1999 Review estimates, 10 per cent of costs previously classified as scale-affected variable costs and adjusting these amounts for changes in wage and price levels (between 1997-98 and 2002-03). For subsequent years, the 2002-03 fixed costs are updated for the annual movement in wage and price levels; and
 - adding \$10 million to the new fixed costs for new head office functions for each year to 2002-03. The \$10 million was spread across all categories according to the proportion to total fixed costs in each category. For subsequent years, the amount is updated for the annual movement in wage and price levels.
- 14 For some categories, a higher amount of fixed costs was assessed for the Northern Territory or a lower amount for the ACT. The Commission decided the very high proportion of Indigenous people in the Northern Territory necessitated dual planning and administrative structures for some functions. Additional minimum fixed costs were assessed for the Northern Territory for head office Indigenous functions of \$1.1 million each for the education, health, welfare (including Services to Indigenous Communities) and housing functions. For years after 2002-03, the amount is updated for the annual movement in wage and price levels.
- 15 For some categories, a lower amount of fixed costs was assessed for the ACT. The Commission decided the ACT did not need to provide some services, such as Services to Indigenous Communities, or it had a reduced need, such as in Primary Industry and Mining, Fuel and Energy. The following adjustments were made for the ACT:
- no minimum head office expenses for the Indigenous Community Services category;
 - total minimum fixed costs of one third of other States for the Primary Industry and Mining, Fuel and Energy categories; and
 - a fixed cost of \$0.1 million for Non-Urban Transport because of the ACT's co-ordination responsibilities for the sub-region. For years after 2002-03, the amount is updated for the annual movement in wage and price levels.
- 16 For each relevant category, component weights were determined by dividing total minimum fixed cost expense by total category expenses.

DERIVING ASSESSED SCALE EXPENSES PER CAPITA

17 Table 2 sets out the minimum fixed cost expenses assessed for each category for each year of the 2008 Update.

18 Table 3 sets out, for 2006-07, the adjustments for the ACT and the Northern Territory and their minimum fixed cost expenses after these adjustments have been made.

Table 2 Minimum fixed cost expenses by category, 2008 Update

	2002-03	2003-04	2004-05	2005-06	2006-07
	\$m	\$m	\$m	\$m	\$m
Pre-school Education	0.3	0.3	0.3	0.3	0.3
Government Primary School Education	4.4	4.6	4.8	5.0	5.0
Non-government Primary School Education	1.1	1.1	1.2	1.2	1.3
Government Secondary School Education	3.8	3.9	4.1	4.3	4.4
Non-government Secondary School Education	1.1	1.2	1.2	1.3	1.3
Vocational Education and Training	5.7	5.9	6.1	6.4	6.7
Inpatient Services	7.7	8.0	8.3	8.7	9.0
Non-inpatient and Community Health Services	2.4	2.5	2.6	2.7	2.8
Population and Preventive Health	4.4	4.6	4.8	5.0	5.2
Family and Child Services	1.4	1.5	1.6	1.6	1.7
Aged and Disabled Services	3.7	3.8	4.0	4.2	4.3
Homeless and General Welfare	0.7	0.8	0.8	0.8	0.9
Housing	5.6	5.8	6.0	6.3	6.5
Services to Indigenous Communities	0.6	0.6	0.7	0.7	0.7
Police	6.9	7.2	7.5	7.8	8.2
Administration of Justice	5.6	5.8	6.0	6.3	6.5
Corrective Services	3.1	3.2	3.4	3.5	3.6
Public Safety and Emergency Services	2.8	2.9	3.0	3.1	3.3
Culture and Recreation	9.7	10.1	10.5	11.0	11.4
National Parks and Wildlife Services	2.8	2.9	3.0	3.1	2.3
Electricity and Gas	1.1	1.1	1.1	1.2	1.2
Water, Sanitation and Protection of the Environment	0.8	0.9	0.9	0.9	1.0
Non-urban Transport	0.7	0.7	0.8	0.8	0.8
Roads	2.9	3.0	3.2	3.3	3.4
Urban Transit	1.9	2.0	2.1	2.2	2.3
Primary Industry	4.0	4.2	4.4	4.6	4.7
Mining, Fuel and Energy	4.0	4.2	4.4	4.6	4.7
Tourism	4.0	4.2	4.4	4.6	4.7
Manufacturing and Other Industry	4.0	4.2	4.4	4.6	4.7
Superannuation	0.8	0.9	0.9	0.9	1.0
General Public Services	58.8	61.1	63.5	66.2	68.8
Depreciation	6.2	6.4	6.7	7.0	7.2
Total ^(a)	163.2	169.7	176.4	183.8	191.2

(a) Minimum fixed costs apply for all States, with adjustments for the ACT and the Northern Territory.

