



Australian Government

Commonwealth Grants Commission

2020 REVIEW

ADMINISTRATIVE SCALE

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

STAFF RESEARCH PAPER

CGC 2017-06-S

April 2017

Paper issued	May 2017
Commission contact officer	Catherine Hull 02 62298813, Catherine.hull@cgc.gov.au or Marc Boisseau, 02 6229 8889, marc.boisseau@cgc.gov.au
Submissions sought by	6 August 2017. Submissions should be emailed in Word format to secretary@cgc.gov.au . Submissions of more than 10 pages in length should include a summary section.
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INTRODUCTION

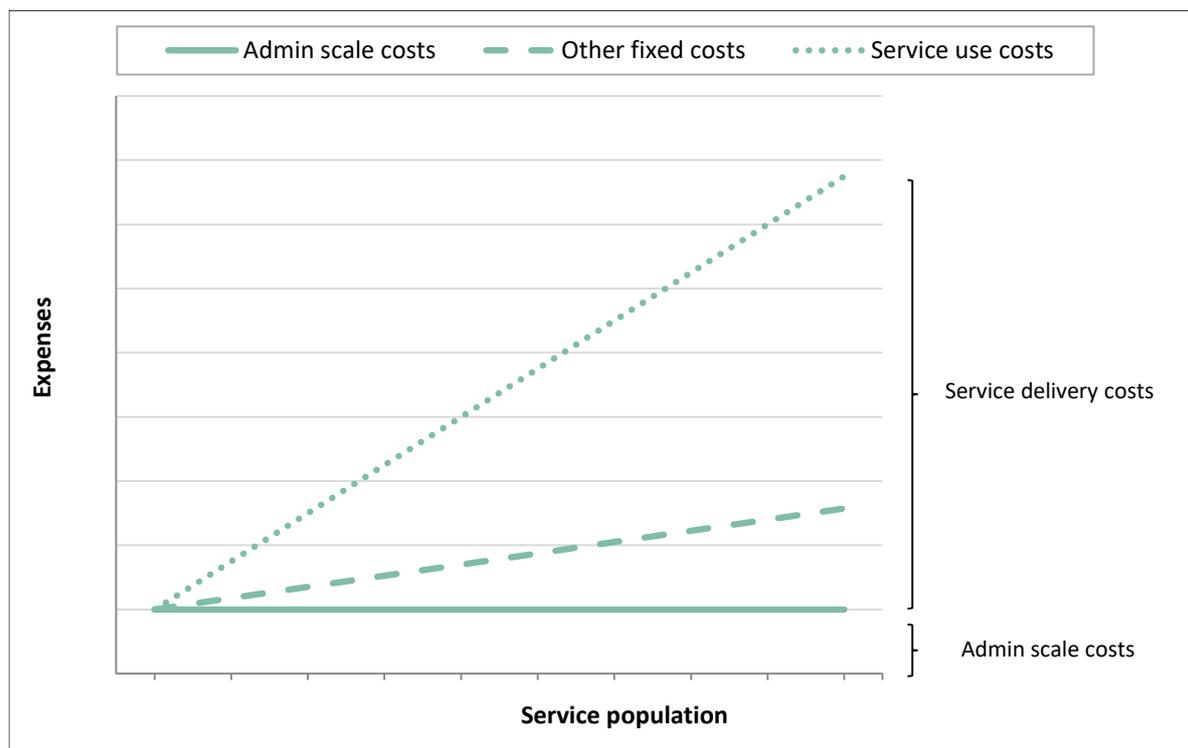
- 1 Re-estimating the quantum of the administrative scale costs is a priority for the Commission in the 2020 Review. Commission staff have begun this work. This paper describes the approach staff intend to use and provides our initial estimates of administrative scale costs for the education and health functions.
- 2 We have used publicly available information in this first attempt at re-estimating administrative scale costs for the education and health functions. However, the estimates could be improved with information on staffing numbers by classification and functions, and State salary structures, which are not publicly available.

BACKGROUND

What are administrative scale costs?

- 3 The administrative scale assessment recognises those costs incurred by a State in delivering services, which are independent of the size of the service population. These occur in:
 - head office functions of departments (for example, corporate services, policy and planning functions)
 - services provided for the whole of the State (for example, the legislature, the judiciary, the Treasury, the revenue office, and a State museum).
- 4 However, administrative scale is not an assessment of all fixed costs or 'non-front line services'. It is an assessment of the fixed cost which does not vary with service populations (the minimum cost). Any remaining fixed costs are included in the service delivery component of each expense assessment and assessed according to the disabilities relevant to that component. Figure 1 illustrates the approach graphically.

Figure 1 Graphical depiction of administrative scale costs



Source: Commission illustration.

5 Table 1 shows the administrative scale costs for 2014-15 by category.

Table 1 Administrative scale costs, 2014-15

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	\$m								
Schools education	17	17	17	17	17	17	17	18	137
Post-secondary education	9	9	9	9	9	9	9	10	72
Health	23	23	23	23	23	23	23	25	185
Welfare	9	9	9	9	9	9	9	11	74
Housing	9	9	9	9	9	9	9	11	74
Services to communities	4	4	4	4	4	4	3	4	31
Justice	25	25	25	25	25	25	25	25	197
Roads	5	5	5	5	5	5	5	5	37
Transport	4	4	4	4	4	4	3	4	32
Services to industry	26	26	26	26	26	26	17	26	196
Other expenses	118	118	118	118	118	118	118	118	947
Total	248	248	248	248	248	248	238	255	1 982

Source: 2016 Update.

- 6 Each State is assumed to spend the same total administrative scale amount in providing services independent of the size of the service population. As a result, States with small populations incur higher per capita costs because the minimum functions of government are spread over a smaller number of residents.
- 7 However, administrative scale costs are adjusted for the ACT and the Northern Territory.
 - The ACT does not need to provide the average level of service in areas where it has zero or very low needs — services to Indigenous communities, non-urban transport, primary industry and mining, fuel and energy. Accordingly, the ACT’s administrative scale assessments for the categories which include these services were reduced by \$10 million in 2014-15.
 - The Northern Territory needs to provide an above average level of service in the areas of education, health, welfare and housing. In these areas, it operates dual service delivery models for its Indigenous and non-Indigenous residents. Its assessment in categories covering these services led to an increase of \$7 million in 2014-15.
- 8 Staff are not proposing a change to the definition of administrative scale costs and the Commission has tentatively accepted it, subject to State views.

Re-estimating administrative scale costs

- 9 Commission staff intend to derive estimates through two main approaches:
 - deriving a basic structure and staffing for any given department/function and costing it (what might be termed the ‘bottom up’ approach)
 - 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 (the ‘top down approach’).
- 10 These approaches are the same as those used in the 1999 and 2004 Reviews. In the 2010 Review, the Commission considered the work in the 1999 and 2004 Reviews suggested that the estimates were robust and that a full review was unlikely to produce a materially different assessment. It simply indexed the administrative scale costs to reflect price level changes.
- 11 In the 2015 Review, the Commission attempted to re-estimate the administrative scale costs using three different approaches:
 - collecting State departmental data that would allow a re-estimation of the quantum for one or more categories
 - examining publicly available data (Productivity Commission and State annual reports)
 - a regression approach using Productivity Commission and Government Finance Statistics (GFS) data.

