

CHAPTER 23

ADMINISTRATIVE SCALE

WHAT IS INCLUDED IN ADMINISTRATIVE SCALE?

- 1 The Commission considers that States with small populations have intrinsically higher per capita costs because the minimum functions of government have to be spread over a smaller number of residents. The Administrative scale assessment provides an allowance for this influence.
- 2 The assessment captures the minimum administrative cost that would be incurred for a State with a population size of the smallest State. It includes costs associated with:
 - core head office functions of departments (for example, corporate services, policy and planning functions, but not all staffing and other resources delivering these); and
 - services that are provided for the whole of the State (for example, the legislature, the judiciary, the Treasury, the revenue office, and a State museum but not all staffing and other resources delivering these).

ASSESSMENT APPROACH

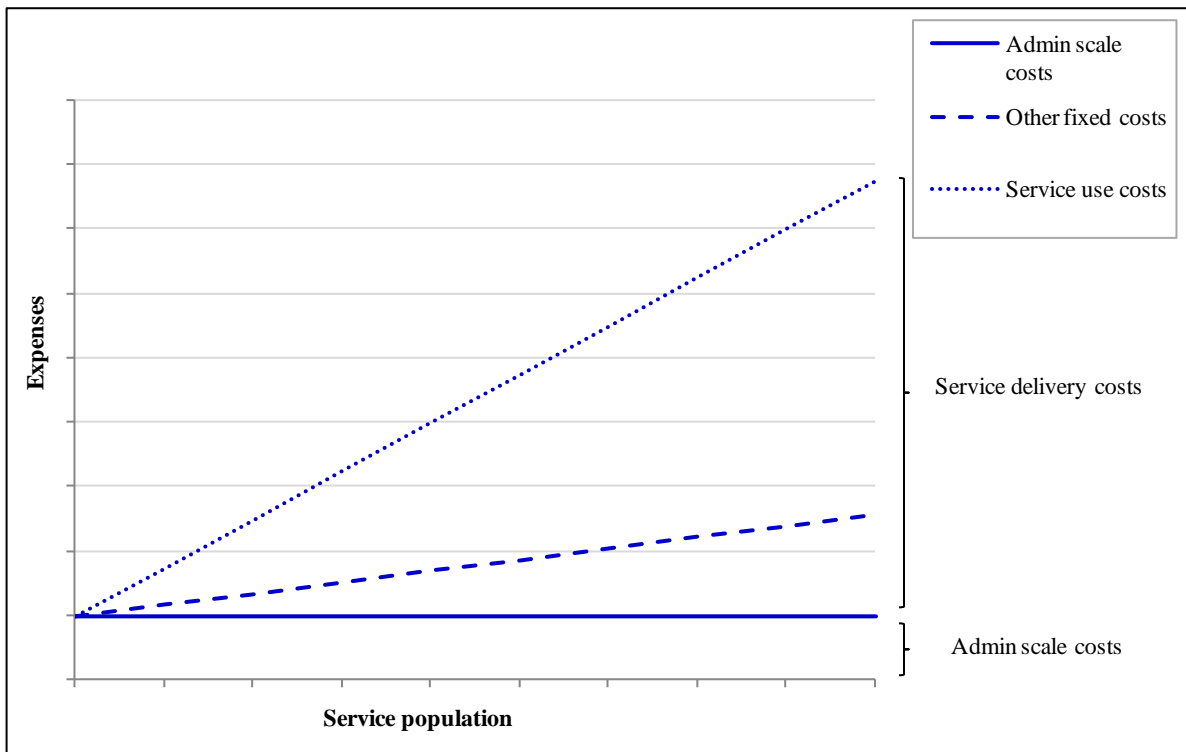
- 3 As the Administrative scale assessment is intended to capture the cost of providing the minimum level of administration required (that is, the level of expenses incurred by a State with a population size of the smallest State), each State has the same requirement. The appropriate assessment is therefore an equal per State assessment, the same absolute assessment for all States¹, resulting in a greater per capita cost for the less populous States.
- 4 New South Wales argued that the Commission should recognise that the minimum cost of the bureaucracy required before a unit of service is delivered is heavily dependent on the scale at which the service has to be delivered. Therefore, the minimum cost of bureaucracy is not the same across all States and an equal per State assessment is not appropriate. This was

¹ The ACT receives slightly less because it does not need to provide some services and the Northern Territory slightly more because it requires a dual service delivery mode.

illustrated with reference to data on the minimum cost of bureaucracy for State treasury, health, education and police functions.

