STRATEGIC AND FUNCTIONAL REVIEW OF THE ACT PUBLIC SECTOR AND SERVICES

FINAL REPORT

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STRATEGIC AND FUNCTIONAL REVIEW OF THE ACT PUBLIC SECTOR AND SERVICES

CABINET-IN-CONFIDENCE

Mr Jon Stanhope MLA
Chief Minister
ACT Legislative Assembly

Dear Chief Minister

We are pleased to present the Final Report of the Strategic and Functional Review of the ACT Public Sector and Services, addressing the Terms of Reference in your letter of engagements dated 30 November 2005 and the supplementary Term of Reference provided on 22 March 2006.

The Review Committee acknowledges the valuable input received from the many departments, agencies, individuals and the public either directly or indirectly involved with the Review.

The Review Committee in particular wishes to record its appreciation for the assistance and support provided by Mr Mike Harris, Chief Executive, Chief Minister's Department and Dr Paul Grimes, the Under Treasurer, which enabled the review to meet the requirements of its Terms of Reference and timetable.

Yours sincerely

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7 April 2006

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ACKNOWLEDGEMENTS

The Committee wishes to thank the ACT Government Departments and agencies and the public who provided information to the Review, made submissions, participated in public consultations and meetings with the Review Committee, or assisted with research.

Research conducted for the Review by the Secretariat would not have been possible without the generous assistance of agencies and individuals who gave freely their time, resources and skills. The Committee would particularly like to thank the ACT Department of Treasury, and the expert and specialist Consultants who provided both data and additional information.

Finally, the Committee wishes to acknowledge the support provided by all members of the Secretariat drawn from both Treasury and other areas of the ACT Public Service.

TABLE OF CONTENTS

EXECUTIVE SUMMARY

The ACT does not face an immediate budget crisis. However, the budget position has deteriorated considerably, and the ACT will face a crisis in the next few years unless strong action is taken by the Government urgently.

While the budget problem is partly the result of a cyclical downturn in land-based revenues, it also highlights longstanding systemic weaknesses in ACT finances. The improved situation this year depends on stock market returns, which could substantially change in future years.

The ACT has long sustained public spending well above State/Territory averages. It has relied largely on land based revenues to support this higher spending. This is unsustainable because land based proceeds are likely to decline over time as a share of total revenues and reliance on asset sales depletes a community asset.

The higher costs of ACT public services are driven also by high superannuation expenses – the ACT is the last State/Territory to retain superannuation for new employees at rates well above the superannuation guarantee requirement.

In establishing the Strategic and Functional Review, the Chief Minister asked for the restoration of the budget surplus, while maintaining priority outcomes particularly in health and education. The Review has developed its recommendations to deliver these results by addressing the systemic issues facing ACT finances.

Adoption of its recommendations will:

- immediately restore a surplus in operating cash, which is particularly important to the ACT's credit rating;
- restore a sound, and growing, surplus in the operating results (under the ACT's existing accounting measure) within the forward estimates period; and
- substantially reduce the GFS operating deficit to a level covered by land sales revenue with prospects for reaching full GFS surplus within a few further years (the GFS is the accounting measure likely to be required to be used in future, and the Review has recommended that it be adopted now).

The improvement in the budget position is, however, no more than that essential to cover very considerable risks. In particular, the result depends on maintaining very tight control of public sector wage growth. The results also depend on no downturn in the ACT's superannuation investment funds (despite current cyclical highs).

To restore the budget surplus, the Review has recommended increased tax and other revenues, greater efficiencies in service delivery, and reduced spending in areas of lower priority. However, it has preserved the delivery of current outcomes in health, education, police, justice, and nearly all community and emergency services.

The taxation and other revenue proposals will provide over one third of the adjustment. The ACT will have the full range of state-local taxes, and overall these will amount to an above average tax impost on the community. It should be noted, however, that per capita taxation on ACT residents will be lower than New South Wales, Victoria and Western Australia. Higher revenues will match the higher community expectations for public services and the higher capacity to pay of the ACT community on average. Equally, it is unlikely that the community could be asked or expected to contribute any more through the tax and revenue systems.

On the expenditure side, as much as possible has been sought from back office reforms, more efficient and effective structures, and through a range of cross agency efficiencies and better use of resources.

In health, the largest area of expenditure and heaviest growth pressure, a strategy has been developed to recognise and accommodate unavoidable demand growth while constraining overall expenditure increases through the concurrent search for efficiencies and demand management improvements. These improvements will aim to bring ACT efficiency levels closer to national benchmarks without harm to outcomes.

Similar strategies to better manage demand and unit cost risks are proposed for the justice, community (disability, children and housing) and emergency services areas.

In school education, direct savings are sought through school rationalisation and better resource management. To a large extent, this strategy is based on recognising and appropriately responding to a substantial ongoing fall in demand for government school education. Total spending on government schools is maintained, but with a substantial shift from operating costs to capital improvements. It is important to note that the quality of education will be maintained, and potentially improved, as a consequence of these measures.

The Review is also proposing substantial reform in the management, delivery and efficiency of arrangements for land use, planning and supply in Canberra. These changes aim not only at lower budget costs but also at making land a stronger source of advantage for Canberra, both for economic and social purposes.

Simply cutting programs has been the least significant of the strategies proposed by the Review. Where such cuts have been proposed, in virtually all cases the approach has been merely to bring ACT spending closer into line with national average levels. The main underlying consideration here has been that Canberra has no more financial capacity than other jurisdictions – so spending outside the very highest priority areas must broadly match national benchmarks.

For the business community, the Review proposals include cuts toward national benchmark levels in a number of areas, including direct assistance and tourism. Also a range of tax measures will impact on business. However, the ACT has a very strong economy, and so the priority afforded to business attraction strategies must be weighed against the fact that Canberra already faces skill shortages.

At the same time, there is much that is favourable to business in the Review proposals. Most importantly, a sound and sustainable budget surplus with excellent prospects for retaining the AAA rating are vital for business. The Review also proposes lower costs and better opportunities for participation in land development, and simplified regulation.

The adoption and implementation of the Review's recommendations is a big task for Government and the ACT Public Service. However, not only are the reforms and budget outcomes sought here vital to the future of the Territory, but even more must be asked of everyone in Government.

Strong leadership, at both the middle and senior executive levels, is crucial to the task being faced. Focus on the so called 'fat cats' is diversionary - any loss or reduction in the quality, experience and skill base of senior executives would be a false economy – the Government needs best leaders at this time to achieve its outcomes, and manage areas of high risk. It is at these levels that the ACT Public Service has to compete most strongly with the attractions of the Commonwealth Public Service.

The greatest challenge will be to stay the course and to build further on it, as demographic and other developments create new demands. Further efficiencies will be needed, indeed required by the strategies proposed here, and productivity offsets will be essential for any wage increases above the allowances in the forward estimates.

SUMMARY OF RECOMMENDATIONS

Chapter 3 – The Strategic Response of the Review

Measuring the Operating Budget

Recommendation 1: for financial management and 'headline' budget reporting purposes, the Government adopt GFS measures from the 2006-07 Budget.

Medium Term Financial Targets

Recommendation 2: the Government announce in the forthcoming Budget that it will pursue the following financial management goals for its operating result:

- **substantial GFS operating cash surpluses in every year;**
- **restoring budget balance or surplus within the forward estimate years, measured by GFS result supplemented by the proceeds of land sales;**
- **as soon as possible thereafter, achieving full GFS balance or surplus over the budget cycle (without any reliance on land sales revenue); and**
- **a clear pattern of rising GFS operating results through the forward estimates.**

The Change Strategy

Recommendations 3 and 4:

- **the primary responsibility for implementing the Review's recommendations agreed by Cabinet rests with the portfolio Minister and the relevant Chief Executive;**
- **from a whole-of-government viewpoint, the Chief Minister's Department be responsible for overall implementation coordination, monitoring and progress reporting to Government, with financial oversight by the Department of Treasury.**

Recommendation 5: a Restructure Fund to be administered by Treasury be established, with funding of \$14.5 million in 2006-07, \$4.5 million in 2007-08, \$1.5 million in 2008-09, and \$0.5 million in 2009-10.

Chapter 4.1 - Budget and Cabinet Framework

Strategic Direction and Policy Advice

Recommendations 6 and 7:

- **the Budget process be established as the central strategic policy setting mechanism of the Government (see further recommendations below).**
- **the primary function of the Chief Minister's Department is to advise the Chief Minister on all strategic government priorities and on matters where whole-of-government coordination is vital. CMD should pursue these tasks mainly by chairing taskforces or committees that bring together the agencies (or bodies external to government) that have responsibilities for service delivery. Primary carriage of service delivery should not shift from portfolio agencies to CMD other than in exceptional circumstances.**

Effective Policies and Public Administration

Recommendation 8: in relation to Cabinet Submissions:

- **agencies be required to obtain agreement from the central agencies, and other agencies where applicable, for the adequacy and accuracy of factual information in their Cabinet Submissions prior to their lodgement; and**
- **every submission include financial implications determined by Treasury.**

Recommendation 9: in relation to the development and lodgement of Cabinet Submissions:

- **Departments develop Submissions in consultation with their Ministers, and other departments with a key interest in the policy matter;**
- **formal co-ordination comments on the final version of the Submission be provided in accordance with the Cabinet Handbook; and**
- **the Cabinet Office reject any Submissions that do not abide by the Cabinet guidelines, including financial impacts.**

Recommendation 10: all submissions with substantive budget implications be deferred for consideration in the Budget process. Exceptions to this rule should be allowed only where the Chief Minister agrees that a matter is urgent and unforseen; in all such cases the matter brought by a Minister should be accompanied by realistic options for offsetting savings within the Minister's portfolio.

