



AUSTRALIAN CAPITAL TERRITORY

2020 Review

**ACT Response to the Commonwealth Grants Commission's Staff Research
Paper**

ADMINISTRATIVE SCALE

**Proposed approach to estimating administrative scale costs for the 2020
Review**

CGC 2017-06-S

September 2017

**Chief Minister, Treasury and
Economic Development Directorate**

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1 BACKGROUND

This submission addresses the issues raised and information sought in the Commonwealth Grants Commission (CGC) Staff Research Paper CGC 2017-06-S titled '*Administrative Scale – Proposed approach for estimating administrative costs for the 2020 Review*' issued in April 2017.

The CGC has defined administrative scale costs as those incurred by States in delivering services, which are independent of the size of the population serviced. Examples of such costs are those occurring in head-office functions of departments (corporate services, policy and planning functions etc) and in services provided to the whole of the State (the legislature, the judiciary, the Treasury etc).

- The key aspect in the definition is the independence of the cost with regard to service population, which in effect makes the administrative scale costs the minimum fixed cost that a State confronts (the rest of the fixed costs are considered along with the relevant service delivery component in the related expense assessment).

The administrative scale assessment is a critical one for the small States, namely the Northern Territory (NT), South Australia (SA), Tasmania (TAS) and the ACT, as it recognizes the intrinsic diseconomies of scale that such States encounter and redistributes GST revenue to those States to provide them with the capacity to overcome that disability.

The CGC had used the 'top-down' and 'bottom-up' approaches to estimate administrative scale costs in the 1999 and 2004 reviews.

- Bottom-up approach – Derivation of a basic structure and staffing for a department/function and then costing it.
- Top-down approach – Estimation by reference to the size of head-offices and State-wide services in the smallest States, after removal of any staffing and expenses unrelated to the average minimum structure.

Subsequently, in the 2010 Review, the CGC determined that previous estimates were robust and that a full review would probably not produce materially different outcomes. Hence, the costs determined in the 2004 Review were indexed to reflect price changes and used for the administrative scale assessment.

In the 2015 Review, the CGC attempted to use some different approaches to re-estimate administrative scale costs, including a regression approach using Productivity Commission and Government Finance Statistics (GFS) data. However, none of the alternative approaches produced satisfactory results and the CGC reverted to using the price indexation method based on the 2004 Review quantum for determining administrative scale costs.

Over the last couple of reviews, the small States have contended that the CGC's estimates of administrative scale costs significantly underestimate their challenges emanating from diseconomies of scale. Hence, the ACT welcomes the CGC's intent to prioritise administrative scale cost estimation for the 2020 Review and appreciates the opportunity to comment on the CGC staff's research paper.

The ACT Treasury has worked with the ACT Education Directorate, Skills Canberra and the ACT Health Directorate to frame this response to the questions asked and comments sought on the research paper.

2 General Comments on the Research Paper

Definition of Administrative Scale Costs (paras 3 and 4, p. 2)

The ACT concurs with the CGC staff's definition of administrative scale costs as the minimum costs incurred by a State in delivering services independent of the State's population.

Description of the bottom-up and top-down approaches (para 9, p. 4)

The ACT notes that the top-down approach is defined as estimation by reference to the size of head-offices and State-wide services in the smallest States, after the removal of any staffing and expenses unrelated to the average minimum structure. The ACT considers that there is scope for more clarity regarding the removal of staffing and expenses inconsistent with average minimum structure. Guidance via examples of the types of head office and State-wide functions which should be included and which excluded would be helpful. It would also be useful to have a rule of thumb as to what proportion of total State head-office staff the CGC would consider to be consistent with the average minimum structure.

The ACT observes that, in deriving estimates for Education and Health, the CGC staff has used top-down estimates to corroborate the bottom-up estimates, rather than as an alternative estimation approach. Thus, the top-down approach does not seem to be an estimation approach per se, but a validation approach. Hence, the ACT suggests that the CGC can revise para 9 to:

"Commission staff intend to derive estimates through a bottom-up approach and corroborate the estimates using a top-down approach."