Table 3 Minimum fixed cost expenses, the ACT and the Northern Territory, 2006-07

	Minimum	Adjustment		Total	
	Fixed Costs	ACT	NT	ACT	NT
	\$m	\$m	\$m	\$m	\$m
Pre-school Education	0.3	0.0	0.0	0.3	0.3
Government Primary School Education	5.0	0.0	0.3	5.2	5.6
Non-government Primary School Education	1.3	0.0	0.1	1.3	1.4
Government Secondary School Education	4.4	0.0	0.3	4.4	4.7
Non-government Secondary School Education	1.3	0.0	0.1	1.3	1.4
Vocational Education and Training	6.7	0.0	0.4	6.7	7.1
Inpatient Services	9.0	0.0	0.7	9.0	9.7
Non-inpatient and Community Health Services	2.8	0.0	0.2	2.8	3.0
Population and Preventive Health	5.2	0.0	0.4	5.2	5.6
Family and Child Services	1.7	0.0	0.3	1.7	2.0
Aged and Disabled Services	4.3	0.0	0.7	4.3	5.1
Homeless and General Welfare	0.9	0.0	0.1	0.9	1.0
Housing	6.5	0.0	1.3	6.5	7.8
Services to Indigenous Communities	0.7	-0.7	0.1	0.0	0.8
Police	8.2	0.0	0.0	8.1	8.1
Administration of Justice	6.5	0.0	0.0	6.5	6.5
Corrective Services	3.6	0.0	0.0	3.6	3.6
Public Safety and Emergency Services	3.3	0.0	0.0	3.3	3.3
Culture and Recreation	11.4	0.0	0.0	11.4	11.4
National Parks and Wildlife Services	2.3	0.0	0.0	3.3	3.3
Electricity and Gas	1.2	0.0	0.0	1.2	1.2
Water, Sanitation and Protection of the Environment	1.0	0.0	0.0	1.0	1.0
Non-urban Transport	0.8	-0.7	0.0	0.1	0.8
Roads	3.4	0.0	0.0	3.4	3.4
Urban Transit	2.3	0.0	0.0	2.3	2.3
Primary Industry	4.7	-3.2	0.0	1.6	4.7
Mining, Fuel and Energy	4.7	-3.2	0.0	1.6	4.7
Tourism	4.7	0.0	0.0	4.7	4.7
Manufacturing and Other Industry	4.7	0.0	0.0	4.7	4.7
Superannuation	1.0	0.0	0.0	1.0	1.0
General Public Services	68.8	0.0	0.0	68.8	68.8
Depreciation	7.2	0.0	0.0	7.2	7.2
Total ^(a)	191.2	-7.7	5.2	183.5	196.4

(a) Minimum fixed costs apply for all States, with adjustments for the ACT and the Northern Territory.

19 Table 4 shows the administrative scale factors for those categories where the minimum fixed cost expenses were the same for each State. These factors applied to all categories except those where an adjustment was made for the ACT or the Northern Territory.

Table 4 Administrative Scale factors, 2008 Update

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
2001-02	0.36967	0.50502	0.66500	1.27562	1.61029	5.17061	7.60969	12.30062	1.00000
2002-03	0.37163	0.50505	0.65625	1.27542	1.61983	5.20456	7.62737	12.39679	1.00000
2003-04	0.37399	0.50503	0.64798	1.27169	1.62923	5.20706	7.67283	12.45828	1.00000
2004-05	0.37639	0.50486	0.64050	1.26705	1.63845	5.22699	7.71326	12.40548	1.00000
2005-06	0.37851	0.50475	0.63467	1.26050	1.64672	5.26067	7.73442	12.31149	1.00000
2006-07	0.38031	0.50456	0.63046	1.25230	1.65373	5.30328	7.74403	12.25245	1.00000

20 Table 5 shows the factors for categories where minimum fixed cost expenses were not identical across States because of adjustments to the ACT or the Northern Territory. The education, health, welfare and housing categories had adjustments for the Northern Territory, while Non-urban Transport, Primary Industry and Mining, Fuel and Energy categories had adjustments for the ACT. The Services to Indigenous Communities category had adjustments for both the ACT and the Northern Territory.