Budget Framework

Recommendation 11: where practicable funding commitments for new programs be made for a limited time (two to three years), with their continuation subject to evaluation, and the consideration through the Budget process (such programs should however, be reflected in the forward estimates on a continuing basis, unless formally terminated).

Recommendation 12: forward estimates should be based on the best possible projections of existing policy and trends; and budget policy should aim to show a rising surplus in each successive year, with substantial surpluses in out years.

Budget Process

Recommendation 13: in relation to the annual Budget process:

- **the process be initiated in September with Cabinet setting its policy agenda for the coming Budget including strategic goals for budget savings in each portfolio;**
- **clear fiscal targets be established early in the process with agencies being required to develop options for Cabinet's consideration strictly within those targets; and**
- **all spending proposals be accompanied by options for efficiency or service offsets.**

Budget Operational Rules

Recommendation 14: a concise set of budget operational rules be agreed by Cabinet that includes, at a minimum:

- **a requirement for Chief Executives to manage to a firm net cost of services budget (total expenses net of 'own source' revenues such as fees and charges);**
- **a requirement that all variations to an agency's net cost of services budget outside the annual budget process be agreed by Cabinet or, in the case of minor or technical variations, the Treasurer;**
- **a requirement that all proposals for additional expenditure must include realistic options to offset the cost;**
- **a requirement that if an agency increases its own source revenue outside certain limits, that approval from the Treasurer or Cabinet is required before that revenue can be used by the agency;**
- **a requirement that the arrangements for the expenditure of funds from special accounts must be approved by the Treasurer;**
- **a requirement that new policy measures that involve additional expenditure should not be brought forward outside the annual budget process unless the Chief Minister agrees that there is an urgent and compelling case for earlier consideration; and**

- a requirement that all requests to carryover funding from one year to the next be subject to approval by the Treasurer or Cabinet.

Chapter 4.2 – Administrative Structure and Governance

Recommendations 15 and 16:

- **the ACT Government be structured as a limited number of policy portfolios, each policy department reporting to a single Minister, with the Chief Minister responsible for both the Department of Chief Minister and Department of Treasury (See Table 4.2.3).**
- **Savings of a minimum $6m per annum be delivered to the Budget through the adjustment of portfolio funding allocations in recognition of the efficiencies available as a result of the new structure and related governance reforms.**

Chapter 4.3 – Workforce Culture and Performance

Recommendation 17: the Chief Minister's Department develop a program of cultural change for the Public Service, particularly targeted at middle and senior management, to strengthen focus on strategic, whole-of-government, outcomes and continuously improving efficiency considerations. Other elements of public service organisation should be aligned with this new focus.

Chapter 4.4 – Ongoing Review and Compliance

Recommendation 18: additional funding of $1.0 million per annum be provided to the Auditor-General for compliance and performance auditing.

Chapter 5 – Whole of Government Issues

5.1 Public Service Superannuation Arrangements

Recommendation 19: in relation to public service superannuation arrangements:

- **the Government adopt the statutory employer contribution rate of 9% for its new employees from 1 July 2006;**
- **the employer contribution rate be increased by an additional 1%, to 10%, for employees who opt to make employee contributions of at least 1%; and**
- **the contribution rate be maintained at the current level for employees joining the ACTPS prior to 30 June 2006 (grandfathering provision).**

5.2 Cash Management and Control

Recommendation 20: in relation to cash management and control:

- **the cash management framework be modified to provide for monitoring agency cash balances and maintaining these on a needs basis;**
- **interest earnings accrue to the Budget, except where specific conditions apply to special funds held by the agency (e.g., NRMA fund held by ACT Health, and Housing ACT); and**
- **necessary amendments to the *Financial Management Act 1996* be introduced with the aim of their passage before the start of 2007-08 financial year.**

5.3 Non-Executive (Advisory) Boards and Committees

Recommendation 21: each agency review its boards and committees structures (both internal and those which involve external members), targeted to reducing associated overheads. Savings from this are estimated at $1 million in 2006-07 and rising to $2 million onwards. Savings are to be apportioned on the basis of current costs, and applied to agency budgets from 2006-07.

Recommendations 22, 23 and 24:

- **agencies review the status of all boards, committees and office holders for which fees are determined by the Remuneration Tribunal, to review and update information to the Tribunal, including interim approvals to daily sitting fees.**
- **agencies review all boards and committees where sitting and other payments are made, to ensure eligibility under the Remuneration Tribunal's Determinations.**
- **policy guidelines on entitlements and practices be issued by the Remuneration Tribunal secretariat, to assist agencies in regularising these arrangements.**

5.4 Customer Services

Recommendation 25: a detailed business case be developed under the leadership of the Department of City and Territory, for consideration by the Government by December 2006, on the further consolidation of government information and payment and receipting services. This business case should include consideration of which shopfronts, call centres and other information portals and which payment and receipting systems should be merged into one Government approach and how and by whom, such a service should be managed.

5.5 Sustainability

Recommendation 26: the Government's sustainability framework be implemented through administrative policy mechanisms, rather than in legislation.

5.6 Annual Reports

Recommendations 27, 28, 29, 30 and 31:

- **annual and policy reporting arrangements be streamlined to smooth reporting pressures and costs, without reduction in accountability requirements of departments;**
- **financial year Annual Reports be streamlined to include only key reporting areas relating to financial, staffing, accountability, management, external labour and service purchasing matters;**
- **calendar year Annual Reports include community engagement, external scrutiny, advisory boards and committees, government inquiries and regulatory activities;**
- **policy implementation reporting be coordinated by originating policy departments, and tabled in the Legislative Assembly; and**
- **all government reports be produced to base publishing standards, with minimal printing of hard copies. Alternate use of electronic format and departmental websites be adopted.**

5.7 Territory Records

Recommendation 32: the *Territory Records Act 2002* be amended to defer the commencement of the public access regime for Territory records, preferably to a date to be fixed by subsequent instrument.

5.8 Municipal Services

Recommendation 33: any work on the consolidation of municipal services and associated legislation be undertaken within the existing resources.

5.9 Whole of Government Fleet

Recommendation 34: all 6-cylinder sedans in the Government vehicles fleet be progressively replaced with 4-cylinder cars, as their leases expire (with agency budgets adjusted accordingly).

Recommendation 35: management fees for government fleet be set at benchmark price (estimated at $50 per vehicle per month), providing estimated savings of $1.1 million per annum (with agency budgets adjusted accordingly).

Recommendation 36:

- **the size of the pooled fleet be reduced by 40 vehicles, with savings starting at $0.2 million in 2006-07 rising to $0.5 million per annum being realised to budget; and**
- **the decrease be allocated to agencies on the basis of the distance travelled under the maximum allowable limit at the time of disposal.**

5.10 Office Accommodation

Recommendation 37: in relation to government office accommodation:

- **the six rental leases due to expire by the end of December 2007 not be renewed;**
- **all current occupants of these be absorbed within existing Government owned or leased space; and**
- **savings from these leases expiries will amount to $3.551 million in 2008-09 and funding be returned to budget from the relevant Departmental appropriations, with a further $2.7 million realised from future lease expiration.**

Recommendation 38: further work be undertaken by the implementation team (in conjunction with the Property Group) to develop a strategy which:

- **accommodates the shared service centre within existing space. This will require staff in an existing building(s) to be relocated prior to February 2007;**
- **reduces leased space by a further 10,000m^2 to 15,000m^2, providing additional accommodation savings of $2.7 million up to $4.5 million;**
- **develops an accommodation plan to take advantage of likely vacancies in Civic following Commonwealth Departmental moves in 2008-09; and**
- **provides the Property group with authority to give final approval on any accommodation expansions and/or refurbishments.**

Recommendation 39: move to a dedicated office block for ACT Public Service administrative staff should be subject to no additional costs to budget, and improvement in office space utilisation to the target of 15m^2 per staff.

Recommendations 40, 41, 42, 43, 44 and 45:

- **the Property Group be reduced to a small strategic central core by separating it from the facilities staff (the latter would remain in Urban Services but as a separate business);**
- **the Group should have ultimate responsibility for negotiating and signing all leases/sub leases and fit out contracts;**
- **a set of policy guidelines be developed (by the Property Group) to assist agencies in relation to all property matters. These guidelines would set clear limits in relation to agency powers and require agencies to provide regular reports on all properties within their portfolios;**
- **lease or fit out contracts in excess of $500,000 be taken to Cabinet by the Minister responsible for the Property Group (rather than individual Ministers);**
- **the Property Group should establish fit out standards that include size, cost and transportability specifications; and**
- **consideration should be given to transfer this Group to the Shared Service agency when it is settled.**

5.11 Legal Services

Recommendation 46: legal services provision to ACT Government agencies be consolidated through the ACT Government Solicitor's Office, with:

- **legal services being provided on the whole through legal officers employed by the GSO;**
- **any outsourcing of legal services to be undertaken by GSO in conjunction with the relevant agency through a panel of pre-approved providers;**
- **legal units within agencies remaining only where there is a clear operational requirement and that the staff be engaged by and report to the GSO;**
- **statutory authorities and corporations being able to retain current outsourced arrangements for commercial legal issues; and**
- **clearly defined service standards be developed and agreed between the GSO and agencies.**

Recommendation 47: a detailed tracking of the costs of legal service provision from within the ACT Government and from external providers over 2006-07 be undertaken, with savings targets to be established by June 2007.