- 12 None of these approaches facilitated a re-estimation of the scale costs. No State was able to provide sufficiently detailed workforce data (due in part to privacy issues) from which new scale costs could be derived. Some data were available publically but there was insufficient time and resources to analyse them during the review. Regression analysis based on Productivity Commission data on out-of-school staffing supported the current administrative scale quantum for schools but similar data were not available for other categories. Regression analysis based on GFS data for all categories produced unrealistic estimates.
- 13 The Commission had no choice but to retain the status quo and use the 2004 Review quantum, indexed to assessment year dollars.

Bottom up approach

- 14 This approach consists of building the minimum size head office from the ground up, as was done in the 1999 and 2004 Reviews. It involves four main steps in which we seek to establish:
 - the average machinery of government. For a function, such as health, this covers the average departmental structure and the main related agencies.
 - the common functions, such as corporate services, in each agency. This would be mainly based on publicly available information, such as annual reports, supplemented where necessary by information from States.
 - a stylised average minimum structure and minimum staffing numbers for the common functions.
 - average cost per staff, including overheads, to apply to the minimum staffing structure.
- 15 In the 2004 Review, the Commission examined the structure of education and police departments using annual reports. It also sought information on the organisational structure, functions and staffing of the head offices of Education, Police and Treasury departments via a special data request to States. Administrative scale costs for other government functions were derived by extrapolation. That is, the Commission used the proportions of estimated administrative scale costs to total function expenses for Education, Police and Treasury to derive administrative scale costs for other like functions.

Top down approach

- 16 The validity of the bottom up estimates will be corroborated using a top down approach. This will involve looking at the size of the head offices and State-wide services in the smallest States as adjusted to exclude staffing/expenses considered inconsistent with the stylised minimum structure.

AVERAGE MACHINERY OF GOVERNMENT

- 17 Information collated by staff show there are about 3 000 State government departments, authorities, commissions, councils, boards and committees under State government responsibility in Australia, established either through legislation or direct funding. About half of them are in Victoria¹. These agencies vary widely in size and importance, from departments of Education and Health to the Dog Fence Board² in South Australia and the Exhibited Animals Advisory Committee in New South Wales. Many board and committee positions are unpaid and/or ex officio and, therefore, do not affect the administrative scale costs.
- 18 Table 2 shows the main State agencies split by Commission expense categories. Staff intend to estimate administrative scale costs for each expense category. The rest of the paper illustrates the approach we are proposing to take to estimate administrative scale costs incurred by the State education and health departments.
- 19 The work below was done in the first part of 2016 and, therefore, reflects the department structures at that time.

¹ Victoria has hundreds of committees responsible for individual sport and recreation facilities. It also has hundreds of cemetery trusts. These are classified as State government entities.

² The Dog Fence Board is responsible for the establishment and maintenance of particular dog fences in the State and may collect levies for that purpose.

Table 2 Main State agencies by CGC categories

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
Education / Post-secondary education	Department of Education	Department of Education and Training	Department of Education and Training	Department of Education Department of Education Services	Department for Education and Child Development	Department of Education	Education and Training Directorate	Department of Education and Children's Services
Health	Ministry of Health	Department of Health and Human Services	Department of Health	Department of Health	Department of Health and Ageing	Department of Health and Human Services	Health Directorate	Department of Health
Housing and Welfare	Department of Family and Community Services	<i>Functions are part of a combined health and human services department</i>	Department of Housing and Public Works Department of Communities, Child Safety and Disability Services	Department for Child Protection and Family Support	Department for Communities and Social Inclusion	<i>Functions are part of a combined health and human services department</i>	Community Services Directorate	Department of Housing Department of Community Services

Table 2 Main State agencies by CGC categories (continued)

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
Justice	Department of Justice	Department of Justice and Regulation	Department of Justice and Attorney-General	Department of the Attorney General	Attorney-General's Department	Department of Justice	Justice and Community Safety Directorate	Department of Attorney-General and Justice
	NSW Police Force	Victoria Police	Queensland Police, Fire and Emergency Services	Department of Corrective Services Western Australia Police Office of State Security and Emergency Coordination	Department for Correctional Services Courts Administration Authority South Australia Police Legal Services Commission South Australian Metropolitan Fire Service	Department of Police and Emergency Management		The Northern Territory Police, Fire and Emergency Services

Table 2 Main State agencies by CGC categories (continued)

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
Services to Communities	Department of Planning and Environment	Department of Environment, Land, Water and Planning	Department of Infrastructure, Local Government and Planning	Department of Local Government and Communities	Department of Environment, Water and Natural Resources	Primary Industries, Parks, Water and Environment	Environment and Planning Directorate	Department of Local Government and Regions
	Sydney Water Corporation		Department of Energy and Water Supply	Department of Environment Regulation	Department of Regional Development			Department of Lands, Planning and the Environment
	NSW Office of Water		Department of Environment and Heritage Protection	Department of Regional Development				Department of Regional Development
				Department of Planning				
				Department of Water				
Roads and Transport	Transport for NSW	Department of Economic Development, Jobs, Transport and Resources	Department of Transport and Main Roads	Department of Transport	Department of Planning, Transport and Infrastructure	Department of State Growth	Transport Canberra and City Services	Department of Transport
	Roads and Maritime Services	VicRoads		Main Roads Western Australia				

Table 2 Main State agencies by CGC categories (continued)

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
Services to industry	Department of Industry, Skills and Regional Development	Department of Economic Development, Jobs, Transport and Resources	Department of Agriculture and Fisheries	Department of Commerce	Department of Primary Industries and Regions	Department of State Growth	Chief Minister, Treasury and Economic Development Directorate	Department of Business
	Department of Primary Industries		Department of Natural Resources and Mines	Department of Agriculture and Food	Department of State Development	Department of Primary Industries, Parks, Water and Environment		Department of Primary Industry and Fisheries
			Department of Science, Information Technology and Innovation	Department of Training and Workforce Development	Defence SA			Department of Mines and Energy
			Department of State Development	Department of Mines and Petroleum	Department of Land Resource Management			Department of Land Resource Management
			Department of Tourism, Major Events, Small Business and the C'ith Games	Department of State Development				Department of Infrastructure
				Department of Racing, Gaming and Liquor				
				Department of Fisheries				

Table 2 Main State agencies by CGC categories (continued)