Table 5 Administrative Scale factors, 2008 Update

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
Education categories									
2002-03	0.36854	0.50085	0.65080	1.26483	1.60637	5.16133	7.56402	13.11747	1.00000
2003-04	0.37089	0.50083	0.64260	1.26113	1.61570	5.16381	7.60911	13.18253	1.00000
2004-05	0.37326	0.50067	0.63519	1.25653	1.62485	5.18358	7.64920	13.12666	1.00000
2005-06	0.37536	0.50056	0.62939	1.25003	1.63304	5.21698	7.67018	13.02721	1.00000
2006-07	0.37715	0.50037	0.62523	1.24190	1.64000	5.25924	7.67972	12.96474	1.00000
Health categories									
2002-03	0.36814	0.50031	0.65010	1.26345	1.60463	5.15573	7.55581	13.21090	1.00000
2003-04	0.37048	0.50029	0.64190	1.25976	1.61394	5.15821	7.60085	13.27642	1.00000
2004-05	0.37286	0.50012	0.63450	1.25517	1.62308	5.17795	7.64090	13.22015	1.00000
2005-06	0.37495	0.50001	0.62871	1.24868	1.63127	5.21131	7.66186	13.11999	1.00000
2006-07	0.37674	0.49983	0.62455	1.24055	1.63822	5.25353	7.67138	13.05708	1.00000
Welfare categories									
2002-03	0.36390	0.49455	0.64262	1.24891	1.58616	5.09639	7.46885	14.20034	1.00000
2003-04	0.36622	0.49453	0.63451	1.24526	1.59537	5.09884	7.51336	14.27077	1.00000
2004-05	0.36856	0.49437	0.62719	1.24072	1.60440	5.11835	7.55295	14.21029	1.00000
2005-06	0.37064	0.49426	0.62147	1.23430	1.61249	5.15133	7.57367	14.10263	1.00000
2006-07	0.37241	0.49408	0.61736	1.22628	1.61936	5.19306	7.58308	14.03500	1.00000

Table 5 Administrative Scale factors, 2008 Update (cont.)

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
Housing									
2002-03	0.36265	0.49285	0.64041	1.24462	1.58072	5.07889	7.44320	14.49206	1.00000
2003-04	0.36496	0.49283	0.63234	1.24098	1.58989	5.08133	7.48757	14.56393	1.00000
2004-05	0.36730	0.49267	0.62504	1.23646	1.59889	5.10078	7.52702	14.50221	1.00000
2005-06	0.36937	0.49256	0.61934	1.23007	1.60696	5.13365	7.54767	14.39234	1.00000
2006-07	0.37113	0.49238	0.61524	1.22207	1.61380	5.17523	7.55705	14.32332	1.00000
Services to Indigenous Communities									
2002-03	0.41466	0.56353	0.73224	1.42310	1.80739	5.80720	0.00000	16.18092	1.00000
2003-04	0.41730	0.56350	0.72301	1.41894	1.81788	5.80999	0.00000	16.26117	1.00000
2004-05	0.41997	0.56332	0.71467	1.41377	1.82817	5.83223	0.00000	16.19226	1.00000
2005-06	0.42233	0.56319	0.70815	1.40646	1.83739	5.86981	0.00000	16.06958	1.00000
2006-07	0.42435	0.56299	0.70346	1.39731	1.84522	5.91735	0.00000	15.99252	1.00000
Non-urban Transport									
2002-03	0.41616	0.56557	0.73490	1.42826	1.81394	5.82825	1.22915	13.88237	1.00000
2003-04	0.41881	0.56555	0.72563	1.42408	1.82447	5.83105	1.23648	13.95122	1.00000
2004-05	0.42149	0.56536	0.71726	1.41889	1.83480	5.85337	1.24299	13.89210	1.00000
2005-06	0.42386	0.56524	0.71072	1.41156	1.84405	5.89108	1.24640	13.78685	1.00000
2006-07	0.42589	0.56503	0.70601	1.40237	1.85191	5.93880	1.24795	13.72073	1.00000
Primary Industry and Mining, Fuel and Energy categories									
2002-03	0.40541	0.55096	0.71591	1.39136	1.76708	5.67770	2.77359	13.52377	1.00000
2003-04	0.40799	0.55094	0.70689	1.38729	1.77734	5.68043	2.79012	13.59085	1.00000
2004-05	0.41060	0.55076	0.69873	1.38224	1.78740	5.70217	2.80482	13.53325	1.00000
2005-06	0.41291	0.55063	0.69236	1.37509	1.79642	5.73891	2.81251	13.43072	1.00000
2006-07	0.41489	0.55043	0.68778	1.36615	1.80407	5.78540	2.81601	13.36631	1.00000
Depreciation									
2002-03	0.37163	0.50505	0.65625	1.27542	1.61983	5.20456	7.62737	12.39679	1.00000
2003-04	0.37399	0.50503	0.64798	1.27169	1.62923	5.20706	7.67283	12.45828	1.00000
2004-05	0.37639	0.50486	0.64050	1.26705	1.63845	5.22699	7.71326	12.40548	1.00000
2005-06	0.37851	0.50475	0.63467	1.26050	1.64672	5.26067	7.73442	12.31149	1.00000
2006-07	0.38031	0.50456	0.63046	1.25230	1.65373	5.30328	7.74403	12.25245	1.00000