5.12 Intergovernment Agreements and Negotiations

Recommendations 48: in relation to inter-governmental agreements and negotiations:

- **negotiations between the Commonwealth and the ACT be based on in-principle parameters approved by Cabinet and/or Ministers, in advance of negotiations;**
- **a threshold for Cabinet consideration should be tied to major specific purpose programs such as health, disability services and housing, with all other funding arrangements to be agreed between relevant Ministers and the Treasurer;**
- **major cross border arrangements should have in-principle parameters approved by Cabinet; and**
- **central agencies should be advised of all negotiations with the Commonwealth and other jurisdictions.**

5.13 Integrated Document Management System (IDMS)

Recommendation 49: a whole-of-government rollout of IDMS be deferred to a later time:

- **the existing sites continue to be supported on a fee for service basis;**
- **no agency should be permitted to develop and commit to a full function electronic document management system (including workflow) that has capabilities directly comparable to those of IDMS; and**
- **as an interim cost effective measure, the Electronic Document Management System proposed by Urban Services and InTACT should be explored further, on the basis of its costs being absorbed by agencies.**

5.14 Insurable Risk Management

Recommendations 50 and 51:

- **the six agencies that generate the majority of insurance claims be mandated to work with ACTIA to improve their insurance claims performance and risk management; and**
- **performance in reducing the number or cost of claims should form part of Chief Executive performance agreements.**

Chapter 6 – One ACT Service: Towards Shared Services

Recommendation 52: establish a single, co-located Shared Service Centre to provide transactional and tactical human resources, finance, information technology and telecommunications, records management and procurement services, on a fee for service basis.

Recommendation 53: all ACT agencies be supported by and tied to the Shared Service Centre which will provide the transactional and tactical components of the full range of HR, finance, ICT, records, publishing and procurement services.

Recommendation 54: policy responsibility for consistency and standards of government printing and publications be transferred to the Communications Unit, Chief Minister's Department.

Recommendation 55 and 56:

- **the Shared Services Centre be governed by a Governing Committee which is a sub-committee of the Management Council;**
- **the Centre is to be attached to the Department of Treasury for administrative and financial accountability.**

Recommendation 57: the Governing Committee oversee the development of service level agreements between the Shared Service Centre and agencies including appropriate service charging regimes.

Recommendation 58: the Governing Committee facilitate the formal benchmarking of the Shared Service Centre to assess its performance and drive continuous improvement.

Recommendation 59: the Canberra Institute of Technology be included in the InTACT component of the Shared Service Centre.

Recommendation 60 and 61:

- **the Shared Service - InTACT be responsible for Department of Education and Training's (including schools) infrastructure, applications and applications support; and**
- **the Shared Service - InTACT work in partnership with Department of Education and Training and schools to deliver the proposed new investment in IT in Schools project.**

Recommendation 62: the Department of Education and Training, including the Canberra Institute of Technology, be included in the Procurement Solutions component of the Shared Services Centre.

Recommendations 63 and 64:

- **the number of common use contracts that are available to department/agencies be significantly increased. These contracts should be based on standard products/services, be "pick and buy" where possible and be mandatory for all budget-funded agencies; and**
- **responsibility for developing these arrangements and considering when best value for money would be obtained by leveraging off another jurisdictions contracts (in consultation with the appropriate contracts authority) be with the Shared Service Centre.**

Recommendation 65: the Shared Service Centre investigate the introduction of purchasing cards and re-engineering the purchasing to payment process to achieve the inherent efficiencies. This should be undertaken with assistance from Treasury (e.g., the Territory banking arrangements could form the basis of the purchasing card contract).

Recommendations 66 and 67:

- **the Records Management Unit from the Department of Urban Services be transferred to the Shared Service Centre; and**
- **the Shared Service Centre is to determine whether using private sector document management service would deliver overall benefits to the Territory Government.**

Recommendations 68, 69 and 70:

- **savings of $5.6 million be realised from agencies as a result of the establishment of the human resources and finance components of the Shared Service Centre with $2.75 million in 2006-07 being available to offset the additional costs of the Shared Service Centre in that year to ensure continuity of service delivery to agencies; and**
- **savings be apportioned to agencies on the basis of their current expenditure on these functions; and**
- **agencies' budgets be adjusted for long term savings.**

Recommendations 71, 72, 73 and 74:

- **current savings required from Shared Service - InTACT be increased by $1 million in 2006-07 and $2 million in 2007-08 and the forward years;**
- **further savings of $2.3 million per annum (indexed) be achieved through the reduction of duplicated and/or redundant business applications and capacity in agencies; and**
- **agencies' budgets be adjusted for IT savings identified in the 2005-06 Budget and the additional savings identified above; and**
- **the budget adjustments be based on current agency expenditures and settled between Treasury and the respective agency.**

Recommendations 75 and 76:

- **Departments and agencies be required to achieve savings of 1 per cent of their 2004-05 goods and services spend in 2006-07 and 2 per cent in 2007-08 and the forward years; and**
- **agencies' budget be adjusted for savings identified in Tables 6.4 and 6.5.**

Recommendation 77: investment of up to $5.75 million in 2006-07 and $7.4 million in 2007-08 be provided with the exact amounts to be agreed by Treasury following a business case by the Shared Service Centre.

Chapter 7.2 – Chief Ministers and Treasury

Chief Minister's

Recommendation 78: strategic policy capacity be strengthened in the Chief Minister's Department by refocussing the existing and transferred resources and effort.

Recommendation 79: the Chief Minister's Department continue to be responsible for Chief Minister's communication support, and provide whole-of-government coordination of media. The Department should also lead the formulation and delivery of 'signature' events, with responsibility for all other ongoing and regular events with the Department of City and Territory (i.e., Tourism).

Recommendation 80: savings of $0.439 million be realised from combining the position of Commissioner of Public Administration with the Deputy Chief Executive, Governance, within the CMD.

Recommendation 81: key projects be transferred from the Chief Minister's Department to portfolio departments as appropriate.

Recommendations 82, 83 and 84:

- **the Office of Sustainability be abolished;**
- **the policy role in relation to energy and water be retained in the Chief Minister's Department and aligned with the Economic Development Unit; and**
- **the remainder of the sustainability function merge into the Environment function in the Department of City and Territory, to achieve a saving of $1.5 million per annum.**

Recommendation 85: savings of $0.5 million from the Cultural Facilities Corporation be achieved in 2006-07 and the forward years.

Recommendation 86: artsACT ensure that the 2 per cent for public art scheme monies, allocated as part of the capital works program, include a sinking investment fund for future maintenance and preservation of all art works created or administered through the scheme.

Recommendation 87: Treasury resourcing be strengthened by $1 million to enhance central agency capacity to lead directional change and provide high quality economic and financial policy advice.

Treasury

Recommendation 88 and 89:

- **appropriation savings of $0.1 million per annum from the Independent Competition and Regulatory Commission be achieved in 2006-07 and the forward years, through a reduction of up to four support staff; and**
- **the appointments of the two ICRC Commissioner positions are not renewed upon expiration on 26 June 2006.**

Chapter 7.3 – Health

A New Strategic Approach

Recommendation 90: salary and wage growth in the health sector be restricted to a maximum of 3 per cent per annum, with increases above this rate only being allowed if offsetting productivity savings are identified to cover the increase in excess of 3 per cent per annum.

Recommendation 91: ownership and control arrangements for Calvary Hospital be clarified, subject to successful negotiation with the Little Company of Mary, by:

- **allowing the Little Company of Mary to assume full management of health services at the Calvary site, with movement to a more efficient price structure over a one to two year transition period as the LCM introduces industrial reforms;**
- **prior to agreeing the new arrangements, negotiating a more effective contract (favourable to the Territory) with LCM for the purchase of public hospital services; and**
- **after the transition period, ACT Health can more specifically identify the public hospital services to be purchased from Calvary on a fee-for-service basis, with payment at the benchmark rate.**

Recommendation 92:

- **community health services be reprioritised to increase focus on programs with substantive capacity to reduce acute care demand; and**
- **means-testing or charging options be developed for access to community health services.**

Outcomes

Recommendation 93: the Government agree to ACT Health total expenses being constrained to an annual average of 6.2 per cent (excluding the transfer to shared services) over the forward years, representing the application of the growth rates identified for each of the ACT Health outputs, and incorporating the target to achieve benchmark rates for cost per cost-weighted separation, excluding superannuation costs.

Health and Community Services Financial Strategy

Recommendation 94: ACT Health, in consultation with the central agencies, bring forward in the Budget process each year a four-year rolling forward program of savings (or revenue) strategies and options sufficient to fully offset across the Department:

- **any wage increases in excess of the forward estimates provision;**
- **any new policy proposals in the health and community services area; and**
- **any demand pressures arising in any area in excess of forward estimates parameters.**

Chapter 7.4 – Education and Training

Government Schools

Recommendation 95: pay increase of 4 per cent for teachers should be agreed subject to weekly contact hours being increased to at least the Australian average.

Recommendation 96: the Government source best practice curriculum content under licence, and that this be adjusted to ACT needs consistent with the curriculum framework being developed by the Department.

Recommendation 97 and 98:

- **the Government agree to a program of increasing infrastructure utilisation including closure of one college, two high schools, 13 primary schools and 22 preschools by 2008-09; and**
- **a rolling program of further school closures be adopted, to be updated on an annual basis.**

Recommendation 99, 100, 101 and 102:

- **a program of capital upgrades in schools totalling $90 million be undertaken over the forward estimates period to prepare schools for relocation of students and to upgrade learning environments;**
- **maintenance funding for schools be increased by $3 million per annum from 2008-09;**
- **investments in schools infrastructure be based on a strategic asset management plan to be prepared by the Department within three months of the Government's agreement to the proposed package of investment; and**
- **an additional $20 million over four years be provided for increased information technology investment for teaching purposes in ACT Government classrooms.**

Recommendations 103 and 104:

- **savings in out of school costs (including school based management funding) of $3.2 million in 2006-07 increasing to $7.4 million in 2007-08; and**
- **savings in out of school costs be drawn from to all the central office expenditure excluding disabled student transport and repairs and maintenance.**

Recommendation 105: transitional assistance of $0.5 million per annum over four-years be provided to parents and students to assist with the financial impacts associated with changes under the education package.