- 5 However, the Administrative scale assessment does not attempt to encompass all fixed costs or ‘non-front line services’, defined by New South Wales as employees in head or district offices supporting the provision of services. Our approach is to assess State expenses in two parts — the administrative scale part and a service delivery part. The service delivery part itself comprises other fixed costs² and an average variable cost. Conceptually, the fixed cost recognised for a State is the sum of administrative scale and other fixed costs multiplied by the size of its service population (its population adjusted for disabilities). The inherent fixed cost rises with a State’s population, but still declines on a per capita basis.
- 6 The Commission considers that the current approach already recognises the concern raised by New South Wales that larger States have bigger fixed costs than smaller States. However, this is captured implicitly in the category service delivery assessment rather than through a separate other fixed cost disability. Figure 23-6 illustrates this graphically.

Figure 23-6 Graphical depiction of administrative scale costs



Source: Commission illustration.

- 7 The Commission’s approach recognises that fixed costs grow as service populations grow, rather than as State populations grow. We have not been able to find information which would

² Total fixed costs less administrative scale costs.

enable us to make a separate allowance for the response of fixed costs to population growth, independently of the growth of service populations.

8 As a result, we have not made a separate assessment of these costs.

The quantum

9 The Administrative scale assessment was the subject of considerable work in the 1999 and 2004 Reviews. This work was aimed at providing estimates of the minimum level of administrative resources for each function. The assessment was based on analysis of the core central office and whole of State functions provided for all States. For each function, assessed costs were set to the lowest constructed cost at which any State could provide the function, without any reference to the volume of service delivery.

10 We did not consider a major change in assessment approach to be justified. 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. We have therefore used the 2004 Review estimates as the basis for the 2010 Review assessment. However, they have been indexed to reflect price level changes.

11 As in the 2004 Review, administrative expenses for two States have been adjusted in the 2010 Review.

- 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, its assessment in categories where these services are provided in other States has been reduced by \$9.0 million.
- 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 where these services are provided has been increased by \$6.0 million.

12 States generally supported the approach to base the 2010 Review assessment on the 2004 Review estimates. However, Western Australia, South Australia, Tasmania, the ACT and the Northern Territory argued that the quantum should be increased due to an increase in the number of statutory authority positions, an increase in intergovernmental workloads imposed on some agencies and a substantial increase in the Information Communications Technology (ICT) costs across agencies. New South Wales did not agree, arguing that, as there are very few costs involved in the provision of State services that are not affected by the nature of service delivery, administrative scale expenses should be reduced.

13 Queensland argued that in the absence of a thorough analysis of the costs faced by States and a clear demonstration of the changes described in paragraph 12, there was no basis for changing the scale affected expense quantum.

14 While some States provided data to show that ICT costs have grown significantly over the last decade, they were unable to show what proportion of the increase was due to an increase in

their minimum fixed cost and what could be attributed to an increase in service delivery. States said that it is virtually impossible to calculate these proportions.

- 15 In addition, a number of States argued that they have employed additional staff to meet the additional workload stemming from Council of Australian Government initiatives. What they were unable to identify was the net effect on staffing levels of the increased workload. Additional staff may have been moved from other areas or the additional workload may have been absorbed by other staff within each unit.
- 16 As a result, we have not been persuaded to increase or decrease the quantum assessed for each State. We accept that there may be changes in State responsibilities and in how services are delivered but States were unable to provide sufficient reliable data to allow these changes to be measured.