The two definitions of bottom-up approach and top-down approach can follow thereafter.

Table 2, State agencies in Education/Post-secondary education (p. 7, para 28, p.15)

The table shows Education and Training Directorate to be the only government department responsible for school and post-secondary education in the ACT. However, the departmental structures in the ACT have changed recently. While the Education Directorate is responsible for school education, Skills Canberra within the Chief Minister Treasury and Economic Development Directorate is the agency responsible for regulating and executing the ACT government's policies on post-secondary education.

The ACT requests CGC staff to update the document accordingly.

Table 2, State agencies in 'Other Expenses' category (p. 11)

The ACT recommends that the Chief Minister, Treasury and Economic Development Directorate be broken down into two streams – the Chief Minister stream and the Treasury stream. This will facilitate comparison with other jurisdictions.

Likewise, there is a missing element in the list of agencies captured in the 'Other Expenses' category on page 11:

- The Office of the Legislative Assembly provides procedural and administrative advice and support to the Assembly and its committees. The office is staffed by public servants but is not subject to the direction of the ACT Executive.

Boards overseeing curriculum and assessment for years 11 and 12 (para 27, p. 14)

The ACT notes CGC staff comment that the board overseeing curriculum and assessment for years 11 and 12 has only unpaid positions. This is not entirely accurate. The Board of Senior Secondary Studies (BSSS) in the ACT consists of active members of the ACT Public Service including an Executive Director. Indeed, there are some unpaid positions but the key aspect is that the Education Directorate does not only provide administrative support, it provides leadership also.

Provision of TAFE and VET Services (para 28, p.15)

Although, as indicated above, the ACT Government carries out policy and oversight functions for TAFE and VET services through an agency separate from the Education Directorate, for the purposes of administrative scale assessment we are comfortable with this function being treated as part of the role of the education department.

Costing the staffing numbers (paras 48-51, pp. 22-23)

The ACT notes that no differentiation in wage costs between States has been accounted for in the CGC paper. The ACT assumes that such differences will be captured through the location adjustment, as applied in the 2015 Review, based on the methodology applied for the wage costs disability. Hence, the ACT accepts the approach. At the same time, the ACT would appreciate confirmation of the ACT's assumption from the CGC staff.

The ACT notes that a reduction of 10 per cent has been applied to the Australian Public Service salaries when calculating staffing costs. Rough comparisons performed by the ACT show that differences in salaries between APS and State government staff are of the order of 4 to 5 per cent, instead of 10 per cent, especially at lower pay grades. The ACT encourages the CGC's staff to carry out some more research in this area so that a more accurate comparison of staffing costs can be built into the estimation model.

Use of actual data from directorates in this response

The ACT realises that CGC staff did not specifically ask for staffing data for the head-office functions in the ACT directorates at this juncture. The research paper only sought inputs on the approach taken for estimating the administrative scale costs. At the same time, the ACT considered that in order to comment on the validity of the average structure and minimum staff required, it was critical to analyse it from the perspective of actual staff employed in performing head-office functions in the Education and Health Directorates. Otherwise, there was a distinct possibility of any inputs being vague and unhelpful.

Hence, the ACT has used actual data from the Education and Health Directorates in this response. Considering that there will be a further step in the assessment where actual data would be sought from States, the ACT does not consider the data presented in this submission to be final and notes that it may change in the future.

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3 ACT Responses to Queries on the Administrative Scale Estimates for Education

Summary

The ACT notes that while the CGC staff estimated the administrative scale affected services for the education function to have 133 staff using a bottom-up approach, a reality check with the head-office staff numbers in the education departments of the NT and the ACT showed that 133 was, in the words of the paper, 'not unreasonable'. The ACT disagrees with the CGC staff characterisation of this process. The reality check numbers quoted in the paper are drawn from the Productivity Commission's Report on Government Services (ROGS) and show head office staff counts averaging 288 for the ACT over the last five available years (i.e. between 2010 and 2014). These figures indicate that the CGC staff estimation is likely to be a substantial under estimate of administrative scale affected services.