Non-Government Schools

Recommendation 106: ACT Government funding for non-government schools be retained at currently projected levels (and not reduced as a result of the reduction in recurrent funding to government schools).

Vocational Education and Training

Recommendations 107, 108 and 109:

- **the CIT Advisory Council be strengthened with industry support and input (the legislation should be amended to give effect to this);**
- **the Vocational Education and Training Authority be abolished, its legislation repealed and functions incorporated into the Department of Education and Training as an advisory council; and**
- **efficiencies from rationalising training and adult education functions within DET, estimated at $1.5 million, be realised.**

Recommendations 110, 111 and 112:

- **the *Planning and Funding Agreement (PAFA)* between the Department of Education and Training and the Canberra Institute of Technology be abolished;**
- **funding to CIT be through direct appropriation, with performance targets and accountabilities previously included in the *PAFA* subsumed within a *Statement of Intent* co-signed between the Treasurer, the Minister for Education and Training, and the Director CIT;**
- **funding for new apprenticeship/user choice and strategic priority programs be appropriated to the Department of Education and Training, with CIT seeking access to these funds on the same basis as other VET providers.**

Recommendation 113: Commonwealth/ACT negotiations be based on parameters approved by Cabinet in-principle. Negotiations with the Commonwealth should be managed co-operatively between DET and CIT, with close consultation with central agencies.

Recommendation 114: a framework be established for monitoring and managing student destinations as a priority, and as an accountability of schools/college sectors, in collaboration with CIT.

Recommendation 115: efficiencies be obtained within teaching and corporate services across the Canberra Institute of Technology through an increase in class size, and rationalisation of administrative overheads across campuses. Savings from these measures of $1.5 million per annum ($0.750 million in 2006-07) are to be taken to budget.

Recommendation 116: student fees and charges be progressively increased by 10 per cent per year over the forward estimates, targeting an increase in total fee revenue by $1 million by 2008-09.

Recommendations 117, 118 and 119:

- **a business case be developed for relocation of horticulture programs from Weston campus to Bruce campus, and the Weston campus closed for VET training;**
- **the leases for the Canberra Raiders and the ACT Academy of Sport at Bruce campus be reviewed to reflect a more commercial rental arrangements; and**
- **strategies for divesting government interest in the Watson campus (AIE) be developed.**

Chapter 7.5 – Urban Services

Policy Functions

Recommendation 120: policy functions within the new Department of City and Territory be consolidated into a unified team, with savings in staff costs of $2.5 million in 2006-07 rising to $4 million per annum across the forward years.

Land Management Functions

Recommendations 121, 122 and 123:

- **urban and non-urban land management responsibilities be integrated into a single effective management structure within the Department of City and Territory;**
- **savings from the integration of land management functions be reinvested into land management activities; and**
- **alternative management options for conservation of unleased Territory land be explored by the Department of City and Territory.**

Office of Transport

Recommendation 124: an Office of Transport be established in the new Department of City and Territory, to bring together all public transport policy and operations, including responsibility for implementation of the *Sustainable Transport Plan*.

Customer Services and Information

Recommendation 125: the existing departmental libraries be consolidated into the ACT Library Service's Specialist Information Services infrastructure.

Recommendation 126: library service expenses be moved in line with the local government benchmarks, achieved through the planned closure of Griffith Library and other savings, with estimated total savings of $1.6 million.

Waste

Recommendation 127: targets for waste reduction under the *No Waste by 2010* strategy be reviewed on the basis that costs be contained within the Budget forward estimates.

Canberra Urban Parks and Places

Recommendation 128: sale of government pools be pursued with protection of heritage aspects of the pools and appropriate community service obligations for continued access for those on low incomes and for swimming education purposes.

Recommendation 129: the staffing costs of managing shopping centre refurbishments be reduced by $0.868 million.

Recommendation 130: potential management arrangements be investigated with the RSPCA in respect to the holding and management of stray animals currently provided by the Domestic Animal Services.

Government Businesses

Recommendation 131: the long-term outlook for business operations of CityScape and Facilities Management be assessed, including opportunities for alternative service arrangements.

Chapter 7.6 – Public Transport

Administrative Arrangements

Recommendation 132: public transport functions including advice on sustainable transport strategy be consolidated within the proposed new Department of City and Territory.

Recommendation 133: the *ACTION Authority Act 2001* be repealed, and bus service operations be undertaken as part of a departmental structure within the proposed new Department of City and Territory.

Performance Trends

Recommendation 134: fares be increased by an average of 10 per cent to cover the significant costs of fuel and labour since the last increase approved by the ICRC. The resulting revenue increase is estimated at $1.5 million.

Efficiency and Effectiveness

Recommendation 135: savings of $4 million be targeted through decrease in Transport Officers, improvement in leave management and driver scheduling, and reducing overhead costs.

Chapter 7.7 – Department of Disability, Housing and Community Services

Human Services Integration

Recommendation 136: an intensive services unit be established to reduce duplication and better integrate human service delivery, with one case manager being allocated per complex client.

Disability Services

Recommendation 137: using existing resources, capacity in the community sector be developed and used for the management of the maximum feasible proportion of accommodation support services.

Public Housing

Recommendations 138 and 139:

- **funding for public housing be held to the Territory's matching requirements under the CSHA; and**
- **tax equivalent payments for payroll tax and land tax no longer be levied on Housing ACT.**

Recommendation 140: efficiencies in management and operational costs of $10 million per annum be achieved across public housing.

Recommendation 141: the cost to ACT Housing of the proposed increase in General Rates be covered through additional public housing efficiencies.

Recommendation 142: the upper income limits eligibility criteria for new public housing tenants be set at 60 per cent of the national average weekly earnings for singles and 75 per cent of the national average weekly earnings for couples.

Recommendation 143: the Public Rental Housing Program be amended to facilitate better stock utilisation through relocation of tenants to more suitable accommodation across the system.

Recommendation 144: security of tenure be removed for public housing tenants who have been paying market rent for three years or more.

Recommendation 145: options for the sale of 500 public housing dwellings be examined as one approach for reconfiguring public housing assets to match tenant demand and need. This should be assessed through independent advice, in conjunction with Housing ACT and Treasury.

Supported Accommodation Assistance Program

Recommendation 146: homelessness funding by the ACT Government be reduced to the matching requirement of SAAPV.

Office of Children, Youth and Family Support

Recommendation 147: average cost of out-of-home care placements per child be reduced to cost levels achieved in 2003-04. The cost structures should be progressively aligned to national averages.

Recommendation 148: ACT authorities should actively monitor developments in the area of out-of-home care placements (both nationally and internationally) and bring forward proposals for new approaches where expert opinion supports these.

Advisory Boards and Committees

Recommendation 149: the number of advisory boards, councils and committees be rationalised, with no more than one advisory/consultative body established per sector.

Corporate Services

Recommendation 150: efficiencies from rationalisation of corporate and support services be achieved within the Department of Community Services, with savings of $3 million per annum.

Chapter 7.8 – Justice and Community Safety

Corrective Services

Recommendation 151: expenditure on community corrections be reduced progressively by $500,000 per annum, rising to $2 million per annum in four years, until the daily cost per offender is in line with the national average.

Recommendation 152 and 153:

- **the prison project be continued; and**
- **the recurrent costs of the prison be contained within the forward estimates limits, with the staffing model presented to Cabinet by 30 June 2006.**

Office of the Director of Public Prosecutions

Recommendations 154 and 155:

- **the Office of the Director of Public Prosecutions be provided with additional funding of $0.5 million per annum; and**
- **the Office be configured towards more senior staff.**

Court Administration

Recommendation 156: courts expenditure be capped at the current published forward estimates levels.

Regulatory Arrangements

Recommendations 157, 158, 159 and 160:

- **all regulatory functions relating to the Office of Fair Trading, the Registrar-Generals Office and ACT WorkCover be incorporated into a central regulatory office within the Department of Justice and Community Safety;**
- **in addition, the following agency activities also be incorporated into the central regulatory office:**
  - **tobacco licensing and smoke-free area regulation;**
  - **occupational licensing of construction industries;**
  - **approvals and administration of a range of business activities associated with the use of public land (outdoor café approvals and hawkers licences);**
  - **the licensing and regulatory responsibilities of the Independent Competition and Regulatory Commission (ICRC); and**
  - **regulatory activities related to parking operations.**
- **savings of $4.7 million per annum be realised, phased over two years; and**
- **$1 million be provided in 2006-07 to support changes in systems and processes, and change management.**

Recommendation 161: all agencies should review their regulatory activities against the 'assessing regulatory quality' guidelines and, where possible, develop regulatory nodes to discharge their regulatory obligations.

Statutory Commissions and Tribunals

Recommendation 162: the President of the Human Rights Commission also be the Children and Young People Commissioner and Disability Commissioner, delivering savings of approximately $400,000 per annum.

Recommendation 163: the Department of Justice and Community Safety undertake further work on consolidating tribunals, with a view to establishing a single tribunal or a significantly more streamlined model than exists at present.