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
Other expenses	The Legislature	Department of Parliamentary Services	Department of the Premier and Cabinet	Department of the Premier and Cabinet	Department of the Premier and Cabinet	Office of the Legislative Assembly	Chief Minister, Treasury and Economic Development Directorate	Department of the Legislative Assembly
	Legislative Assembly	Departments of the Legislative Assembly	Treasury	Department of Treasury	Department of Treasury and Finance	Treasury and Finance		Department of Treasury and Finance
	Department of Premier and Cabinet	Department of the Legislative Council	Department of Aboriginal and Torres Strait Islander Partnerships	Department of Fire and Emergency Services	Auditor-General's Department	Department of the Chief Minister		
	Department of Finance, Services and Innovation The Treasury	Department of Premier and Cabinet Department of Treasury and Finance	Department of National Parks, Sport and Racing	Department of Aboriginal Affairs Department of Culture and the Arts Department of Lands	Country Fire Service South Australian Metropolitan Fire Service State Emergency Service	Treasury and Economic Development Department of Sport and Recreation		
	State Emergency Service NSW	Victorian SES Authority		Department of Parks and Wildlife Department of Sport and Recreation WA IRC	Department of Corporate and Information			
	Office of Environment and Heritage	Parks Victoria		Department of Finance	SAFECOM (a)			

(a) South Australian Fire and Emergency Services Commission.

EDUCATION

- 20 Commission staff have had a first attempt at re-estimating the administrative scale costs for the education and post-secondary education functions. We have used the bottom up and top down approaches described above. We have been practical in deriving our estimates, using information to hand and simple majorities but recognising the inherent nature of the administrative scale disability.

Bottom up estimates for education

- 21 The bottom up estimates for education have been derived using the following steps:
- identify the national average machinery of government, covering departments and main agencies/authorities/boards (number and type)
 - identify the typical head office functions
 - identify a stylised average structure and the minimum staff required for it
 - establish an average cost per staff to apply to that staffing, which would give an administrative scale cost estimate.

Average machinery of government for education

- 22 Table 2 above shows all States, except Western Australia, have one department to provide head office functions for education and post-secondary education. Therefore, Commission staff consider it appropriate to develop one scale cost estimate for both the education and the post-secondary education functions.
- 23 States also have a number of other organisations in their education portfolios, as shown in Table 3. The table shows only head office type and state-wide organisations because they are the ones relevant to administrative scale. For example, individual university councils are not included as the number of them varies with the size of the service population and State policy.

Table 3 Education agencies

NSW	Vic	Qld	WA	SA	Tas	ACT	NT
Board of Studies, Teaching and Educational Standards	Victorian Curriculum and Assessment Authority	Queensland Curriculum and Assessment Authority	School Curriculum and Standards Authority	SACE Board of South Australia	Office of Tasmanian Assessment, Standards and Certification	Board of Senior Studies	Northern Territory Board of Studies
Board of Studies - Aboriginal Education Advisory Committee	Victorian Institute of Teaching + Council	Queensland College of Teachers	Teacher Registration Board of Western Australia	Teachers Registration Board of South Australia	Teachers Registration Board	ACT Teacher Quality Institute	Teacher Registration Board of the Northern Territory
Non-Government Schools Not-for-profit Advisory Committee	Disciplinary Appeals Board	Queensland Indigenous Education Consultative Committee	Country High School Hostels Authority Board	South Australian Teacher Certification Committee	Professional Learning Institute	ACT Government Schools Education Council	Non-Government Schools Ministerial Advisory Council
Ministerial Advisory Group on Literacy and Numeracy	Merit Protection Boards	Non-State Schools Accreditation Board	Non-Government Schools Planning Advisory Panel	Education and Early Childhood Services Registration and Standards Board of South Australia	Schools Registration Board (a)	ACT Non-Government Schools Education Council	
National Art School Board of Directors	Victorian Registration and Qualifications Authority	Non-State Schools Eligibility for Government Funding Committee	Public Education Endowment Trust	Teachers Appeal Board	TasTAFE		
NSW Community Languages Schools Board	Centre for Adult Education	Duke of Edinburgh's Award Committee	Training Accreditation Council (VET)	Ministerial Advisory Committee: Students with Disabilities			
NSW Skills Board (VET) TAFE NSW	Adult Migrant English Service Victorian Children's Council	TAFE Queensland		Education Adelaide + Board TAFE SA			

(a) For non-government schools.

Source: Various State government websites.

- 24 Table 3 shows a number of common agencies or separate entities across States.
- All States have organisations for teacher registration and professional development.
 - In New South Wales, this function is provided by the Board of Studies, Teaching and Educational Standards, which also provides curriculum and assessments.
 - All States, except Tasmania and the ACT, have separate organisations for curriculum and assessment covering Kindergarten to year 12.
 - South Australia provides the functions through two organisations: one for years K-10; the other for years 11 and 12.
 - In the case of Tasmania and the ACT, the agencies (Office of Tasmanian Assessment, Standards and Certification; and Board of Senior Secondary Studies) provide curriculum and assessment only for years 11 and 12. For K-10, individual schools are responsible for implementing the Commonwealth agreed curriculum.
 - Most States have separate entities dealing with non-government schools. The two smallest States (the ACT and the Northern Territory) have councils that provide advice to ministers. The councils are made up of unpaid members and are supported by departmental staff.
 - TAFE/ Vocational education and training (VET). While most States have separate organisations to oversee the provision of TAFE and/or VET services, the two smallest States provide these services through their education departments.
- 25 Other agencies in Table 3 are not common across States. While the functions performed by these agencies may exist in all States, they may not be provided by separate agencies. This is the case for the appeal boards in Victoria and Tasmania, and the merit protection board in Victoria which, in other States, are usually provided by teacher registration boards.
- 26 **Conclusions.** From the above discussion, staff conclude the average machinery of government for the functions of education and post-secondary education is:
- one department of education
 - one teacher registration board.
- 27 In the ACT and the Northern Territory, the entities (boards) overseeing curriculum and assessment for years 11 and 12 are made up of unpaid positions³ and the administrative support is provided through the education department. As such, and because the goal of the exercise is to quantify the minimum structure and costs, we do not propose to recognise curriculum and assessment as a separate organisation. The function will be treated as a function of the department of education.

³ Except for some allowances to attend meetings.

28 While most States have a separate agency to oversee the provision of TAFE and VET services, the two smaller States provide these services through their education department. We conclude 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, we have assigned this function to the department of education.

Average structure of education departments

29 The second step aims to look at the actual organisational structure of all State education departments and derive a stylised average structure that captures the common activities, with a focus on the minimum structure required across States. For example, the number of functional areas immediately below the Secretary/CEO level varies between States (from two in Tasmania to 13 in Western Australia across two departments). Our approach to determining the average corporate structure was to look across States at the functions they normally provide and use the smallest States' structures as a guide to a stylised (or simplified) minimum average structure.

30 We have not derived the number of functional areas on the basis of arithmetic averages because the number of functional areas in a head office tends to increase with the State's population size. This is contrary to the administrative scale disability, which is about the fixed cost a State would face regardless of its size.

31 Table 4 shows the information we collated on the high-level corporate structure of each State's department of education.

32 There are a number of difficulties with attempting to use that information to identify a common structure across States.