The ACT's top-down approach on the staff numbers in the head-office functions of the Education Directorate (including TAFE/VET functions) shows that the total should be around 238.5 FTE. The main reason for the difference is that the CGC process involves artificial and unrealistic assumptions about the structures of head offices below branch level. An assumption of only two direct reports (managers) to branch heads and only three staff reporting to each manager is a substantial underestimate. The data collection exercise carried out by the ACT indicates that the relevant ratios for Education should be about three managers per branch and about four to five staff per manager.

Comments on the Commission staff's attempt at determining national average machinery for the education function, covering departments and main agencies/authorities/boards

The ACT supports the approach the CGC staff has taken in determining national average machinery for the education function.

- The ACT agrees the average machinery of government for the education function (secondary and post-secondary) is one department of education and one teacher registration board.
- The ACT supports the view that, from administrative scale perspective, provision of TAFE and VET services can be considered to be under the purview of the education department.

Comments on the Commission staff's attempt at determining the typical head office functions and the average structure

The ACT considers that CGC staff attempt at determining typical head-office functions and the average structure is quite reasonable.

- The ACT agrees the following three divisions are sufficient in the stylised education department:
 - Schools;
 - Strategy and planning; and
 - Corporate services.
- The ACT is also comfortable with the 13 branches that have been identified for the above divisions.
- Last but not the least, the ACT concurs with the approach that the CGC staff has taken regarding Teacher Registration Board and agrees with the \$1 million estimate of administrative scale costs in this area.

Comments on the Commission staff's attempt at determining the minimum staff required

The ACT contends there is scope for further accuracy in the CGC staff's attempt at determining the minimum staff required in carrying out head office functions in the education department.

The ACT's analysis shows that while there are 546.2 FTEs in the ACT carrying out head-office functions associated with education and post-secondary education (506.2 and 40 FTE respectively), 238.5 FTEs are required for carrying out bare minimum functions, independent of the population serviced. This figure is **1.79** times the figure of 133 that has been estimated by the CGC staff.

The number 238.5 was arrived at after removing FTEs dedicated to 'Field Offices', 'Client Services team', 'Employee Relations', 'Clinical Practice' and 'Client Services' from the total 546.2 FTEs employed in the following divisions of the ACT Education Directorate and Chief Minister Treasury and Economic Development Directorate (all under head-office functions):

- Office of the Director-General, Education Directorate;
- Corporate/Business Services, Education Directorate;
- School Performance and Improvement Division, Education Directorate;
- System Policy and Reform Division, Education Directorate; and
- Skills Canberra, Chief Minister Treasury and Economic Development Directorate.

The ACT has taken a conservative approach in attributing FTEs to the administrative scale category. For organisational units with a substantial percentage (around 25% or more) of functions with a service delivery or client support aspect, we have excluded **all** of the staff of such units.

To refine the estimates of scale costs, we need data on staffing numbers by classification and function for State health department head offices and salaries by classification. We would also need head office expenses split between salary and non-salary costs.

Please refer to Attachment A (excel file 'Administrative Scale Inputs_ACT Education' provided separately) for the data on head-office staffing numbers by classification and function for school and post-secondary education. The file also has the split in expenses between salary and non-salary costs, wherein data for non-salary costs for post-secondary education (which was missing in the previous version) has been included now.

Please refer to Attachment B (excel file 'Salaries 2017_ACT' provided separately) for salaries by classification for the ACT. Note that superannuation and long service leave contributions are **not** included in the figures. Since each classification has multiple levels, as agreed with the CGC, the minimum and maximum salary for each classification has been shown.