Updating the assessment

- 17 In the 2004 Review, the Commission indexed the scale affected costs by a composite index based on 80 per cent of the labour price index (LPI) and 20 per cent of the consumer price index (CPI) as a means of capturing changes in wage levels and the price of goods and services used in administrative tasks.
- 18 For the 2010 Review, the index chosen to inflate the quantum is the chain price index for State and local government final consumption expenditure from the ABS national account statistics. It is readily available, reflects State costs and does not require judgment to be made as was the case in using a composite labour price index – consumer price index measure. It is built up from prices and expenditures on goods and services that make up the national accounting aggregate and therefore provides a reasonable estimate of the underlying price movements. The influence of local government final expenditure on this measure is estimated at only 5-10 per cent.
- 19 There was no agreement between the States on the best index. The ACT argued for expenses to be updated using only the labour price index because the Commission's preferred measure uses a combined State and local government index. South Australia argued for expenses to be indexed by a combination of the labour price index and consumer price index for the same reason. Western Australia and the Northern Territory preferred to index administrative expenses by the growth in State expenses.
- 20 Victoria, Queensland and Tasmania supported the Commission's method of indexing.

Functionalising superannuation expenses

- 21 The Commission has decided to functionalise superannuation expenses in the 2010 Review rather than assess them in a separate category.
- 22 ABS Government Finance Statistics indicate superannuation expenses were, on average, 7.5 per cent of total State expenses. We have estimated the portion of superannuation

expenses to be allocated to administrative scale costs as 7.5 per cent of administrative scale costs.

- 23 All States commenting on this issue supported the proposal.

THE ASSESSMENT METHOD

- 24 Administrative scale expenses in the 2004 Review were identified for individual categories. The 2004 Review categories were mapped to the 2010 Review categories and the administrative scale expenses were summed. The 2005-06 expenses were then indexed using the State and local government final consumption expenditure and adapted for the ACT and the Northern Territory. Superannuation expenses were included. Table 23-1 shows the unadjusted administrative scale expenses assessed for each category for 2008-09.

Table 23-1 Unadjusted Administrative scale assessment, 2008-09

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Schools education	14.6	14.6	14.6	14.6	14.6	14.6	14.6	15.6	117.8
Post-secondary education	7.7	7.7	7.7	7.7	7.7	7.7	7.7	8.2	62.3
Admitted patients	10.5	10.5	10.5	10.5	10.5	10.5	10.5	11.3	84.7
Community and other health services	9.3	9.3	9.3	9.3	9.3	9.3	9.3	10.0	74.8
Welfare and housing	15.5	15.5	15.5	15.5	15.5	15.5	15.5	18.4	127.2
Services to communities	3.4	3.4	3.4	3.4	3.4	3.4	2.5	3.5	26.3
Justice services	21.2	21.2	21.2	21.2	21.2	21.2	21.2	21.2	169.8
Roads	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	31.8
Transport services	3.6	3.6	3.6	3.6	3.6	3.6	2.8	3.6	27.9
Services to industry	22.0	22.0	22.0	22.0	22.0	22.0	14.7	22.0	168.5
Other expenses	101.8	101.8	101.8	101.8	101.8	101.8	101.8	101.8	814.4
Total	213.5	213.5	213.5	213.5	213.5	213.5	204.6	219.5	1 705.4

Source: Commission calculation.

- 25 These administrative scale expenses are then adjusted for interstate differences in wage levels. The factors assessed for each State for 2008-09 are shown in Table 23-2. These adjusted expenses become part of each State's total assessed expenses for each category and are shown in Table 23-3. The total scale amount for all States (and any other assessed expenses relating to other disabilities such as National capital or Native title and land rights) is subtracted from total recorded expenses in the category to calculate service delivery expenses. These, when divided by the Australian population, represent the average per capita cost of service provision to which disabilities like socio-demographic composition and location costs are applied.

Table 23-2 Administrative scale interstate location factors, 2008-09

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Average
2008-09	1.02015	0.99122	0.97819	1.01068	0.98419	0.96432	1.03224	1.03898	1.00000

Source: Commission calculation.