- Names of functional areas vary between States. Their responsibilities are not always clear.
- The allocation of responsibilities among functional areas differs between States.
- The relative importance of functional areas varies between States. For example, while all States have an Indigenous education function within their departments, the relative importance of the function in the corporate structure varies between States.

Table 4 Corporate structure of education agencies

NSW	Vic	Qld	WA	SA	Tas	ACT	NT
			Department of Education				
External affairs & regulation	Early childhood and school education	Early childhood education and community engagement	Early childhood development and learning	Office of the chief executive	Early years and schools	Office for schools	School education
School operations & performance	Regional services	State schools	Schools	Office for education	Departmental services	Education strategy	Organisational services
Strategy & evaluation	Strategy and review	Training and skills	Office of Aboriginal education	School and preschool improvement		Governance and assurance	Education partnership (Indigenous education and higher education)
Corporate services	Higher education and skills	Policy, performance and planning	Innovation performance and research	Learning improvement		Training & tertiary education	
	Infrastructure and finance services	Corporate services	Statewide planning and delivery	Statewide services and child development		Organisational Integrity	
	People and executive services	Office of the Director-General Legal	Workforce	Early childhood services			
			Standards and conduct		Office for child safety		
			Finance and administration		Families SA Metro Operations and Residential Care		
			Organisational governance		Families SA Country Operations and Statewide Services		
			Department of Education Services	Office for corporate services			

Table 4 Corporate structure of education agencies (continued)

NSW	Vic	Qld	WA	SA	Tas	ACT	NT
			Education regulation and review teacher registration Higher education and legislative review Corporate governance and non-government school funding Training regulation	People and culture Chief finance officer finance and data infrastructure Office for strategy and performance			

Source: Various State government websites.

- 33 ***Stylised organisational structure.*** All departments have a chief executive or secretary. In addition, most States have an office of the secretary.
- 34 Based on the information in Table 4, at the next level down, which we call division, all States have divisions for schools and for corporate services. Most States have an education strategy and policy functional division. Most also have a training and higher education division. We do not propose to include four divisions in the stylised structure because, of the three smaller States, only the ACT has four divisions. Tasmania has two and the Northern Territory has three.
- 35 Four States have another separate division for early childhood education. The other States have that function at a lower level. We allocated this function to the lower level because that is where the two smaller States have it
- 36 Consequently, we are proposing three functions at the division level:
- school operations
 - strategy and planning
 - corporate services.
- 37 At the level below the division level, which we call branch, identifying common functions is more complicated because of the increased number of functions. Using detailed organisational structure and other information from relevant annual reports, staff derived a structure containing 13 branches. This is shown in Figure 2.
- 38 The last time this exercise was done was in the 2004 Review. The final structure used in that review is shown in Figure 3. It had four divisions and 14 branches compared to the three divisions and 13 branches now proposed. While the functions are generally similar, there now seems to be a greater focus on infrastructure and ICT in the corporate services area.

Figure 2 Proposed average structure of education departments, 2020 Review

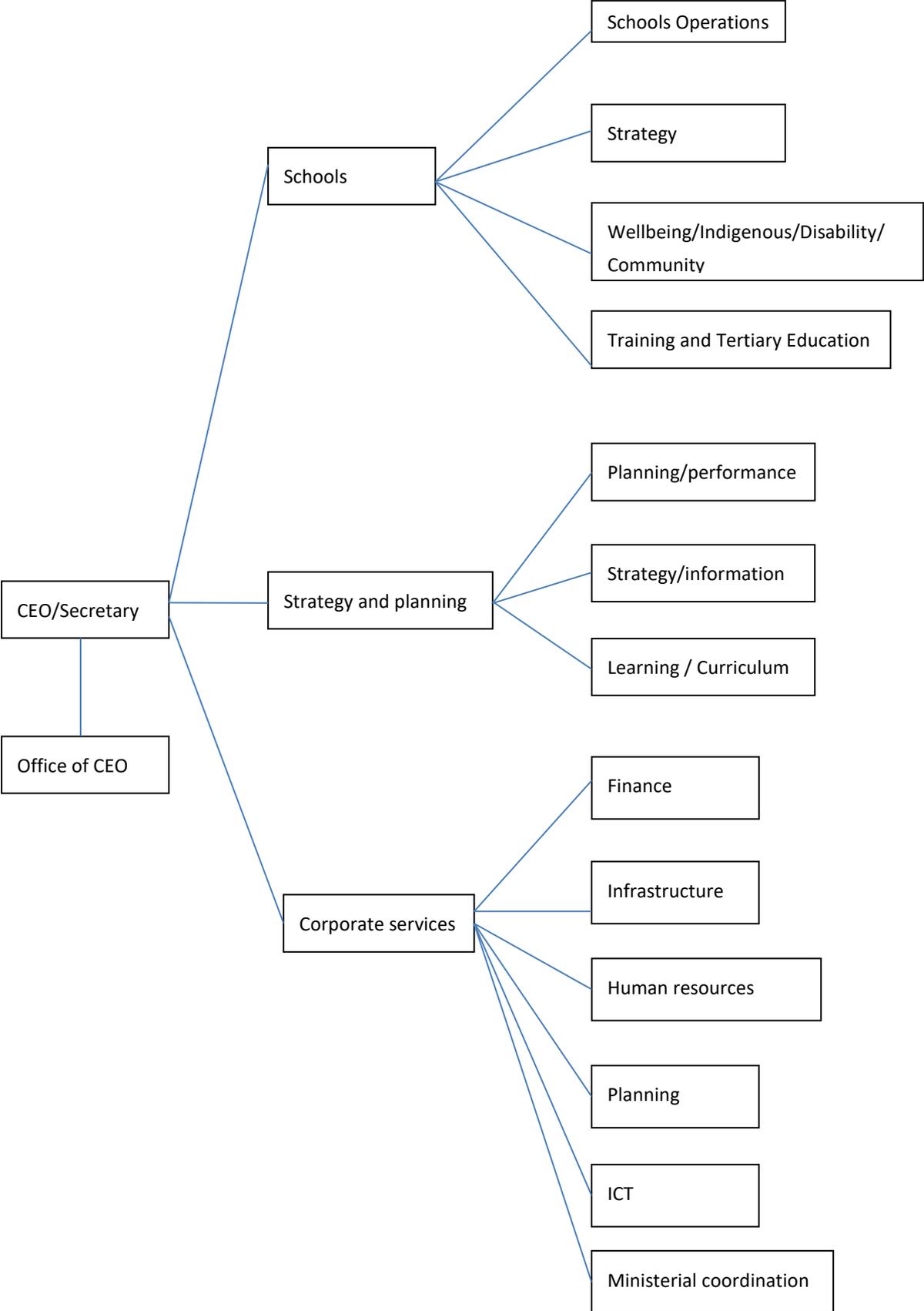
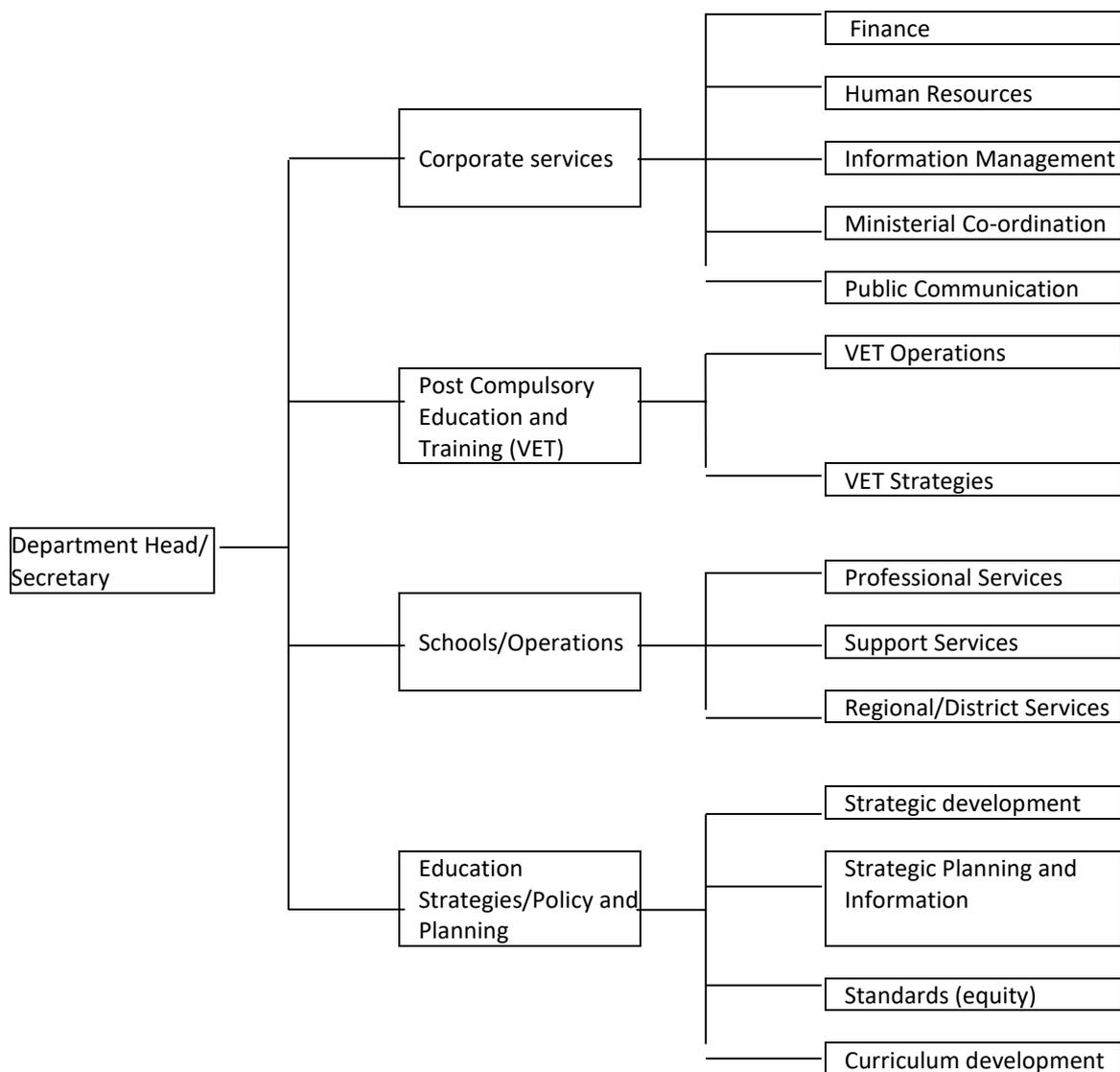