Chapter 7.9 – Economic Development

Economic Development

Recommendations 164, 165, 166 and 167:

- **Economic development be refocused on creating an environment conducive to business by creating simpler, clearer and more efficient government structures, scaled to the potential of Canberra as a small city-state;**
- **savings of $5.4 million in 2006-07 rising to $8.7 million by 2008-09 (net of shared services) from Business ACT be realised through benchmarking Government expenditure on economic development per business to the national average, with savings in:**
  - **discretionary business assistance programs, which will be discontinued;**
  - **rationalisation of marketing activities;**
  - **rationalisation of economic development policy associated with its transfer to the Chief Minister's Department;**
  - **reductions in corporate governance and support;**
- **$1 million of the savings be redirected to information and mentoring support for business; and**
- **the Government should seek to divest its interest in venture capital funds in the longer term.**

Recommendation 168: the Office of the Small Business Commissioner be abolished with savings of $0.35 million being realised.

Sport, Recreation, Gaming and Racing

Recommendation 169: efficiencies be achieved in the ACT Academy of Sport program to realise $0.250 million in savings.

Recommendations 170, 171 and 172:

- **management of Phillip Oval be transferred to the Department of City and Territory, with minimal maintenance to ensure public safety;**
- **a business case be developed by the Department of City and Territory for the sale of Phillip Oval; and**
- **the Stadiums Authority be disbanded with the Canberra Stadium and Manuka Oval being integrated within the Department of City and Territory structures, delivering savings in management costs and reduced reliance on government subsidies.**

Recommendation 173: current levels of funding allocated to business sporting entities be capped, and if this is not possible, in future any increase be funded by offsets from within the portfolio without reducing the amount spent on community sporting programs.

Recommendation 174: administrative support and corporate governance within Sport and Recreation ACT be rationalised with total savings of $0.840 million per annum.

Australian Capital Tourism Corporation

Recommendation 175: Australian Capital Tourism be disbanded as a statutory authority, with its functions integrated within the new Department of City and Territory, with efficiencies of $6.3 million rising to $8.9 million by 2009-10 realised to budget.

Chapter 7.10 – Planning and Land Development

Planning and Land Development Arrangements

Recommendation 176: the Land Development Agency be free to act within a commercial environment. Detailed financial arrangements and performance targets should be set through the *Statement of Intent.*

Strategic Goals

Recommendations 177, 178 and 179:

- **ACTPLA be retained as a statutory authority, but its responsibilities restructured to focus on statutory planning, land use policy, leasing and development approvals;**
- **responsibilities for land ownership, management of unleased land, infrastructure works and land releases to LDA be integrated into the Department of City and Territory; and**
- **the Chief Minister be responsible for bringing to Cabinet strategic policy setting and decision-making on land releases, with the Chief Minister's Department drawing on central agency economic development advice, planning expertise from ACTPLA and land development/release expertise from the Department of City and Territory.**

Planning and Development

Recommendations 180 and 181:

- **key environmental, heritage and conservation issues be resolved at the Structure Planning level, with ACTPLA having the responsibility for final sign off; and**
- **tree protection legislation and policies be reviewed, to minimise impacts in greenfield development areas. Policies and practices should be brought into line with management arrangements for verge trees in existing urban areas.**

Recommendations 182, 183 and 184:

- **the heritage function be transferred to ACT Planning and Land Authority, and the Heritage Council be subsumed into the Planning and Land Council;**
- **the *Planning System Reform Project* include streamlining regulatory regimes and direct and indirect management practices to improve the effectiveness of the planning framework, and to target getting land speedily to the market; and**
- **the *Planning and Development Bill* incorporate heritage and tree protection provisions into the planning approval processes.**

Recommendation 185: concept planning responsibilities be clarified, to remove overlaps, delays and costs. The LDA, as developer, should assume full responsibility for preparing concept plans, based on principles identified by ACTPLA. Approval of concept plans should remain the authority of ACTPLA.

Recommendation 186 and 187:

- **proposed variations to the *Territory Plan* be circulated to all departments for comment prior to being initiated by ACTPLA; and**
- **significant variations be considered and agreed by Cabinet in advance of drafts being initiated by ACTPLA, and subsequently approved prior to final tabling in the Legislative Assembly.**

Recommendations 188 and 189:

- **priority be given by ACTPLA and LDA to establish a bank of "sale ready" residential, commercial and community land; and**
- **the new development head in Molonglo be finalised for release and development as a market alternative to Gungahlin, as well as a viable competitor against new estates due to come on line in adjoining NSW.**

Recommendation 190: one third of land releases by the LDA be through "englobo" land sale to private industry developers, with the balance of releases through joint venture or full development by the Agency.

ACT Planning and Land Authority

Recommendations 191, 192, 193 and 194:

- **planning resources be scaled back to comparable levels in other jurisdictions, with efficiencies of $3 million;**
- **functional responsibilities for infrastructure planning, land strategy and release and transport policy transfer to the Department of City and Territory, with efficiencies of $0.5 million through integration of the infrastructure planning and land strategy and release functions within the new departmental structures**
- **regulatory functions for occupational standards be transferred into the new regulatory arrangements within JACS; and**
- **shopfront services be rationalised, and corporate services reduced commensurate with the downsizing of the Authority.**

Land Development Agency

Recommendations 195 and 196:

- **LDA development costs be brought into line with current industry benchmarks, with estimated savings of $4.8 million per annum.**
- **Land marketing and advertising costs be reduced to 1.5 per cent of gross sales, with savings of $2 million per annum.**

Recommendations 197:

- **LDA staffing levels be brought into line with current industry benchmarks, with estimated savings of $3 million; and**
- **LDA corporate support staff relating to financial and human resource areas be incorporated into the Shared Services Centre consistent with other ACT agencies.**

Chapter 7.11 – Emergency Services

Structure of the Emergency Services Authority

Recommendations 198, 199 and 200:

- **the part of the *Emergencies Act 2004* which establishes the Commissioner and the Authority be amended in order that the Authority's functions and responsibilities integrated within the Department of Justice and Community Safety;**
- **the Commissioner be administratively responsible to the Chief Executive of the Department of Justice and Community Safety, while retaining independent operational responsibility for Emergency Services; and**
- **statutory powers of the Chief Officers of each operational emergency service be retained under the *Emergencies Act 2004*.**

ACT Fire Brigade

Recommendation 201: savings of $2.5 million per annum be achieved in urban fire services, targeted at reducing overhead costs.

ACT Ambulance Service

Recommendation 202: options be prepared for Cabinet's consideration to move to a 7-station configuration with opportunities for reducing the number of frontline tanker crew shifts.

Recommendation 203: savings of $1 million be achieved within the ACT Ambulance Service, through changes in shift arrangements, crew standards and current operating practices.

ESA Communications Project

Recommendation 204: ESA prepare an ICT strategic plan and comprehensive documentation for its integrated Communications Project, in consultation with Treasury and InTACT.

Emergency Services Headquarters

Recommendation 205: the lease for the ESA headquarters at the Canberra Airport be reconsidered by Cabinet, given the additional $11 million involved. Full financial analysis of the lease increase should be provided to Cabinet, along with identification and assessments of alternatives including upgrading the existing premises at Curtin.

Presentation of Budget Information

Recommendation 206: the budgetary information for the Emergency Service Authority be realigned to better reflect activities against its service by service operational structures.

Chapter 8 – Aboriginal and Torres Strait Islander Issues

Planning Framework

Recommendation 207: Departments establish individual Indigenous service plans, consistent with the COAG *Overcoming Indigenous Disadvantage Indicators*, and the principles within the *National Framework of Principles for Delivering Services to Indigenous Australians*. Plans should include appropriate outcome performance targets and evaluation/reporting mechanisms.

Chapter 9 – Capital Investment and Asset Management

Infrastructure and Asset Management

Recommendation 208: a new whole-of-government Asset Management Strategy be developed by Treasury.

Recommendations 209 and 210:

- **condition audits be completed for all major asset holdings, and brought to Cabinet as part of departments' asset management plans; and**
- **information systems be reviewed and updated, based on latest condition audits.**

Recommendations 211 and 212:

- **agencies be required to develop asset management plans in consultation with Treasury; and**
- **asset management plans be brought to Cabinet for its approval as part of the 2007-08 Budget process.**

Recommendations 213 and 214:

- **base asset maintenance funding for the Department of City and Territory[1] be increased by $5 million per annum from 2006-07; and**
- **the Department of City and Territory develop a program of critical and urgent asset maintenance as a matter of priority in order to access this funding.**

Recommendations 215 and 216:

- **maintenance funding be increased by a further $5 million per annum from 2007-08, and this additional funding be allocated to agencies following the development of asset management plans; and**
- **maintenance funding be quarantined from any saving measures and internal reprioritisation by departments.**

Recommendation 217: a Chief Executive taskforce, chaired by the Chief Executive of Treasury, be responsible for infrastructure planning and asset management.

Recommendations 218 and 219:

- **Rhodium Asset Solutions be sold as a going concern; and**
- **the offer of sale include the management of government fleet, at benchmark fee, and for a fixed period of time, after which the contract could be put to open market tender.**

Recommendations 220 and 221:

- **the Capital Linen Service be sold as a going concern; and**
- **the sale be subject to a market assessment by ACT Health to determine the likely market pricing for services following the sale of CLS.**

Recommendation 222: the standing timber in Kowen Forest, including the management of the estate, be taken to the market for sale with access for recreation activities preserved.

Recommendation 223: properties identified as surplus to requirement by Property ACT be sold, with estimated returns from sale of $9.63 million.

[1] The Review has separately proposed an increase of $3 million per annum for schools' maintenance (Chapter 7.4).

Recommendation 224: the proposal for the Belconnen busway not proceed, given its high capital and recurrent costs.

Recommendation 225: further assessments and developmental work on the dragway, as a public cost, not proceed.

