

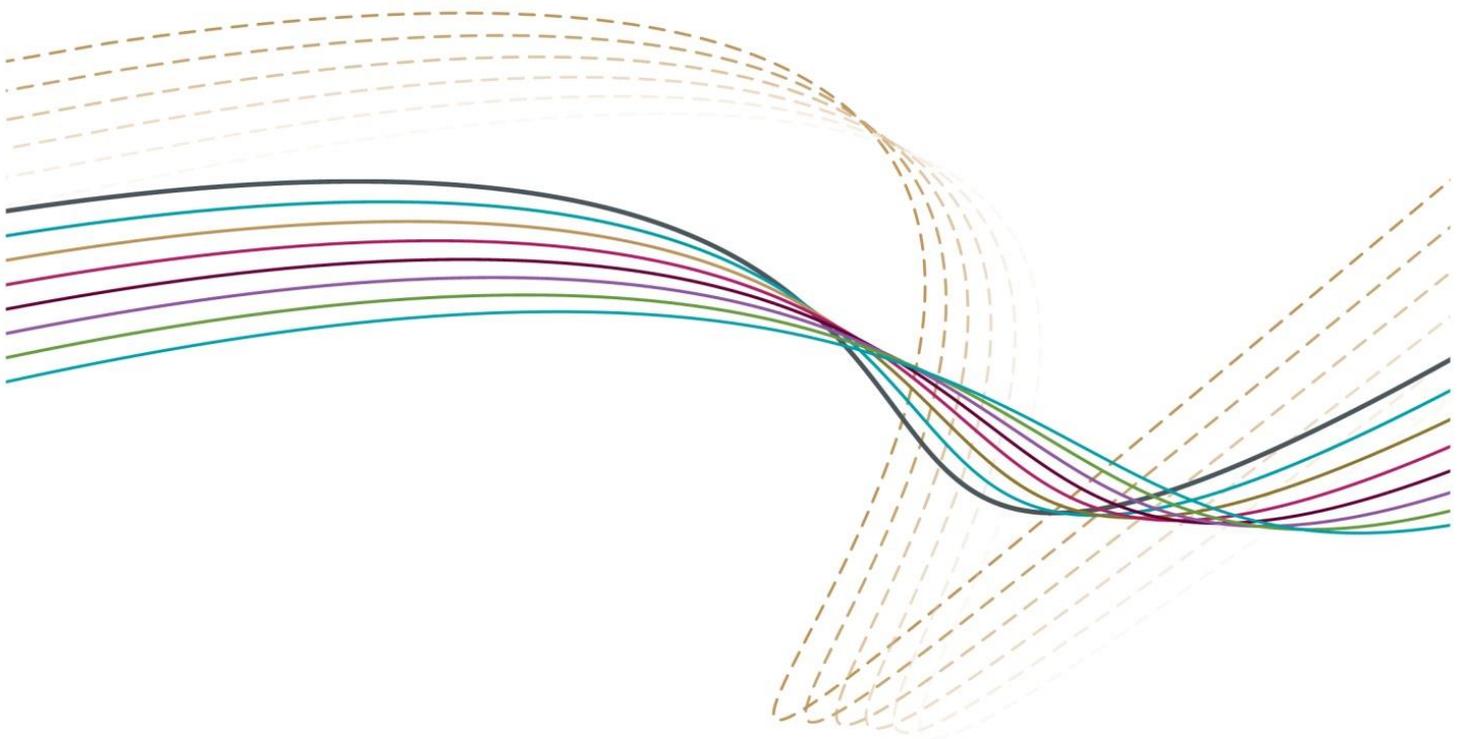
QUEENSLAND TREASURY

Staff Research Paper for the 2020 Review

Administrative Scale

Response to Commonwealth Grants Commission –
Staff Research Paper CGC 2017-06-S

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Queensland's position

- Queensland considers there to be a strong conceptual case for an administrative scale disability assessment to be included in the Commonwealth Grants Commission's (CGC) assessment of the fiscal capacities of states. However, the current base data for determining the quantum of scale affected expenses used in this assessment is outdated and further information should be provided on the judgements used.
- Queensland supports a comprehensive review of the minimum costs of State administration using information collected from States.
- Further exploration and consideration of the proposed 'bottom up' approach presented by the CGC staff is needed.
- The proposed organisational structures presented by the CGC for health and education appear to appropriately represent what States currently do. However, more evidence is necessary around the judgements the CGC has made for determining the allocation of resources to these structures, particularly the number of junior staff (supporting managers and officers). Queensland considers that more information is required to support the relevance of these junior staff to the minimum cost of State administration.
- The CGC should also examine shared services, among other efficiency measures, that States utilise and their relevance to the administrative scale assessment when examining at a whole-of-government level.