Figure 3 Education function typical head office structure, 2004 Review



Source: Discussion Paper 2001-16, 2004 Review.

Teacher registration board

- 39 We have looked at the staffing numbers and structure of the teacher registration boards in the three smallest States, which are the States that would have the smallest boards. These boards have members who are not remunerated and have, therefore, not been included in the calculation of administrative scale costs.
- 40 Instead of deriving administrative scale costs based on the staffing of a minimum organisation structure, we propose to base them on the expenses of the boards in the smaller States. This is because these organisations are small.
- 41 Table 5 shows the staffing and expenses of the teacher registration boards in the three smaller States. Tasmania and the Northern Territory have the lowest expenses,

\$1.4 million and \$1.3 million, respectively. The administrative scale cost should be somewhat less than that. Therefore, we propose an administrative scale cost of \$1 million.

Table 5 Teacher registration board, staffing and expenses

	Tas	ACT	NT
Staffing	FTE	FTE	Staffing no
CEO	1	1	1
Other staff	7.47	10.6	8
	\$m	\$m	\$m
Total expenses	1.4	2.3	1.3

Source: 2014-15 annual reports for the ACT and the Northern Territory and the 2014 annual report for Tasmania.

Staffing number

- 42 The third step in deriving administrative scale costs is to allocate staff numbers and levels to the stylised organisational structure. To determine appropriate position levels, we looked at the position classifications of the education departments in the three smaller States. Larger States tend to have higher classifications for similar positions. For example, New South Wales and Victoria’s organisational structures show their staff tends to be a level higher in seniority than the smaller States for similar positions. This is especially so for Tasmania and the ACT. The Northern Territory tends to have staff in more senior classifications and higher pay rates.
- 43 We have estimated staffing numbers and allocated position levels based on Figure 2. The levels used are those of the ACT Education and Training Directorate. These were chosen because the ACT’s structure appears to have the lowest job classifications, making them closer to the administrative scale costs of a very small State. The staffing number has been derived as follows:
- Secretary *plus* head of office (mid-level manager) *plus* personal assistant (junior officer) – (3 staff)
 - three division heads *plus* three personal assistants (junior officers) (6 staff)
 - 13 branch heads *plus* 7 personal assistants (junior officers). This is about one personal assistant for two branch heads (20 staff)
 - we have assumed each branch head has two immediate subordinates and that they are managers. We have allocated three staff to each manager (104 staff).
- 44 In total, we estimate the administrative scale affected staff for the education head office to be 133 staff.
- 45 The estimated 133 staff is similar to the 120 staff estimated in the 2004 Review.

- 46 **Reality check.** Table 6 shows data from the Productivity Commission’s 2016 Report on Government Services (RoGS) on education department staff not active in school. (The data do not include head office staff related to post-secondary education and, therefore, under-estimate head office staff.) These staff would mostly be, if not all, working in head office type functions. The two smallest staff counts are in Tasmania and the ACT. The average staff number for the last five available years is 275 for Tasmania and 288 for the ACT, which is a bit more than twice the estimated staff number of 133. The RoGS’ information indicates the estimate of 133 staff is not unreasonable, although it cannot guide us to a better estimate.
- 47 Table 6 also shows the staff not active in school at the time of the 2004 Review when the administrative scale costs were last reviewed. The ACT had the smallest number of staff (three year average of 259), which was again a little over twice the estimated staff number at that time (120). While this does not validate the proposed estimates, it suggests they are not unreasonable.