Table 23-3 Location adjusted Administrative scale assessment, 2008-09

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Schools education	14.9	14.5	14.3	14.8	14.4	14.1	15.1	16.2	117.8
Post-secondary education	7.9	7.7	7.6	7.8	7.6	7.5	8.0	8.6	62.3
Admitted patients	10.7	10.4	10.3	10.6	10.3	10.1	10.8	11.7	84.7
Community and other health services	9.4	9.2	9.1	9.4	9.1	8.9	9.6	10.4	74.8
Welfare and housing	15.9	15.4	15.2	15.7	15.3	15.0	16.0	19.1	127.2
Services to communities	3.4	3.3	3.3	3.4	3.3	3.3	2.6	3.7	26.3
Justice services	21.7	21.0	20.8	21.4	20.9	20.5	21.9	22.0	169.8
Roads	4.0	3.9	3.9	4.0	3.9	3.8	4.1	4.1	31.8
Transport services	3.7	3.6	3.5	3.6	3.5	3.5	2.9	3.7	27.9
Services to industry	22.4	21.8	21.5	22.2	21.6	21.2	15.1	22.8	168.5
Other expenses	103.8	100.9	99.6	102.9	100.2	98.2	105.1	105.8	814.4
Total	217.8	211.7	208.9	215.8	210.2	205.9	211.2	228.1	1 705.4

Source: Commission calculation.

WHAT IS THE IMPACT ON THE GST DISTRIBUTION?

26 Table 23-4 shows the extent to which the assessment moves the distribution of GST away from an equal per capita distribution. Because administrative scale expenses are assessed on an equal per State basis, GST is redistributed to the less populous States of Western Australia, South Australia, Tasmania, ACT and the Northern Territory and away from the more populous States of New South Wales, Victoria and Queensland.

Table 23-4 Impact on the GST redistribution of the location adjusted Administrative scale assessment

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Redist
Dollars million	-325.9	-210.6	-135.0	42.5	82.0	168.2	176.1	202.6	671.5
Dollars per capita	-45.70	-38.56	-30.32	18.81	50.32	333.18	498.57	894.74	30.49

Note: The difference from an equal per capita assessment, derived using 2006-07 to 2008-09 assessed revenue and 2009-10 GST.

Source: Commission calculation.

27 Table 23-5 provides a summary of the changes since the 2009 Update. It shows the main reason for those changes is method changes. The main method changes included:

- introducing a new indexing method to update the assessment; and
- functionalising superannuation expenses.

Table 23-5 Changes since the 2009 Update, unadjusted Administrative scale

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Redist
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Shortening the review period	8.1	4.3	0.7	-2.0	-0.6	-2.1	-2.9	-5.4	13.1
Method changes	-24.8	-15.2	-9.4	3.2	6.2	12.4	12.6	15.1	49.4
State circumstances	-0.7	-1.2	-2.2	-1.8	1.7	2.8	1.3	0.2	5.9
Total	-17.4	-12.2	-10.9	-0.7	7.2	13.1	10.9	9.9	41.2

Note: The changes do not include the location effects. This is to ensure the figures are comparable.

Source: Commission calculation.

UPDATE PROCESS

28 We recommend that data used in these assessments be updated to ensure the relativities remain contemporary and consistent with the circumstances of the States. On this basis we expect the administrative scale allowances to be updated annually using the latest State and local general government final consumption expenditure implicit price deflator from the ABS national accounts.

SIMPLIFICATION

29 As the 2004 Review had already adopted simple methods for assessing administrative scale expenses, there has been no change in the assessment approach. However, we have used a new indexing method that does not require judgment as in the past.

FURTHER INFORMATION

30 Background material in support of this assessment is published on the Commission's website. That material includes the following documents, released for comment in the development of this assessment, together with State submissions responding to those documents:

- Staff discussion paper *2007/09-S Assessing scale disabilities in the 2010 Review*;
- Commission position paper *2008/12 Administrative scale*; and
- *2010 Review Draft Report*.