GST REVENUE DISTRIBUTION FOR THE 2008 UPDATE

21 Table 6 shows the factor's contribution to the distribution of GST revenue and Health Care Grants (hereafter described as GST revenue) for the 2008 Update.

Table 6 Administrative Scale, contribution to GST revenue distribution, 2008 Update

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
Contribution to the 2008 Update	-349.4	-202.4	-114.6	45.1	79.3	160.4	176.2	205.5	666.4

22 The Commission estimates that the five States with above average assessed expenses per capita — Western Australia, South Australia, Tasmania, the ACT and the Northern Territory — require additional assistance totalling \$665.4 million if they are to have the capacity to provide the average level of minimum administrative structures. The States with below average assessed expenses per person — New South Wales, Victoria and Queensland — are assessed to require \$665.4 million less in assistance.

Differences from an equal per capita assessment

23 The administrative scale assessment is based on an assumption that (aside from the adjustments made for the ACT and the Northern Territory) every State incurs the same minimum fixed cost expenses to provide the necessary administrative structures for service provision, regardless of population size. This assessment imposes a greater per capita financial burden on the less populous States, so the assessment increases their GST revenue share and reduces the share of the more populous States.

24 The Northern Territory was assessed to have additional assessed differences because it was compelled to operate two different service delivery models in providing education, health, welfare (including Services to Indigenous Communities) and housing for its Indigenous and non-Indigenous population.

25 The ACT was assessed to have reduced assessed differences because the Commission decided it did not need to provide some services at all (Services to Indigenous Communities) or it could provide services in a different way (Non-urban Transport, Services to Industry).

CHANGES IN THE GST REVENUE DISTRIBUTION: 2008 UPDATE COMPARED WITH 2007 UPDATE

26 Compared with an equal per capita assessment, the 2008 Update redistributed \$666.4 million from New South Wales, Victoria, and Queensland to the other States, \$28.1 million less than in the 2007 Update. The reduced redistribution arises because the Commission increases scale expenses by the annual movement in price and wage levels. This increase is less than the growth of GST revenues, so the proportion of expenses to which scale disabilities apply is declining as is the factor's impact on relativities.

27 Table 7 compares the contribution of administrative scale factors to the 2007 Update and the 2008 Update.

Table 7 Administrative Scale, contribution to GST revenue distribution, 2007 Update and 2008 Update

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total redist'd
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Redistribution from EPC resulting from the 2007 Update assessment (a)	-370.8	-209.3	-114.0	47.9	82.1	168.0	182.5	213.7	694.1
Redistribution from EPC resulting from the 2008 Update assessment (a)	-349.4	-202.4	-114.6	45.1	79.3	160.4	176.2	205.5	666.4
Total effect of revisions and updating^(b)	21.4	6.9	-0.6	-2.8	-2.8	-7.6	-6.3	-8.2	28.3

(a) Assessed using the same pool and populations that were used to calculate the 2008 Update distribution.

(b) This figure shows the change in the amount redistributed among the States between the 2007 Update and the 2008 Update. It does not necessarily equal the difference in the total redistribution from EPC between the two inquiries.

This chapter was prepared by the Expense — Education section of the Commonwealth Grants Commission. If you have any questions about its content please contact Nick Reddan on (02) 6229 8869 or Nick.Reddan@cgc.gov.au.



29/02/08