Table 6 Education staff not active in school (out of school)

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	no.	no.	no.	no.	no.	no.	no.	no.	no.
2010	2 079	1 515	2 677	1 562	1 161	325	343	463	10 126
2011	2 072	1 317	2 837	1 349	1 179	301	314	493	9 862
2012	2 095	1 515	2 728	1 452	1 247	269	291	531	10 128
2013	1 967	1 408	2 537	1 396	1 220	271	295	502	9 597
2014	2 015	1 438	2 836	1 218	1 151	284	278	483	9 703
Average	2 026	1 454	2 700	1 355	1 206	275	288	505	9 809
Staffing figures available at time of 2004 Review									
2000	1 852	947	1 635	888	961	306	239	368	7 196
2001	1 822	1 165	1 731	993	965	340	273	371	7 660
2002	1 836	1 294	1 851	1 168	940	351	266	383	8 090
Average	1 837	1 135	1 739	1 016	955	332	259	374	7 649

Note: Staff are categorised as out-of-school if they do not usually spend more than half of their time actively engaged in duties at one or more schools or ancillary education establishments.

Source: Productivity Commission, *Report on Government Services*, 2016, Table 4.1.

Costing the staffing numbers

- 48 Ideally, we would use the State average salary paid at each classification. That information was not available for this paper. We, therefore, have used the Commonwealth Department of Finance’s (DoF) costing template. The template uses Australian Public Service salaries, which would be higher than the average salaries of

the State governments. The template includes superannuation and long services costs.⁴ The detailed costing is at Attachment A.

- 49 Applying the template to the estimated 133 staff numbers results in staffing costs of \$18.5 million. We reduced that figure by 10% to remove the impact of the higher Australian Public Service salaries, resulting in estimated staffing costs of \$16.7 million.
- 50 The non-staffing costs were estimated to be 40% of total head office expenses. Table 7 shows that, for out-of-school expenses, non-employee related expenses are about 40% of total expenses, although there are large variations between States. The non-employee related expenses proportion of 40% is consistent with that of the Commonwealth Department of Education and Training, which shows proportions of 39% and 37% in 2014-15 and 2013-14, respectively.⁵
- 51 Adding non-staffing costs, based on the 40% estimate, results in an administrative scale cost for the education department of \$27.8 million. Adding the \$1 million for the teacher registration board gives a total for the education function of \$28.8 million. This is about 10% higher than the administrative scale cost of \$26 million used in the 2016 Update.

Table 7 Out of school staff numbers and expenses, government schools

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
Employee related expenses (\$m)	264	111	275	148	138	23	20	34	1 014
Total expenses (\$m)	322	266	578	206	210	31	39	59	1 712
Staffing numbers (FTE)	2 015	1 438	2 836	1 218	1 151	284	278	483	9 703
Total expenses per staff (\$'000)	160	185	204	169	182	109	142	123	176
Ratio of non-employee related expenses to total expenses (%)	15	57	52	27	33	26	47	42	40

Note: Employee related expenses represent all salaries, wages, allowances and related on costs paid to out-of-school staff.

Financial data relate to the 2013-14 financial year and staffing data to the 2014 calendar year.

Source: Productivity Commission, *Report on Government Services*, 2016, Tables 4A.1 and 4A.10.

Top-down approach

- 52 The Productivity Commission's Report on Government Services has information on out of school staffing and expenses. Table 6 above shows Tasmania and the ACT have the smallest head office staff numbers (average of 275 and 288, respectively). This

⁴ In addition to salaries, the template includes superannuation (15.4%) and, long service leave (2.3%).

⁵ <https://docs.education.gov.au/node/38471>.

gives an indication of the ceiling for administrative scale cost estimates. The staffing estimate of 133 is a little less than half those figures.

- 53 In terms of expenses, our initial estimate of administrative scale costs appears to be at the high end of the spectrum compared with Tasmania's out of school expenses of \$31 million in 2013-14. Table 7 shows Tasmania has low expenses per staff and low non-employee related expenses. This could indicate lower wages in Tasmania and lower cost of capital (property expenses). There may be an issue with the quality of the data.
- 54 Compared with out of school expenses for the ACT (\$39 million) and the Northern Territory (\$59 million), the administrative scale cost estimate appears more reasonable.

Conclusions

- 55 The preliminary staff estimates yield similar results to those of the indexed 1999 and 2004 Reviews. This may mean the way States deliver head office type services has not changed significantly, or that changes, such as the apparently greater prominence now given to infrastructure planning and ICT, have been offset by other changes.

Information and comments sought from States

We seek State comments on the approaches used to derive the scale costs estimates (bottom up and top down).

More specifically, we seek comments on Commission staff's attempt at determining:

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

To refine the estimates of scale costs, we need data on staffing numbers by classification and function for State education department head offices and salaries by classification.

We also need head office expenses split between salary and non-salary costs.

Can States, especially the smaller ones, provide this information?

HEALTH

Average machinery of government for health

- 56 Table 2 above shows all States provide head office functions for health services through one main department. States also have a number of other organisations in their health portfolios. Some of them are common across States.
- Health profession registration agencies exist in every State. They come under the umbrella of the Australian Health Practitioner Regulation Agency (AHPRA).⁶ While these organisations are regulated by the Commonwealth and the States, they are self-funded.
 - Complaints about health practitioners are usually managed by registration agencies, except in:
 - New South Wales, where this is undertaken by the Health Professional Councils Authority and the Health Care Complaints Commission
 - Queensland, where this may be undertaken by the Queensland Health Ombudsman and funded by AHPRA.
 - Complaints about health services more generally are investigated by separate organisations. The status of those organisations differs between States. For example, in New South Wales, this function is performed by the Health Care Complaints Commission, which is an independent body with a budget of over \$12 million.⁷ In the ACT, the service is provided as part of the ACT Human Rights Commission, which has a total budget of about \$3.5 million.⁸ The Northern Territory's Health and Community Services Complaints Commission is an independent statutory body with a staff of 6.5 FTE, which receives corporate services support from the Northern Territory Department of Attorney-General and Justice.⁹
 - Many States have separate health-related organisations to deal with mental health issues.
- 57 States have other agencies but they are mainly in New South Wales and Victoria. While the functions performed by these agencies may exist in all States, they do not appear to be provided by separate agencies. They may be provided by the main department. The diversity of arrangements is illustrated by the ambulance services. In New South Wales and Victoria, there are separate ambulance services agencies. In

⁶ AHPRA's operations are governed by the Health Practitioner Regulation National Law and are in force in each State. It regulates 14 health professions: Aboriginal and Torres Strait Islander Health Practice, Chinese Medicine, Chiropractic, Dental, Medical, Medical Radiation, Nursing and Midwifery, Occupational Therapy, Optometry, Osteopathy, Pharmacy, Physiotherapy, Podiatry and Psychology.