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4 ACT Responses to Queries on the Administrative Scale Estimates for Health

Summary

The ACT notes that while the CGC staff estimated administrative scale affected services for the health function to have 170 staff using a bottom-up approach, a reality check with the head-office staff numbers in the health departments of the NT and the ACT showed that 170 was a substantial underestimate. This also accords with the ACT's conclusion about the CGC staff's estimate in relation to education department staffing.

The ACT's top-down approach on the staff numbers in the head-office functions of the Health Directorate shows that the total should be 318.2 FTE. There are two reasons for this difference with the CGC's bottom-up estimate:

- Some standard functions at the branch level have been omitted from the proposed average structure of health departments; and
- As for Education, the CGC process involves artificial and unrealistic assumptions about the structures of head offices below branch level. An assumption of only two direct reports (managers) to branch heads and only three staff reporting to each manager is a substantial underestimate. The data collection exercise carried out by the ACT indicates that the relevant ratios for Health should be about three to four managers per branch and about four to five staff per manager.

Comments on the Commission staff's attempt at determining national average machinery for the health function, covering departments and main agencies/authorities/boards

Broadly, the ACT supports the approach the CGC staff has taken in determining the national average machinery for the health function.

- The ACT agrees the average machinery of government for the health function is one department of health.
- The ACT also supports the CGC staff's view about the Australian Health Practitioners Registration Agency and aspects related to complaints with health services and provision of ambulance services in the ACT that the CGC staff has captured.

Comments on the Commission staff's attempt at determining the typical head office functions and the average structure

The ACT agrees the following three divisions are sufficient in the stylised health department:

- Public health;
- Strategy and planning; and
- Corporate services/procurement.

Although there is some difference in the ACT Health Directorate structure at this level, the functions involved, with the additions mentioned below, can be incorporated within the proposed average structure to better reflect reality.

The ACT proposes the following functions/branches should be added to the proposed average structure of health departments depicted in Figure 4 (p. 28) of the research paper:

- Insurance and legal group;
- Workplace quality and safety;
- Internal audit; and
- Communication group.

The ACT considers the following branches can be accommodated under the 'Corporate Services / Procurement' division.

- Insurance and legal group; and
- Internal audit.

The 'Communication group' can be accommodated in the 'Office of the CEO' while 'Workplace quality and safety' can be accommodated under the 'Strategy and Planning' division.

Comments on the Commission staff's attempt at determining the minimum staff required

The ACT contends there is scope for further accuracy in the CGC staff's attempt at determining the minimum staff required in carrying out head office functions in the health department.

The ACT's analysis shows that while there are 904.2 FTEs in the ACT's Health Directorate carrying out head-office functions, 318.2 FTEs are required for carrying out bare minimum functions, independent of the population serviced. This figure is **1.87** times the figure of 170 that has been estimated by the CGC staff.

The number 318.2 was arrived at after removing FTEs dedicated to 'Business Support', 'Research', service delivery-related elements of 'Population Health Protection and Prevention' and 'Canberra Hospital Foundation' from the total 904.2 FTEs employed in the following divisions of the ACT Health Directorate (all under head-office functions):

- Office of the Director-General;
- Corporate;
- Innovation;
- Quality, Governance and Risk; and
- Population Health Protection and Prevention.

The ACT has taken a conservative approach in attributing FTEs to the administrative scale category. For organisational units with a substantial percentage (around 25% or more) of functions with a service delivery or client support aspect, we have excluded **all** of the staff of such units.

To refine the estimates of scale costs, we need data on staffing numbers by classification and function for State health department head offices and salaries by classification. We would also need head office expenses split between salary and non-salary costs.

As mentioned above, Attachment B has the details of salaries by classification. Please refer to Attachment C (excel file 'Administrative Scale Inputs_ACT Health' provided separately) for the data on staffing numbers by classification and function for ACT health department head-offices. The file also has the split in expenses between salary and non-salary costs.

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