Administrative scale assessment and the proposed approach

1. There is a strong conceptual case for the administrative scale disability assessment when determining the fiscal capacities of states. This reflects the higher per capita costs States with small populations face because the costs to provide the minimum functions of government have to be spread over a smaller number of residents.
2. In the 2015 Methodology Review, the CGC defined the administrative scale disability assessment as recognising "...those costs incurred by a State in delivering services...which are independent of the size of the service population."
3. While supportive of the conceptual case for the assessment, Queensland has concerns around the robustness of the method currently used to determine the quantum of scale affected expenses. The quantum of expenses is important as the administrative scale assessment redistributed \$898M in the 2017 Update, or about 13 per cent of the total redistribution due to expenditure assessments in that Update.
4. Queensland considers the proposed bottom-up approach warrants further investigation as a way to update the quantum of scale affected expenses.

Organisational structure

5. The CGC's proposed 'average minimum structure' presented by the CGC in its discussion paper to be a reasonable representation of how State and Territory education and health departments are structured. As such, it would appear to be broadly appropriate and broadly reflect what states do.

Estimating minimum staff required

6. However, there are significant challenges in estimating the number of staff and expenses states need to deliver State administration at a minimum cost. The CGC have exercised judgement in determining the proposed minimum structure and basic administrative costs and it is unclear whether the resulting proposal is a structure which is truly independent of the size of the service population.
7. In relation to the proposed average minimum structure presented by the CGC, it is unclear what judgements have been used to arrive at the proposed number of junior staff that support a branch head (i.e. it is assumed branch heads have one or two immediate subordinates (managers) and these managers each have three staff). It is important for the CGC to provide further information on how these estimates were formed as they do not appear to be robust.
8. While staff numbers and expenses from smaller states offer some guidance for an upper limit of the quantum of scale affected expenses, the number of staff for even the smallest State government (NT) vary to some degree with its population size and policy choices.
9. As such, it may be helpful for the CGC to consider conceptually what the functions of staff at education and health departments are. Education and health department staff can be divided broadly into two categories – strategic and operational. Strategic staff are broadly responsible for establishing the policies and strategies for the delivery of health and education services to the community. Such staff would typically include department heads, division heads and branch heads. On the other hand, operational staff, typically more junior staff such as supporting managers and officers, are broadly responsible for operationalising the decisions made by the strategic staff.
10. Conceptualised in this way, the role and number of strategic staff would reflect the functions and structures of a particular department and would be unlikely to vary significantly with population size. As such, employee expenses for this category would appear to align with the 2015 Methodology Review definition of administrative scale expenses and should be included in the assessment. Based on the 'average minimum structure' determined by the CGC in the staff research paper, the number of strategic staff can be determined.
11. In comparison, the number of supporting staff can be reasonably expected to increase with population size, as delivery of services becomes more complex. As such, it would appear supporting staff do not meet the current definition of administrative costs and should be excluded from the assessment. Instead, operational staff expenses should be assessed together with other expense categories.
12. Based on this approach, using the data included in the CGC staff papers as a base, the CGC could consider a structure for education which would include a secretary, a mid-level manager (Office of CEO), three division heads, 13 branch heads and 11 personal assistants. Applying the same concept to health, the administrative scale assessment should only include one secretary, a mid-level manager (Office of CEO), three division heads, 17 branch heads and 12 personal assistants. Such an approach should also have a similar level of consultation with states when CGC consider other department structures.

Shared services

13. The CGC should consider the practice of shared services when examining scale affected expenses at the whole-of-government level. Shared services, typically involving corporate service functions such as finance or human resources between departments, have the benefit of removing duplicate functions and pooling resources. This leads to greater efficiency and costs reduction for State governments.
14. In Queensland, Queensland Shared Services (QSS) provides finance, procurement, human resources management, telecommunications and mail support services to Queensland Government agencies and statutory authorities.
15. QSS is also responsible for the management and support of the majority of the sector's finance and human resource systems and processes.
16. Queensland is also aware of a number of shared services functions in other jurisdictions including:

1. Shared Services SA which manages payroll, accounts payment and accounts receivable for a number of South Australian government departments, as well as ensuring that these departments meet their financial reporting obligations.
 2. The NT Department of Corporate and Information Services which provides a range of corporate services to government agencies including human resource services, finance services, fleet services, IT and communication services, and procurement services.
 3. The ACT Government's Shared Services which provides a range of services including ICT infrastructure and support, human resources functions including payroll and recruitment, finance, salary packaging, record and mail services and publishing services.
17. As a widely used mechanism for lowering the administrative costs of government, Queensland suggests the CGC should further examine shared services at a whole-of-government level when estimating the minimum cost of delivering services.
18. On similar grounds, the practice of outsourcing corporate services to the private sector is also an efficiency measure adopted to reduce costs within a department. This should also be taken into consideration when assessing the quantum for administrative scale costs.

