

From: Laurie, Kirsty
Sent: Friday, 11 August 2017 3:14 PM
To: Secretary@CGC
Subject: Admin scale assessment

Dear Secretary

Thank you for the opportunity to comment on the administrative scale staff research paper.

Overall, we are concerned that the proposed approach to estimating administrative scale costs in the 2020 Review will involve a lot of work that is unlikely to significantly improve the quality of the assessment. However, we will seek to respond to requests for data for this purpose. Our education and health agencies have indicated that they can provide the information on head office staff and expenses that the research paper says will be required, given a reasonable deadline.

Our more specific concerns with the research paper relate to the conceptual description of administrative scale costs and other fixed costs, and the need for scale disabilities for regional administration (particularly for dispersed States).

The concerns with the conceptual approach to administrative scale costs can be seen in the graphical presentation in Figure 1 of the research paper.

This figure shows two upward sloping straight lines, which are labelled “service use costs” and “other fixed costs”, and grouped together as “service delivery costs”. However, in practice, every upward sloping straight line will represent costs that are proportional to service population. The slope will simply depend upon the dollars spent on each unit of the service population.

All fixed costs should appear as a horizontal straight line in the figure. It may be that what the CGC is thinking of as “other fixed costs” are actually costs that grow with the service population, but less than proportionately and not in a straight line. Examples would include costs that might grow in proportion to the square root of the service population or the log of the service population. However, costs that follow this sort of pattern would generate a disability for smaller population States, albeit one that is slightly more complex to model than the CGC’s current fixed cost model. There is no data to assess the materiality of this.

Another shortcoming of the CGC’s current assessments is that they cover scale disabilities at the whole of State level and at the service delivery point, but do not cover scale disabilities for regional administration (and potential flow on costs at the central level). This will occur when the spread of population results in a need for more regional offices, with each regional office having some fixed costs. For example, a State with one regional centre 500 km from the capital, servicing 50,000 persons, will only need one regional office; whereas a State with two regional centres 500km from the capital (in opposite directions), each servicing 25,000 persons, will need two regional offices – despite both States having identical regional cost assessments.

I trust that these comments are of assistance.

Regards

Kirsty

Kirsty Laurie

Director, Revenue & Intergovernmental Relations | Economic Business Unit
Department of Treasury
David Malcolm Justice Centre
28 Barrack Street, PERTH WA 6000