Recommendation 226: within 3 years, a comprehensive review, by a taskforce chaired by the Chief Minister's Department, of urban open spaces and other public lands within the metropolitan precincts of Canberra (including lands subject to Draft Variation 165) be undertaken in order to develop options for better utilisation of lands for primarily social purposes, including affordable housing and aged accommodation.

Capital Works

Recommendations 227 and 228:

- **the use of PPP as a procurement option for government's capital works be considered for projects over $80 million in value; and**
- **the Department of Treasury be the central agency responsible for the development and implementation of PPP procurement policy and services.**

Recommendation 229: Treasury lead the development of a rolling four-year capital works program for Cabinet consideration, taking account of the views of all other portfolios.

Recommendations 230, 231 and 232:

- **a two-stage approval process be adopted for new capital works, targeted to improving program delivery and project assessments including cost/benefit and risk assessments;**
- **stage two approval be subject to projects being fully prepared, with design and documentation at 'tender ready' stage; and**
- **capital upgrades be separated from new works and funded on a year-by-year, without carry-overs between years.**

Recommendation 233: an inter-agency Capital Planning and Development Group (CPDG) be established to facilitate development, monitoring and reporting of capital works. The CPDG should comprise senior executives from each department, and chaired by Treasury.

Recommendation 234: monitoring, reporting and evaluation of the capital works program, and individual projects, be undertaken by Treasury, with assistance and advice from CPDG.

Recommendation 235: Treasury consolidate all policy documentation, procurement, operational and budget memoranda into a single point of reference on the Treasury website.

Chapter 10 – Community Grants and Service Agreements

Funding Framework for Community Grants and Service Agreements

Recommendation 236: community grants be reviewed and reclassified to service agreements where they relate to multi-year commitments.

Administration of Community Grants

Recommendations 237, 238, 239, 240 and 241:

- **two primary community grant programs be established, namely *Health and Community Wellbeing Grants* and *City and Territory Service Grants*;**
- **grant administration be streamlined within the Department(s) of Health and Community Services and the Department of City and Territory;**
- **community grants be reviewed with those grants relating to multi-year commitments to be reclassified as service agreements;**
- **a benchmark for administering community grants be established at 3 per cent of grant funding, providing estimated savings of $0.5 million in 2006-07 rising to $0.940 million per annum indexed annually; and**
- **funding of $0.1 million be allocated towards the establishment of an ACT GrantLink portal and whole of government register of grants within the Department of Community Services.**

Recommendation 242: no additional funding be provided after 2007-08 for the Community Inclusion Fund and the Canberra Community Grants Program, consistent with the current forward estimates.

Service Agreements

Recommendations 243, 244, 245 and 246:

- **service agreements/contracts be managed more strategically through centralising this role within a designated unit within each portfolio;**
- **irrespective of the departmental structures, management structures should be established to manage community grants and service agreements across the areas of responsibility of Health and Community Services;**
- **savings of $1.0 million in 2006-07, rising to $1.7 million per annum be made through rationalising service agreement administration within a centralised area of the Department of Community Services (and managing both service agreements and community grants); and**
- **$0.250 million be directed in 2006-07 towards establishing improved management and contractual arrangements with the community sector.**

Ensuring Value for Money from Community

Recommendations 247, 248 and 249:

- **greater use of community service providers should be targeted as a measure to achieving improved cost effective services;**
- **use of community services should be achieved within department's existing funding envelopes, or through reprioritisation of those funds; and**
- **the Government's Response to Towards a Sustainable Community Services Sector in the ACT be based on achieving cost effective services within the financial constraints faced across the forward estimates.**

Chapter 11 – Revenue Options

General Rates

Recommendations 250 and 251:

- **that base General Rates be increased by 6 per cent in 2006-07; and**
- **that from 2006-07, General Rates be indexed at the Labour Price Index.**

Fire Levy

Recommendations 252, 253, 254 and 255:

- **a Fire Levy be introduced against all rateable properties in the ACT;**
- **the charge be set at $88 per annum for residential properties, to generate $10 million per annum in revenue;**
- **pensioners and disadvantaged household be charged 50 per cent levy; and**
- **for commercial properties, the levy be based on the unimproved value of land, to generate $10 million per annum in revenue.**

Ambulance Levy

Recommendations 256, 257 and 258:

- **the current Ambulance Levy on health funds be retained, with the levy set to a level that recovers the full cost of the ambulance service;**
- **the Ambulance Transport Fees be increased to align with national benchmarks; and**
- **the administrative processes for collecting ambulance transport fees be improved with the aim of reducing collection costs.**

Home Buyer Concession

Recommendation 259: the eligibility criteria for the Home Buyer Concession Scheme be adjusted to:

- **maximum household income of $80,000 with the current allowances for children; and**
- **full concession for house prices in the bottom quintile, and partial concession up to the median price.**

Fees and Charges

Recommendations 260 and 261:

- **Treasury develop a policy and guidance for agencies on setting and reviewing fees and user charges; and**
- **all user charges be reviewed every three years to ensure comparability with other jurisdictions and like services.**

False Alarm Fee

Recommendation 262: a false alarm call out fee be introduced for 3rd and subsequent call outs to properties by the Fire Brigade due to the same system fault. The fee should be set at $200 for residential and community sites and $500 for commercial buildings.

WorkCover Fees and Charges

Recommendation 263: full cost recovery be implemented for ACT WorkCover's activities under the *Dangerous Substances Act 2004* relating to:

- **registration and authorisation of explosive articles;**
- **registration of consumer firework permits; and**
- **response to requests for information on environmental or dangerous substances encumbrances in relation to development of land.**

Recommendation 264: necessary amendments to legislation be made to seek cost recovery for successful prosecutions following ACT WorkCover's investigations.

Water Licence Fee

Recommendation 265: Water License Fee of $15 million per annum be imposed on ACTEW to be on passed to consumers as a demand management measure.

Land Rent for Utility Infrastructure (Sewerage, Electricity and Gas)

Recommendations 266, 267 and 268:

- **introduce a Land Rental charge for utility infrastructure against Sewerage, Gas, Electricity and Telecommunication utilities in the ACT;**
- **the charge be set at a rate of $1,000 per kilometre for aboveground and underground electricity, gas and installations, yielding approximately $11.5 million in revenue; and**
- **the charge be set at a rate of $1,000 per kilometre for telecommunication installations, yielding an estimated $4.0 million in revenue.**

Parking Fees

Recommendation 269: Parking Fees be increased by 10 per cent in 2006-07.

Development Application Fees

Recommendation 270: ACTPLA development application fees be adjusted to achieve parity with the adjoining local councils (namely Yass, which is consistent with other NSW jurisdictions).

Indexation of Fees and User Charges

Recommendation 271: all fee and user charges be indexed annually at the Labour Price Index, rather than CPI.

TABLE OF SAVINGS MEASURES AND STAFFING IMPACT

Summary Impact of Savings Measures

	2006-07 $'m	2007-08 $'m	2008-09 $'m	2009-10 $'m	*FTE Impact*
MEASURES					
Administrative Structures	**3.6**	**4.7**	**4.8**	**4.9**	***44.93***
Shared Services	**7.1**	**16.6**	**20.4**	**20.7**	***62.94***
Revenue Options (including Interest & CIT Fees)	**79.4**	**83.4**	**87.6**	**92.8**	***0.00***
Whole of Government Issues (inc Add Maintenance & Restructure Fund)	**-2.8**	**10.2**	**16.7**	**23.3**	***28.00***
Individual Agency / Portfolio Net Savings[1]					
ACT Health	-12.4	-20.6	-31.1	-40.7	*0.00*
Disability, Housing and Community Services	7.4	8.6	9.3	9.4	*48.00*
Education and Training - Government Schools	10.7	27.0	26.9	28.4	*471.00*
Education and Training - VET (less CIT Fees)	1.8	2.5	2.5	2.5	*20.00*
Economic Development	11.3	15.5	16.8	14.2	*50.00*
Justice and Community Safety	1.8	5.6	6.1	6.6	*63.50*
Urban Services (including maintenance investment)	-0.5	2.1	2.8	3.0	*59.60*
Cultural Facilities Corporation	0.5	0.5	0.5	0.5	*0.00*
Land Development Agency	8.3	9.9	10.1	10.2	*32.00*
ACTION	2.5	5.5	5.5	5.5	*25.10*
Chief Minister's	1.9	2.0	2.0	2.1	*16.30*
ACTPLA	2.0	3.1	3.1	3.2	*30.00*
Treasury	-0.9	-0.9	-0.9	-1.0	*3.00*
Emergency Services	2.5	3.5	3.6	3.7	*0.00*
Sub-Total - Agency Savings	**37.0**	**64.3**	**57.2**	**47.7**	***823.50***
Total Recurrent Savings and Revenue	**124.3**	**179.1**	**186.7**	**189.4**	***954.37***
Functional Review - Strategic Investments					
Capital	-25.0	-30.0	-30.0	-30.0	*0.00*
NET BUDGET IMPACT (GGS) + Capital & Recurrent	**99.3**	**149.1**	**156.7**	**159.4**	***954.37***

[1] Agency savings do not include the allocations of shared service and administrative savings. These can be found in the respective chapters or at the end of portfolio chapter.