⁷ http://www.treasury.nsw.gov.au/__data/assets/pdf_file/0019/128125/Budget_Paper_3_-_Budget_Estimates.pdf.

⁸ <http://hrc.act.gov.au/wp-content/uploads/2015/04/HRC-AR-2015-09-30-Final.pdf>.

⁹ <http://www.hcsc.nt.gov.au/wp-content/uploads/2010/04/HSCCC-ANNUAL-REPORT-2014-15-web.pdf>.

the ACT, the Justice and Community Safety directorate is responsible for ambulance services. In Western Australia and the Northern Territory, ambulance services are contracted to St John's Ambulance. In the other three States, ambulance services are a function of the health department.

58 **Conclusions.** From the above discussion, staff conclude the average machinery of government for the health function is one department of health.

59 Health practitioners' registration and complaint management is mostly handled by self-funded organisations, which have little impact on State budgets.

60 Investigations of complaints are, in the smaller States, provided either as part of larger institutions (the Human Rights Commission in the ACT) or very small organisations supported by a larger department as in the Northern Territory.

Average structure of health departments

61 Table 8 shows the high-level corporate structure of each State's department of health.

62 We have used the same approach as that used for education to derive a stylised structure for the health department.

63 All departments have a chief executive or secretary. In addition, most States have an office of the secretary.

64 At the division level, the information in Table 8 indicates most States have strategy and planning, public health and corporate services divisions. Most States have a health procurement functional area. However, in the smaller States it is combined with corporate services.

65 Victoria and Tasmania combine human services and health services in one department. We will consider scale costs for the human services functions separately.

66 We are, therefore, proposing three divisions in the stylised health departments:

- public health
- strategy and planning
- corporate services/health procurement.

67 At the level below the division, identifying common functions is more complicated because of the increased number of functions. Using detailed organisational structure and other relevant information from annual reports, staff derived a structure containing 17 branches. This is shown in Figure 4.

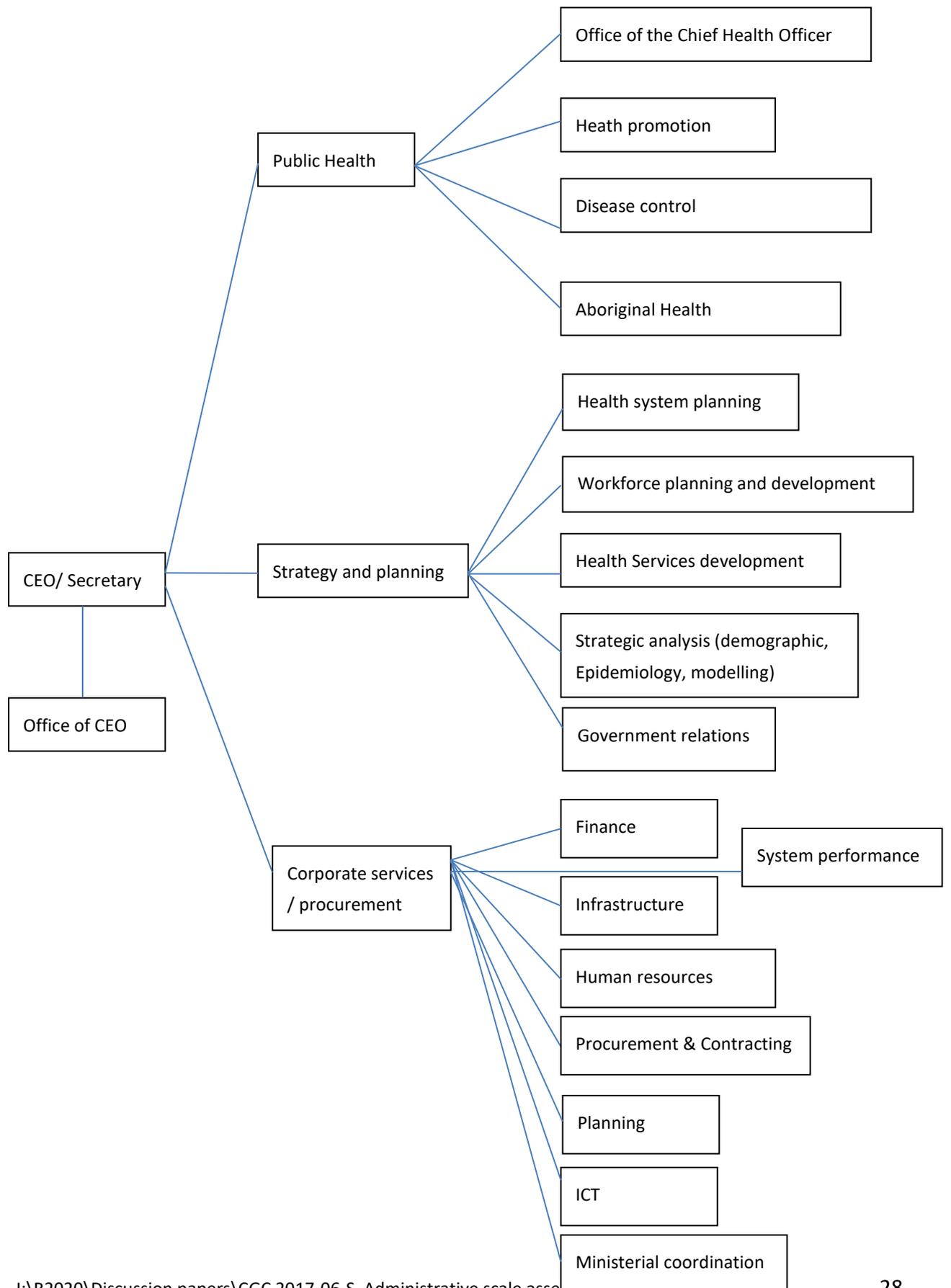
68 While the number of divisions is the same as education, the greater number of functions provided by the health departments leads to more branches (17 against 13).

Table 8 Corporate structure of State Health departments

NSW	Vic	Qld	WA	SA	Tas	ACT	NT
Office of the Secretary	Office of the Secretary	Office of the Director-General	Office of the Director General		Office of the Secretary	Office of the Secretary	Executive Services
Strategy and Resources	Portfolio Strategy & Reform	Strategy, Policy and Planning	Innovation & Health System Reform	Transforming Health	Ambulance Tasmania	ACT Health System Innovation Group	Strategy & Reform
Population and Public Health	Regulation, Health Protection and Emergency Management	Prevention	Public Health and Clinical Services		Public Health Services	Population Health/ Chief Health Officer	
Governance, Workforce and Corporate Finance	Corporate Services People, Capability & Oversight	Corporate Services Clinical Excellence	Office of the Chief Medical Officer Office of the Deputy Director General	Finance and Corporate Services System Performance and Service Delivery	Corporate, Policy and Regulatory Services Planning, Purchasing and Performance	Strategy and Corporate Health Planning and Infrastructure	Funding Performance & Corporate Major Strategic Priorities & Infrastructure
System Purchasing and Performance	Sport & Recreation, Infrastructure, Intern'l Engagement, and Housing Comm'ty Partic'n, Sport & Rec'n, Health & Wellbeing Operations Community Services Programs & Design Health Service Performance & Programs	Healthcare Purchasing and System Performance Internal Audit Office Queensland Ambulance Service Health Support Queensland	Office of the Chief Procurement Officer Resourcing and Performance Office of Mental Health Office of the Chief Psychiatrist Patient Safety and Clinical Quality		Children and Youth Services Housing, Disability and Community Services		Office of Aboriginal Health Policy & Engagement Professional Leadership & Clinical Governance National Critical Care & Trauma Response Centre Top End Health Services Board Central Australia Health Services (CAHS) Board

Source: Various State government websites.

