



Commonwealth Grants Commission — 2020 Review
*Proposed approach to estimating administrative scale costs for the
2020 Review*

Response to Staff Research Paper CGC 2017-06-S

Submission by the South Australian Department of Treasury
and Finance
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INTRODUCTION

South Australia welcomes the Commission's decision to treat the re-estimation of the quantum of administrative scale costs as a priority issue for the 2020 Review.

South Australia supports the continuation of the administrative scale assessment as it enhances horizontal fiscal equalisation by recognising the diseconomies of scale faced by the smaller states and territories (states) in providing standard government services. As administrative scale affects the cost of providing services across all expenditure categories, it is important that the quantum of these expenses is reviewed and updated to ensure that the Commission's assessments continue to reflect the service delivery task faced by the states.

This submission provides South Australia's responses to the issues raised in Commission Staff Research Paper CGC 2017-06-S, which outlines Commission staff's proposed approach to estimating administrative scale costs for the education and health functions. The intention is for this work to form the basis for the estimation of administrative costs in other service delivery areas.

Overall, South Australia is supportive of the proposed approach, however, we note that there are some areas in the stylised health structure that the Commission may want to consider which could have implications for the estimation of administrative scale costs. We will work with the Commission to provide any necessary supporting data to revise its estimates.

RE-ESTIMATING ADMINISTRATIVE SCALE COSTS FOR EDUCATION AND HEALTH

Commission staff are seeking comments on their attempt at determining:

- *the national average machinery of government for the education and health functions, covering departments and main agencies/authorities/boards (number and type);*
- *the typical head office functions; and*
- *the stylised average structure and minimum staff required.*

Commission staff are also seeking an indication of whether states are able to provide state education and health department head office data on:

- *staffing numbers by classification and function;*
- *salaries by classification; and*
- *expenses split between salary and non-salary costs.*

The Commission has long recognised the need for an administrative scale assessment that captures the costs of providing the minimum level of administration required for a state government to function.

Under the Commission's assessment, each state is assessed as having the same administrative scale requirement regardless of population, with the exception of ACT (which faces lower costs as it does not need to provide the average level of service in some areas) and the Northern Territory (which faces higher costs as it operates a dual service delivery model to cater for the additional needs of its relatively large Indigenous population). The result of this assessment is that states with smaller populations are assessed to have a greater per capita cost and therefore a disability factor above 1.00.

The Commission's estimates of administrative scale costs are based on information provided in the 1999 and 2004 Reviews. As a result, the re-estimation of administrative scale costs is welcome.

Commission staff propose to re-estimate administrative scale costs through a "bottom up" approach, under which relevant costs for each function are estimated with reference to a stylised average minimum administrative structure. The validity of the estimated costs would then be tested through a "top down" approach, whereby the estimated costs are compared to information on the head offices and state-wide services in the smallest states.

Re-estimating administrative scale costs for education

South Australia supports the proposed approach to estimating administrative costs for education. While South Australia would generally be able to provide the required data, we note that it may be difficult to separate early childhood costs and functions from those relating to schools.

Re-estimating administrative scale costs for health

Commission staff propose an average minimum agency structure that includes three divisions, namely:

- Public Health;
- Strategy and Planning; and
- Corporate Services/Health Procurement.

Based on this structure, Commission staff estimate a minimum staffing level of 170, comprising:

- 1 Secretary/CEO plus 2 staff;
- 3 Division Heads plus 3 personal assistants;
- 17 Branch Heads plus 8 personal assistants; and
- 34 Managers plus 3 staff for each Manager.

South Australia recognises the challenge posed by the diversity of state head office structures in attempting to design a stylised structure upon which to base the calculation of administrative scale costs. Notwithstanding this, South Australia notes that, of the 17 Branch Heads in the stylised structure, there does not appear to be a commissioning function. While some states, such as South Australia, provide the commissioning function outside the head agency, we note that other states provide this function within the agency. As such, there may be merit in investigating the extent to which including the commissioning function in the stylised agency structure would produce an estimate of administrative scale costs that is better aligned with what states do on average.

South Australia also notes that the stylised structure does not appear to reflect sufficient staffing levels at the Branch Head level. The stylised structure estimates an average of one personal assistant to two Branch Heads, however, South Australia's experience is that each Branch Head would have one personal assistant allocated to them. This may be due to the larger number of more diverse portfolio areas that are managed by Branch Heads in South Australia than perhaps in a larger jurisdiction.

South Australia broadly agrees with Commission staff that health practitioner registration and complaint management functions are mostly undertaken by organisations that have little impact on state budgets, such as the Australian Health Practitioner Regulation Agency (AHPRA). However, we note that in South Australia complaints about a health practitioner that is not registered by AHPRA (e.g. social workers and paramedics) are dealt with by the Health and Community Services Complaints Commissioner, which is funded by the South Australian Government. The Commission may wish to consider including the relevant staff in the stylised structure.

South Australia should be able to provide the health department information referred to in the staff paper.

Next steps

While there are issues to be considered regarding the construction of the average minimum administrative structure for health, South Australia supports the overall approach proposed by Commission staff and considers that the work being done in relation to education and health is a suitable starting point for re-estimating administrative scale costs across all expenditure categories. We note that as part of this work, the list of main state agencies by category (as shown in Table 2 of the staff

research paper) will need to be updated during course of the 2020 Review to reflect machinery of government changes since 2016.