Table of Savings Measures and Staffing Impact

	2006-07 $'m	2007-08 $'m	2008-09 $'m	2009-10 $'m	~ FTE Impacts
WHOLE OF GOVERNMENT					
Revised Superannuation Arrangements	1.5	4.4	7.3	10.1	0
Cash Management - Savings	4.9	5.1	5.2	5.2	0
Cash Management - Additional Interest Earned	4.7	4.5	4.4	4.4	0
Advisory Boards and Committees - Rationalisation	1.0	2.0	2.0	2.0	0
Government Vehicles - Downsizing Fleet to 4 Cylinder Vehicles	0.3	0.6	0.9	0.9	0
Whole of Government Fleet Management Fees	1.1	1.1	1.2	1.2	0
Reduction of Whole of Government Fleet Size	0.2	0.5	0.5	0.5	0
Office Accommodation to 15^{2}m per office employee	1.6	3.4	3.6	6.2	0
Grants - Rationalisation of Administration to 3%	0.5	0.9	1.0	1.0	9
Grants - Establishment of ACT GrantLink Portal and Register	-0.1	-0.1	-0.1	-0.1	0
Streamlined Community Sector Purchasing	1.0	1.7	1.8	1.8	19
Community Sector Interface Investment	-0.3	0.0	0.0	0.0	0
Restructure Fund	-14.5	-4.5	-1.5	-0.5	0
Sub Total Whole of Government	**1.9**	**19.7**	**26.1**	**32.7**	**28.0**
MACHINERY OF GOVERNMENT					
Integrate Emergency Services Authority into JACS	0.7	1.5	1.5	1.6	11.68
Integrate Stadiums Authority into City and Territory	0.2	0.2	0.2	0.2	1
Integrate ACTION Authority into City and Territory	0.8	1.1	1.1	1.1	9.9
ACTPLA - Integrate Transport Policy and Infrastructure development functions into City and Territory	0.5	0.5	0.5	0.5	4
Integrate HealthPACT into ACT Health	0.6	0.6	0.6	0.6	5.8
Integrate Economic Development (Economics & Business) into Chief Minister's	0.6	0.6	0.6	0.6	4
Integrate Economic Development (Sport & Recreation) into City and Territory	0.8	0.8	0.8	0.8	6
Integrate Australian Capital Tourism Corporation into City and Territory	0.4	0.4	0.4	0.4	2.55
Auditor-General - Additional compliance and performance auditing capacity	-1.0	-1.0	-1.1	-1.1	0
Sub Total Machinery of Government	**3.6**	**4.7**	**4.8**	**4.9**	**44.93**
SHARED SERVICES					
Information Technology - Additional savings and inclusion of Education into IT arrangements	3.3	4.3	4.3	4.3	0
Procurement - Tender Box Savings	5.0	10.3	10.5	10.8	0
Finance and HR Shared Services Co-location	1.0	3.8	5.6	5.6	62.94
Technology Costs - Shared Services Investment	-1.2	-1.2	0.0	0.0	0
Change Management - Shared Services	-1.0	-0.5	0.0	0.0	0
Sub Total Shared Services	**7.1**	**16.6**	**20.4**	**20.7**	**62.94**
DISABILITY HOUSING AND COMMUNITY SERVICES					
Housing ACT - Match CSHA Funding	4.0	4.0	4.0	4.0	20
SAAP V	2.2	2.2	2.2	2.2	0
Corporate Savings (non-transactional)	1.2	2.4	3.1	3.2	28
Sub Total DHCS	**7.4**	**8.6**	**9.3**	**9.4**	**48.0**
HEALTH					
Health Growth - Additional Funding Over Budget Estimates	-12.4	-20.6	-31.1	-40.7	0
Sub Total ACT Health	**-12.4**	**-20.6**	**-31.1**	**-40.7**	**0.0**

	2006-07 $'m	2007-08 $'m	2008-09 $'m	2009-10 $'m	~ FTE Impacts
URBAN SERVICES					
Single Land Management Structure	0.0	0.0	0.0	0.0	0
Integration of Policy Functions	2.5	4.1	4.2	4.3	40
Establish Office of Transport (see machinery of Government)	0.0	0.0	0.0	0.0	0
Consolidate Libraries	0.5	1.0	1.6	1.6	12
Sale of Public Swimming Pools	0.4	0.8	0.8	0.8	1
Consolidation of the Community Partnerships Program	0.3	0.3	0.3	0.3	0
Abolish Local Centre Revitalisation Management	0.9	0.9	0.9	0.9	6.6
Sub Total DUS	**4.5**	**7.1**	**7.8**	**8.0**	**59.6**
JUSTICE AND COMMUNITY SAFETY					
Community Corrections to National Average	0.5	1.0	1.5	2.0	20
Director of Public Prosecutions	-0.5	-0.5	-0.5	-0.5	-5
Human Rights Commission - Consolidate Responsibilities	0.4	0.4	0.4	0.4	2
Regulatory Reform Amalgamations	2.4	4.7	4.7	4.7	46.5
Regulatory Change Management Reinvestment	-1.0	0.0	0.0	0.0	0
Sub Total Justice and Community Safety	**1.8**	**5.6**	**6.1**	**6.6**	**63.5**
ECONOMIC DEVELOPMENT					
Economic Development Expenditure - Benchmark per Business	5.4	7.5	8.7	5.8	22
Additional Funding to Private sector for Mentoring and Support to Business	-1.0	-1.0	-1.1	-1.1	0
Abolish Small Business Commissioner functions	0.4	0.4	0.4	0.4	3
Athlete Scholarships and Services - Administrative Rationalisation	0.2	0.2	0.2	0.2	0
Australian Capital Tourism Corporation Rationalisation	6.3	8.4	8.6	8.9	25
Sub Total Economic Development	**11.3**	**15.5**	**16.8**	**14.2**	**50.0**
School Education					
Teacher Contact Hours (Net of 4% EBA)	7.3	15.0	12.8	12.8	211
Employee Entitlements (excluding super)	-0.4	-0.4	-0.4	-0.4	0
Curriculum Development	2.9	3.0	3.0	3.1	0
NSW Curriculum Documentation and Licence	-0.5	-0.5	-0.5	-0.5	0
Central Office Coordination	-1.5	-1.5	-1.5	-1.5	0
In-Schools Savings in Student Costs	1.6	6.4	11.8	14.2	180
Decrease in Depreciation (Closed Schools)	0.3	1.6	2.9	3.4	0
Benchmarking Central Office Costs	3.2	7.4	7.7	7.9	80
Increased Depreciation - Capital Investment	-0.4	-1.0	-1.6	-2.1	0
Increase Repairs and Maintenance Funding	0.0	0.0	-3.0	-3.0	0
Schools IT (Depreciation)	-1.3	-2.5	-3.8	-5.0	0
Transitional Assistance	-0.5	-0.5	-0.5	-0.5	0
Vocational Education and Training					
Rationalisation of TAE	1.5	1.5	1.5	1.5	10
Increased Fees in CIT	0.3	0.6	1.0	1.0	0
CIT EBA costs	-0.5	-0.5	-0.5	-0.5	0
Improving efficiency in CIT cost structures	0.8	1.5	1.5	1.5	10
Sub Total Education and Training	**12.8**	**30.1**	**30.4**	**31.9**	**491.0**
Memo: Interest Costs of 6%	*0.6*	*1.2*	*1.5*	*1.5*	

	2006-07 $'m	2007-08 $'m	2008-09 $'m	2009-10 $'m	~ FTE Impacts
Other Agencies					
Chief Minister's - Rationalisation of Functions (Sustainability)	1.5	1.5	1.6	1.6	13.5
Chief Minister's - Rationalisation of Functions (PSM & IR)	0.4	0.4	0.5	0.5	2.8
Cultural Facilities Corporation - Reduction in Corporate Overheads	0.5	0.5	0.5	0.5	0
Treasury - Additional Policy Capacity	-1.0	-1.0	-1.1	-1.1	0
ICRC - Reduction in Overheads due to Energy Market Functions	0.1	0.1	0.1	0.1	3
ACTION - Fare Revenue Increase	1.5	1.5	1.5	1.5	0
ACTION - Administrative Savings	1.0	4.0	4.0	4.0	25.1
ACT Planning and Land Authority - Rationalisation of Planning Staff	2.0	3.1	3.1	3.2	30
Land Development Agency - Marketing Costs to Industry Benchmark	2.0	2.1	2.1	2.2	0
Land Development Agency - Construction Costs to Industry Benchmark	4.8	4.8	4.8	4.8	2
Land Development Agency - Staffing to Industry Benchmarks	1.5	3.1	3.2	3.2	30
Emergency Services Authority - Reduction in Corporate Overheads - Fire Brigade	1.5	2.5	2.6	2.6	0
Emergency Services Authority - Reduction in Corporate Overheads - Ambulance Service	1.0	1.0	1.1	1.1	0
Sub Total Other Agencies	**16.8**	**23.6**	**23.9**	**24.2**	**106.4**
Revenue Options					
General Rates - Increase by 6%	8.7	8.9	9.1	9.7	0
General Rates - Increase by Labour Price Index	1.7	3.7	5.8	8.6	0
Fire and Emergency Services Levy	20.0	20.7	21.5	22.3	0
Increase in Ambulance Levy	3.3	3.7	4.1	4.5	0
Ambulance Transport Fee Increase	0.7	0.7	0.7	0.7	0
Savings in Ambulance Transport Collection Costs	0.1	0.1	0.1	0.1	0
Home Buyer Concession Eligibility	4.5	4.5	4.5	4.5	0
False Alarm Fee	0.3	0.3	0.3	0.3	0
WorkCover Fees and Charges	0.1	0.1	0.1	0.1	0
Land Rent for Utility Infrastructure (Electricity, Gas and Sewerage)	11.5	11.8	12.0	12.3	0
Land Rent for Utility Infrastructure (Telecommunications)	4.0	4.1	4.2	4.3	0
Water License Fee	15.0	15.0	15.0	15.0	0
Parking Fees	1.5	1.6	1.6	1.7	0
Indexation of Fees and Charges	1.8	1.9	1.9	2.0	0
Development Application Fees	1.2	1.2	1.2	1.3	0
Sub Total Revenue	**74.4**	**78.3**	**82.2**	**87.4**	**0.0**
Strategic Investments - Recurrent					
Department of City and Territory - Increased Repairs and Maintenance Capacity	-5.0	-5.0	-5.0	-5.0	0
Additional Maintenance Capacity	0.0	-5.0	-5.0	-5.0	0
Net Recurrent Savings and Revenue	**124.3**	**179.1**	**186.7**	**189.4**	**954.37**
Strategic Investments – Capital					
Schools Infrastructure Rationalisation	-10.0	-10.0	-5.0	0.0	0
System Infrastructure Refurbishment	-5.0	-15.0	-20.0	-25.0	0
Schools IT Investment	-5.0	-5.0	-5.0	-5.0	0
Fitout - Shared Services	-5.0	0.0	0.0	0.0	0
Total Capital Investment	**-25.0**	**-30.0**	**-30.0**	**-30.0**	**0.0**

Part

1

INTRODUCTION

CHAPTER 1 INTRODUCTION

1.1 BACKGROUND TO THE REVIEW

The Government initiated the Strategic and Functional Review of the ACT Public Sector and Services in November 2005. In announcing the Review, the Chief Minister stated its purpose as '…to get an objective analysis of whether resources are flowing smoothly to areas of highest priority and greatest community need'[1].