Figure 4 Proposed average structure of health departments



Staffing number

- 69 The next step in estimating administrative scale costs is to allocate staff levels and numbers to the health department organisational structure shown in Figure 4. We used the same levels as those used for the education function. The staffing number has been derived as follows:
- Secretary *plus* head of office (mid-level manager) *plus* personal assistant (junior officer) – (3 staff)
 - three division heads *plus* three personal assistant (junior officers) (6 staff)
 - 17 branch heads *plus* 8 personal assistants (junior officers). This is about one personal assistant for two branch heads (25 staff)
 - we have assumed each branch head has two immediate subordinates and that they are managers. We have allocated three staff to each manager (136 staff).
- 70 In total, we estimate the administrative scale affected services for the health function to have 170 staff.
- 71 **Reality check.** Unlike education, there is no nationwide data collection on health department head office expenses and staffing. The 2014-15 annual report of the Northern Territory Department of Health states that, as of June 2015, 1 184 FTE staff worked in the department and 5 139 FTE worked in the health services.¹⁰
- 72 Table 9 shows the ACT Health staffing numbers by functional areas in 2014-15. There were 983 head office-type FTE staff. Of these, two thirds work in the strategy and corporate areas.
- 73 The head office-type staff numbers in the ACT and the Northern Territory are significantly greater than the estimated staff number of 170.
- 74 Similar information was not available for Tasmania.

¹⁰ <http://digitallibrary.health.nt.gov.au/prod/ispui/bitstream/10137/639/4/DoH%20Annual%20Report%202014-15.pdf>

Table 9 ACT Health staffing

Division/branch	FTE staff
	No.
Health infrastructure and planning	47.7
Office of the Director-General	101.2
Population health	158.9
Special purpose account	16.1
Strategy and corporate	659.1
Subtotal (head office type staff)	983.0
Canberra Hospital and health services	5 212.5
Total	6 195.4

Source: ACT Health, annual report 2014-15.

Costing the staffing numbers

- 75 We have estimated the administrative scale cost for the health function at \$39.2 million, using the same approach for education. The costing details, based on DoF's costing template, are in Attachment B. Reducing salaries by 10% would result in an administrative scale cost of \$35.2 million. This estimate is 60% higher than the current administrative scale cost of \$22 million.
- 76 The costing is based on a 60/40 split of employee/non-employee expenses, as per the education function. The consolidated operating statement of the Commonwealth Department of Health and the Therapeutic Goods Administration shows employee related expenses were 55% and 58 % of total expenses in 2014-15 and 2013-14, respectively.

Conclusions

- 77 While the preliminary staff estimate of \$35.2 million is higher than those based on the 1999 and 2004 Reviews, this is not unexpected because the current administrative scale costs were not derived using the same method. They were derived by applying the administrative scale costs proportions of the education and police function expenses to the total health expenses. Using that method (based on the education function proportion), the health function administrative scale costs would be \$26.0 million.
- 78 We consider the approach to estimating health costs used in this paper is better as it involves direct consideration of the functions of health departments and the organisational structures used to provide them. However, the resulting preliminary estimates of scale costs could be improved with State input.

Information and comments sought from States

We seek comments on the Commission staff's attempt at determining:

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

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.

Can States, especially the smaller ones, provide this information?

NEXT STEPS

- 79 Once State comments have been received in late July, staff will consider how to proceed.
- A different approach to re-estimating the administrative scale costs could be adopted.
 - If the proposed approach is supported:
 - data from States would be sought to help us review the initial estimates for the Education and Health functions
 - if State data are unavailable, the initial estimates might stand for the Education and Health functions.
 - Commission staff will proceed to produce estimates for each assessment function using the best approach possible.
 - States will be consulted on the estimates for each function
 - Commission staff will prepare a paper for the Commission recommending revised administrative scale costs and reporting State views on those estimates.
- 80 This work must be completed by December 2018.

ATTACHMENT A - EDUCATION FUNCTION COSTING

1 Table A-1 shows the costing of the stylised minimum education structure based on the Department of Finance template.

Table A-1 Education function costing, 2016-17 dollars

	Rate/FTE	Staffing numbers	Expenses
		no.	\$'000
Base Salary			
Graduate	\$65 622		
APS 1	\$50 364		
APS 2	\$57 175		
APS 3 (Personal assistant)	\$64 850	10	649
APS 4 (Personal assistant)	\$71 852	1	72
APS 5 (Junior officer)	\$78 046	26	2 029
APS 6 (Junior officer)	\$92 583	26	2 407
EL 1 (Senior officer))	\$112 901	26	2 935
EL 2 (Manager)	\$142 789	27	3 855
SES 1(Branch head)	\$199 764	13	2 597
SES 2 (Division head)	\$256 798	3	770
SES 3 (Secretary)	\$340 298	1	340
Total		133	15 655
Superannuation	15.40%		2 411
Long service leave	2.60%		407
Total employee expenses			18 473

Source: Staff estimates based on the Department of Finance costing template.

ATTACHMENT B - HEALTH FUNCTION COSTING

- 1 Table B-1 shows the costing of the stylised minimum health structure based on the Department of Finance template.

Table B-1 Health function costing, 2016-17 dollars

	Rate/FTE	Staffing numbers	Expenses
		no.	\$'000
Base Salary			
Graduate	\$65 622		
APS 1	\$50 364		
APS 2	\$57 175		
APS 3 (Personal assistant)	\$64 850	11	713
APS 4 (Personal assistant)	\$71 852	1	72
APS 5 (Junior officer)	\$78 046	34	2 654
APS 6 (Junior officer)	\$92 583	34	3 148
EL 1 (Senior officer))	\$112 901	34	3 839
EL 2 (Manager)	\$142 789	35	4 998
SES 1(Branch head)	\$199 764	17	3 396
SES 2 (Division head)	\$256 798	3	770
SES 3 (Secretary)	\$340 298	1	340
Total		170	19 930
Superannuation	15.40%		3 069
Long service leave	2.60%		518
Total employee expenses			23 517

Source: Staff estimates based on the Department of Finance costing template.