




Australian Government
Commonwealth Grants Commission

2025 Methodology Review

Administrative scale
consultation paper

October 2023

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Submissions sought by	<p>1 March 2024</p> <p>Submissions should be placed in your private state channel in CGC Engagement Teams, with a post notifying Katrina Baldock.</p> <p>Submissions should be in Word format and posted in the relevant state channel of the CGC engagement Team. Submissions more than 10 pages in length should include a summary section.</p>
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Overview of category

- 1 The administrative scale assessment recognises the minimum fixed costs incurred by states and territories (states) in delivering services. Administrative scale expenses are independent of the size of the service population and aim to measure unavoidable operating costs incurred by service delivery. Such costs and services can be associated with:
 - core head office functions of departments (for example, corporate services, policy and planning functions), but not all head office costs incurred in operating such functions and delivering services
 - services provided for the entire state (for example, the judiciary, the legislature, the treasury, the revenue office), but not all staffing and resource costs incurred in operating and delivering such services.
- 2 Not all fixed costs or 'head office type costs' are included in the administrative scale assessment. This is strictly an assessment of the minimum fixed costs that do not vary with service populations. All remaining costs vary with the size of the function being undertaken. As such, they are part of the service delivery expenses of each category and are therefore assessed according to category needs.
- 3 Smaller state populations have intrinsically higher per capita costs because the minimum functions and services of government are distributed across fewer residents. State expenses incurred in liaising with the Commission demonstrate the conceptual case for administrative scale. States have a broadly similar number of treasury officers dealing with Commission matters and any variation is not related to state size. Because this function imposes a fixed cost for all states, smaller states consequently face higher per capita costs. The administrative scale assessment accounts for these costs.

Current assessment method – 2020 Review

- 4 In assessing state spending, the method recognises:
 - the unavoidable fixed costs incurred by states to sustain integral government functions, and that per capita costs vary between states
 - that the cost of producing state government services has increased since the quantum of administrative costs was estimated
 - differences in wage costs among states.
- 5 In the 2020 Review the Commission re-estimated administrative scale costs for the first time since the 2004 Review. In this comprehensive process the Commission applied 2 main approaches to estimating administrative scale costs:
 - bottom-up approach: deriving the basic structure and staffing for a given department or function and costing it ('stylised' average minimum costs)

- top-down approach: estimating the lowest constructed cost with reference to head offices and whole of state services in the smallest states, without any references to volume of service.
- 6 Both approaches for deriving administrative scale costs involve judgement (particularly in relation to estimating minimum staffing costs). The Commission applied the same approach and the same assumptions for each function.
 - 7 These estimates calculated in the 2020 Review are indexed to reflect changing costs. The relative state wage costs are applied to 60% of the indexed expenses, reflecting the estimated labour cost proportion of total expenses in this function.¹
 - 8 The ACT's administrative scale expenses are adjusted to reflect that it does not need to provide the minimum functions for First Nations communities, non-urban transport, agriculture and mining. The Northern Territory's administrative scale expenses are adjusted to reflect additional costs faced in engaging with First Nations community members and stakeholders for policy development and coordination.
 - 9 The updated estimates of administrative scale costs for the 2020 Review were higher across all categories.

Data used in the assessment

- 10 Commission estimates of administrative scale expenses calculated using 2016–17 data are updated annually using the Australian Bureau of Statistics (ABS) State and Local Government Final Consumption Expenditure deflator.

Category and component expenses

- 11 State expenses on administrative scale were around \$3 billion in 2021–22, or 1% of total state expenditure (see Table 1).

¹ Commonwealth Grants Commission, [Wage costs consultation paper](#), CGC, 2023, pp 6–7.

Table 1 Administrative scale expenses by state and category, 2021–22

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Schools	23	23	23	23	23	22	24	23	184
Post-secondary education	12	12	12	12	12	12	13	12	98
Health	43	43	43	43	42	42	45	44	345
Housing	14	14	14	14	14	14	15	15	115
Welfare	14	14	14	14	14	14	15	15	115
Services to communities	32	32	31	32	31	31	32	32	253
Justice	53	53	52	53	52	51	55	54	424
Roads	13	13	13	13	13	13	14	13	105
Transport	11	11	11	11	11	10	10	11	86
Services to industry	36	36	36	36	35	35	26	37	277
Other expenses	133	132	131	133	130	128	139	137	1,065
Total expenditure (\$m)	387	383	381	387	377	370	389	393	3,067
Proportion of total expenditure (%)	0.5	0.6	0.6	1.0	1.9	5.7	6.8	6.4	1.1

Source: Commission calculation, 2023 Update.

Note: Estimated administrative scale costs for 2016–17 data scaled to 2021–22 using the ABS SLGFCE, with wage costs applied.

GST distribution in the 2023 Update

- 12 The extent to which the administrative scale assessment results in a different distribution of GST compared with an equal per capita distribution is shown in Table 2. The category distributed \$1.5 billion (\$57 per capita) away from an equal per capita share in the 2023 Update.

Table 2 GST impact of the administrative scale assessment, 2023–24

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total effect
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Total (\$m)	-711	-499	-303	80	198	376	412	447	1,513
\$pc	-86	-74	-56	28	107	644	876	1,719	57

Source: Commission calculation, 2023 Update.

- 13 The assessment distributes GST away from the 3 larger states to the other states. The largest per capita redistributions go to Tasmania, the ACT and the Northern Territory.

What has changed since the 2020 Review?

- 14 The process of governing is changing. Mr Peter Woolcott AO, the outgoing Commonwealth Public Service Commissioner, identified a number of changes in the federal bureaucracy, many of which are likely to be replicated in how states govern.²
- Technology is driving an evolution in how administrative services are provided, with artificial intelligence having the potential to accelerate this. Such change could be expected to affect the ratio of fixed to variable costs in the future.
 - There are indications of changing approaches to governing. At a federal level, the implications of the Robodebt Royal Commission could change public service governance, leadership behaviours and culture. Such changes could affect the structure of government and the scale of centralised functions that drive the size of administrative scale type expenses.
 - There is also an increasing focus on partnerships with communities and place-based policy. If this focus reduces centralised policy development, the level of resources required for policy development could be driven more by the size and diversity of state populations rather than an equal per state driver.

Implications for assessment

- 15 While these and other developments may affect the size of the fixed costs of running government, it is too early to tell how these changes will be manifested. The Commission has not found evidence of any major change since the 2020 Review that would mean that the size of the administrative scale expenses has not simply grown with other costs facing state government.

Consultation question

- Q1. Do states support the continuation of the administrative scale expense assessment in its current form?

Proposed assessment

Differences from the 2020 Review approach

- 16 Subject to state views, the Commission's preliminary view is that no changes are required from the 2020 Review approach.

² P Woolcott AO, [APS Commissioner Peter Woolcott AO - Valedictory Address](#) [media release], Australian Public Service Commission, 3 May 2023, accessed 22 August 2023.

New data requirements

- 17 If the 2020 Review methods are maintained, the Commission will not require new data from states.

Consultation

- 18 The Commission welcomes state views on the consultation question identified in this paper (outlined below) and the proposed assessment. State submissions should accord with the 2025 Review framework. States are welcome to raise other relevant issues with the Commission.

Q1. Do states support the continuation of the administrative scale expense assessment in its current form?