The Chief Minister also stated[2]:

> *Australian Governments are entering a new and challenging period. Populations are ageing and demands on essential services like health are shifting. All governments need to periodically review their structures and programs, to see whether there might be better ways of addressing core priorities, better ways of serving the community. And while governments are engaged in a constant process of internal review and minute realignment, every now and then it helps to have another perspective of the big picture, and of the detailed brushstrokes that make up that big picture.*

The Review was announced in the context of increasing downside risks to revenue and increasing expenditure pressures, and prospects of sustained operating deficits. Those are discussed further in Chapter 2.

A copy of the Chief Minister's Press Release and Terms of Reference are at **Appendix 1 and 2** respectively.

The Chief Minister wrote to all Ministers on 6 December 2005, providing background to the Review, including the pressures currently faced by the Government. The letter also sought assistance for the Review in defining portfolio priorities and ensuring maximum assistance. A copy of the Chief Minister's letter to Ministers is at **Appendix 3.**

1.2 TERMS OF REFERENCE

The Chief Minister provided the Terms of Reference on 30 November 2005 through letters of engagement to the Review Team. A copy of the Chief Minister's letter to the Review Chair is at **Appendix 4**.

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[1] *Team to Review Government Structures, Spending*; Chief Minister's Media Release 455/05, 9 November 2005.

[2] ibid.

The Terms of Reference were:

Having regard to agreed Government priorities, the Strategic and Functional Review will:

1. review the outlook for the ACT budget and identify the major medium term fiscal risks;
2. undertake high level benchmarking of government expenditure in the ACT relative to other jurisdictions in Australia, drawing on available data (including data published by the Commonwealth Grants Commission and the Steering Committee for the Review of Government Service Provision);
3. consider all major areas of government expenditure and identify programs that could be delivered more efficiently or could be scaled back to more effectively meet whole-of-government objectives;
4. identify options to improve efficiency through more effective structures for government operations; and
5. make recommendations on specific options for reducing expenditures or increasing non-taxation revenues.

The Chief Minister further expanded the Terms of Reference on 22 March 2006 by asking the Review to investigate and report on options for increasing taxation revenues **(Appendix 5)**.

Additional Term of Reference

6. investigate and report on options in relation to taxation revenue.

1.3 APPROACH OF THE REVIEW

Scope of the Review

The Terms of Reference 1 and 2 require the Review to undertake an assessment to establish the Territory's fiscal position including its risks, and compare the Territory's expenditure with other jurisdictions.

The Terms of Reference 3-5 (and the supplementary Term of Reference) provide a broad scope for the recommendations of the Review. The Chief Minister's announcement confirmed the breadth and depth of the task:

> *...no area of government activity would be insulated from the review, and the scrutiny would drill down to the level of individual programs.*

The Review Team has scoped its work accordingly, within the time available.

Establishing Government Priorities

The Review was required to address its Terms of Reference having regard to agreed Government priorities. The first task for the Review team was to clarify its approach to these priorities, and how they can be reconciled with overall financial management goals.

This was important as, in general, all government programs carry some value, and reflect government decisions at various times, although the circumstances under which they were initiated may have shifted over time. Whether reviewing existing programs, or committing to new ones, the choices are usually between one worthwhile program and another. Priority setting remains the key tool under such circumstances.

The Chief Minister identified responsible fiscal and economic management as the first and foremost priority for the Government, in order to continue to provide high quality services in priority areas of health and education[3].

The Chief Minister's letter to Ministers[4] further confirmed Government priorities as follows:

> *Our Government is committed to providing high quality services which meet the legitimate expectations of the community. If we were to do this, we must first and foremost maintain rigorous, high quality economic and fiscal management. We need to ensure that our resources are focussed on priority areas such as health and education, but even within those priority areas, we deliver services in the most efficient and effective way.*

The Review Team met with all Portfolio Ministers early in the review to gain an understanding of priorities for their respective Portfolio departments. A schedule of meetings with the Ministers is at **Appendix 6**.

The Chair also wrote to all the Chief Executives requesting a list of detailed priorities signed off by their respective Ministers, to ensure the Review had a clear awareness of each Portfolio's highest priorities, areas of greatest need, and major expectations from Ministers. A copy of the letter is at **Appendix 7**.

Information Collection

Besides undertaking its own research, the Review sought comprehensive information from agencies relating to their activities. This included:

- details of frontline services, corporate services, and executive and policy services;
- expenditure and revenue associated with all the activities; and
- the purpose of all activities, how they linked to the outputs and who were the beneficiaries.

The Review also sought advice on:

- consultative mechanisms used by agencies, including information on advisory boards and consultative committees;

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[3] Initial Meeting of the Review Team with the Chief Minister on 17 November 2005.

[4] Letter from the Chief Minister to all Ministers dated 6 December 2005.

- co-existing reviews;
- asset management plans and practices;
- non taxation revenues;
- regulatory functions;
- grants to, and services purchased from, the community sector;
- legal services; and
- Aboriginal and Torres Strait Islander services.

Besides drawing on and analysing this information, the Review has also referred to previous reviews and reports on specific service areas.

Consultation with Agencies

The Review Team met with all departmental Chief Executives. A schedule of meetings is at **Appendix 11**.

The Review sought agency views and suggestions, both in the meetings and through correspondence[5], on critical options and opportunities that exist across the portfolio, and for the service as a whole.

A number of agencies provided valuable suggestions and highlighted opportunities for improvement. The Review has critically assessed such suggestions, and made recommendations accordingly.

Public Consultation

The Review sought public input through advertisements in local and suburban newspapers[6]. Written submissions were invited by 17 February 2006, a copy of the advertisement is provided at **Appendix 8**. The Review received 25 submissions. A list of organisations and individuals who made submissions, along with a summary of the key issues raised, is at **Appendix 9**.

The Review Team also met with representatives from the community sector, industry and unions. This was important for the Review as it provided a forum for outlining the task facing the Government and the Reviewers, as well as seeking input from the perspectives of the key interest groups. A schedule of meetings with these groups is at **Appendix 10**.

A list of all other meetings, interviews and forums is provided at **Appendix 11.**

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[5] Appendix 8.

[6] *The Canberra Times* (9 December 2005); *The Chronicle* and the *City News* (11 December 2005).

Analysis and Benchmarking

The Review has primarily drawn on the Commonwealth Grants Commission's assessment of general relativities, and the Productivity Commission's *Report on Government Services* for benchmarking.

Both are annual publications, based on data provided by agencies in all States and Territories, and provide generally robust information for benchmarking and comparisons over time. In some cases, supplementary information was provided by agencies.

The assessments by the Commonwealth Grants Commission form the basis of the distribution of GST revenues between States and Territories. Of necessity, the Commission's methods and data have been subject to considerable scrutiny over a long time. The Commission's assessments provide an indication of a jurisdiction's needs for expenditure to provide an average level of service at an average level of efficiency, with an average level of revenue raising effort.

The performance indicators in the *Report on Government Services* are agreed by the representatives from all jurisdictions in the relevant service areas, and are updated annually with the data provided by government agencies. The range of indicators used in this report are subject to further research and development.

The Review has also drawn on numerous publications by the Australian Bureau of Statistics, and other industry/service specific reports. In some instances, the Review has contacted other jurisdictions to collect information that is not available in published form.

In setting efficiency targets, the Review has sought to use local benchmarks in the first instance – if one part of an organisation can achieve a particular level of efficiency and effectiveness, it is reasonable to expect that other parts of the same organisation should be able to achieve the same.

The Review has sought specialist advice from a number of experts in relevant fields. A list of consultants and expert advisors to the Review is at **Appendix 12.**

In general, the Review has approached its Terms of Reference and the issues it has identified at both strategic and short-term level. For the short to medium term, the priority for the Review was to make recommendations on options that restore the budget balance. Those proposals, however, have been made in a strategic context. Each chapter, and in particular Chapters 2 and 3 provide an overview of the strategic approach being proposed by the Review.

1.4 CONTENT OF THE REPORT

The Review has collected perhaps the most comprehensive set of information on the ACT Public Sector that exists in the ACT Government. It has also consulted widely and received a diverse range of views, thoughts and suggestions.

The Report of the Review does not comprehensively present all of this information - including all material would be beyond the scope of a 'plan of action'. