

Commonwealth Grants Commission 2020 Methodology Review

Tasmanian Government Submission in response to Staff
Discussion Paper (CGC 2017-06-S) *Proposed approach to estimating
administrative scale costs for the 2020 Review*

August 2017



Tasmania
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CONTENTS

KEY POINTS	i
INTRODUCTION	1
RE-ESTIMATING ADMINISTRATIVE SCALE COSTS	2
EDUCATION FUNCTION	4
National average machinery of government for the Education function	4
Typical head office functions for the Education function	4
Average structure and minimum staff required for the Education function	4
Staffing numbers by classification, salaries by classification, and head office expenses	5
HEALTH FUNCTION	6
National average machinery of government for the health function	6
Typical head office functions for the health function	6
Average structure and minimum staff required for the health function	6
Staffing numbers by classification, salaries by classification, and head office expenses	7

KEY POINTS

- Tasmania supports the Commission's proposal to re-estimate the quantum of administrative scale costs as a priority for the 2020 Methodology Review.
- Consistent with its submissions to the 2010 and 2015 Methodology Reviews, Tasmania remains of the view that the existing data requires updating as it potentially underestimates the administrative scale costs incurred by smaller States and Territories (States). Tasmania welcomes the opportunity to work with the Commission to re-estimate the quantum of administrative scale expenses.

EDUCATION

- Tasmania considers the conclusion in the Staff paper that the average machinery of government for the education function is one department of education and one teacher registration board to be reasonable.
- At this stage Tasmania has no major concerns with the initial stylised organisational chart for the education function although it may need to reflect on this as the review progresses.
- Tasmania accepts the Staff assessment that it considers it standard practice for States to oversee TAFE/VET activities. Commission Staff note that in the two smallest States it is administered through their education departments and so this is assumed to be the minimum structure. In Tasmania's case it is a separate function and so this assumption would underestimate this administrative cost for Tasmania.
- Tasmania considers that the initial estimate of 133 staff, as the minimum administrative workforce, could understate the staffing levels required to adequately support the average structure of the education function.
- Tasmania agrees that the costing methodology appears practical.

HEALTH

- Tasmanian considers the Commission Staff conclusion that the average machinery of government for the health function is one department of health to be reasonable.
- Tasmania believes there is a case for including the ambulance function as an eighteenth branch in the proposed average structure of health departments.
- Tasmania is concerned that the initial minimum staffing estimate of 170 employees may also be an underestimate.
- Tasmania does not have any significant issue with the preliminary costing methodology.

INTRODUCTION

Tasmania welcomes the opportunity to comment on the Commonwealth Grants Commission's (CGC) Staff Research Paper – *Administrative Scale: Proposed approach to estimating administrative scale costs for the 2020 Review (CGC 2017-06-S)*.

Tasmania understands that the Commission is not proposing a change to the definition of administrative scale costs and has tentatively accepted the Staff recommendation to leave the definition of administrative scale costs largely unchanged from that used since the 2004 Methodology Review. Although the conceptual case for the administrative scale assessment has evolved, Tasmania notes the continuity in the Commission's recognition that States face an administrative scale disability in providing services, and that this has always related to the cost of administering the various departments of government independent of the size of the service population.

Tasmania notes that the Commission has long acknowledged that States with smaller populations have intrinsically higher per capita costs as the minimum functions of government are spread over a smaller number of residents. Tasmania agrees with this rationale as the administrative scale assessment captures the cost of providing services (independent of the service population), indicating that each State therefore has the same requirement. Within this context, Tasmania considers that the most appropriate assessment is an equal per State assessment, which implies a greater per capita cost for the smaller States.

Tasmania supports the Commission's proposal to re-estimate the quantum of administrative scale costs as a priority for the 2020 Methodology Review given the data is now outdated. Last re-estimated in the 2004 Methodology Review, the administrative scale costs have since been indexed in both the 2010 and 2015 Methodology Reviews. Despite supporting an update, Tasmania would question why the Commission is proposing to simply re-estimate administrative scale costs using the same methodology rather than considering alternative approaches, as it did in the 2015 Methodology Review, when it applied three different methods. Within this context, Tasmania notes that it intends to consider this matter in more detail as the review progresses.

Tasmania considers that the current administrative scale assessment could underestimate the minimum administrative costs incurred by the States. Tasmania continues to be supportive of a robust and sustainable administrative scale assessment that is supported by quality, fit for purpose data and looks forward to assisting Commission Staff in this review.

RE-ESTIMATING ADMINISTRATIVE SCALE COSTS

Tasmania expressed disappointment, that because of the shortened time frame of the 2015 Methodology Review, the Commission was not able to undertake a comprehensive data survey to accurately gauge the quantum of administrative scale costs. It is understood that the Commission will now attempt to re-estimate the administrative scale costs utilising two primary methods that were applied in the 1999 and 2004 Reviews:

- deriving the basic structure and staffing for any given department/function and costing it (bottom up approach); and
- making estimates by reference to the size of head offices and State-wide services in the smallest States, after removing any staffing/expenses considered inconsistent with the average minimum structure (top down approach).

Bottom-up Approach

It is noted in the Staff paper that the bottom up approach was used in the 1999 and 2004 Reviews, and involves building a minimum size head office from the ground up.

As detailed in the Staff paper, this comprises four principal steps:

- establish the average machinery of government or average departmental structure;
- establish common functions;
- establish a stylised average minimum structure and minimum staffing numbers for the common functions; and
- establish an average cost per staff, including overheads, to apply to the minimum staffing structure.

While the average machinery of Government, stylised organisational structure, and staffing per unit costs are based on what states do, it is not clear from the bottom up approach how the minimum staffing numbers for the common functions have been derived and thus, they appear to be arbitrary in nature.

Top down Approach

In the Staff paper, it is proposed that the bottom up approach will be validated by applying a top down approach. It is understood that this will involve examining the size of the head office and State-wide services in the smallest States adjusted to exclude staffing/expenses considered inconsistent with the stylised minimum structure. This would establish an upper limit based on observed staffing levels for the smallest State's head offices from the Productivity Commission's Report on Government Services (RoGS).

Tasmania does not share the Commission Staff view that the top down approach validates the bottom up estimate. As noted in the Staff paper, it is an upper limit and in the case of the smallest head office States, (Tasmania and ACT), education staffing levels are twice the 133 estimate of the bottom up approach. Tasmania notes that the RoGS data for Tasmania does not support the Commission Staff initial estimate of education administrative scale costs and we will investigate why this might be the case in the course of the review.

As noted in the Staff paper, in the case of health, the top down approach head office staffing levels in the ACT and the Northern Territory (for which external nationwide data is available) is significantly greater than the estimated Staff number of 170. Tasmania recommends that the Commission investigate a more robust approach to confirming its bottom up estimate.

Tasmania would also argue that the reason the preliminary estimates yield similar results to the 2004 Methodology Review is in large part due to the fact that the same methodology has been used.

EDUCATION FUNCTION

The following information has been provided, in consultation with the Tasmanian Department of Education (DoE), for the preliminary review of the administrative scale assessment.

National average machinery of government for the Education function

Tasmania considers the Staff conclusion, that the average machinery of government for the education function is one department of education and one teacher registration board, to be reasonable.

Tasmania also accepts the Staff assessment that it is standard practice for States to oversee TAFE/VET activities but, from an administrative scale perspective where the focus is the minimum structure of government, this function has been assigned to the department of education.

Tasmania considers the Staff approach to calculating the administrative cost of the Teacher Registration Board based on actual costs for the smallest States as opposed to developing a minimum organisation structure acceptable in its application given these organisations are relatively small and do not warrant a detailed bottom up approach.

Typical head office functions for the Education function

Tasmania considers the Commission Staff summary of the typical head office functions for the education function to be reasonable.

Average structure and minimum staff required for the Education function

Average Structure for the education function

Tasmania considers that the Commission Staff proposed average structure of education departments, as depicted in the research paper, partly reflects the functional structure of Tasmania's DoE.

Minimum staff required for the education function

While Tasmania generally supports the proposed education organisation structure, it has previously expressed the view that the estimate of the minimum staff required for the education function does not adequately validate the diseconomies faced by smaller jurisdictions and that this ultimately underestimates the administrative scale costs borne by smaller States. As previously noted, Tasmania is concerned that the minimum staffing estimate of 133 employees in the Staff paper is only slightly higher than that estimated in the 2004 Review (which Tasmania argued was an underestimate).

Further, it is unclear to Tasmania why the Commission considers the RoGS data, (which excludes TAFE/VET and therefore underestimates head office staff), indicates that the Commission's estimate of 133 employees is justified. The 2016 RoGS results also illustrate that the Commission's estimation of 133 employees is well below the averages, over a five year period, for Tasmania and the ACT.

While it is understood that administrative scale costs will be lower than the RoGS out of school expenses of the smaller States as it is intended to reflect the minimum cost independent of the size of the population, Tasmania is uncertain how the Commission Staff estimation was calculated and

whether in fact it is reasonable. Tasmania is of the view that it is somewhat arbitrary and would require more detail to assess its validity.

Costing the staffing numbers for the education function

Tasmania agrees that the costing methodology appears practical and will be enhanced by State data on staffing levels by classification and salary provided it is made available.

Tasmania notes that the Staff research paper used publicly available information in its preliminary findings and that this may be subject to change as the review progresses.

Staffing numbers by classification, salaries by classification, and head office expenses

Tasmania continues to be supportive of a robust administrative scale assessment methodology and is of the view that the existing quantum is outdated and requires re-estimation.

Subject to confidentiality arrangements, Tasmania is prepared to provide the following information to the Commission as the review progresses:

- staffing numbers by classification;
- salaries by classification; and
- head office expenses (split between salary and non-salary costs).

HEALTH FUNCTION

The following information has been provided, in consultation with the Tasmania Department of Health and Human Services (DHHS), for the preliminary review of the administrative scale assessment.

National average machinery of government for the health function

Tasmania considers the Commission Staff conclusion, that the average machinery of government for the health function is one department of health, to be reasonable.

Typical head office functions for the health function

Tasmania considers the Commission Staff summary of the typical head office functions for the health function to be reasonable.

Average structure and minimum staff required for the health function

Average Structure for the health function

Tasmania considers that the Commission's proposed average structure of health departments as depicted in the Staff research paper, generally reflects the functional structure of Tasmania's DHHS.

Tasmania notes that the Staff paper, which discusses the subject of ambulance services, does not adequately articulate why the ambulance function is not depicted in *Figure 4: Proposed average structure of health departments*. Tasmania would argue that, despite jurisdictional differences in the location of ambulance services and/or contractual arrangements, (private sector contracts), every jurisdiction provides fundamental system planning and corporate governance for this core health function. Consequently, Tasmania believes there is a case for including the ambulance function as an eighteenth branch in the proposed average structure of health departments.

Minimum staff required for the health function

As with the education function, Tasmania is concerned that the minimum staffing estimate of 170 employees, as proposed in the Staff paper, is also an underestimate and not supported by other external data. Tasmania will examine this estimate and provide evidence as part of a subsequent submission to this review.

Tasmania notes that the Staff calculations in paragraphs 69 and 70 of 170 employees, appear to be highly sensitive to a subjective assumption that there are two subordinate managers per senior manager and three staff per subordinate manager. Tasmania considers the Commission's approximation could underestimate the complexity of the minimum staffing required for the health function.

Tasmania's view is supported by the Commission's own *reality check*, where the ACT and the Northern Territory head office-type staffing numbers are significantly higher than the Commission's estimation of 170. The Staff paper identifies that its estimate is well below the numbers quoted in the States' relevant annual reports. Tasmania would query such a large discrepancy and seek further clarification from the Commission relating to this estimation. Tasmania would consider it preferential that the Commission base its estimates, where possible, on robust data rather than somewhat arbitrary judgements.

As with the education function, Tasmania's preliminary investigations into the State's head office-type staffing numbers suggest a figure significantly higher than the Commission Staff estimation. Tasmania welcomes the opportunity to investigate these differences further as the review progresses.

Costing the staffing numbers for the health function

Tasmania agrees that, although subjective, the costing methodology appears reasonable.

Tasmania notes that the Staff research paper used publicly available information in its preliminary findings and that this may be subject to change as the review progresses.

Staffing numbers by classification, salaries by classification, and head office expenses

Subject to confidentiality arrangements, Tasmania is prepared to provide the following information to the Commission as the review progresses:

- staffing numbers by classification;
- salaries by classification; and
- head office expenses (split between salary and non-salary costs).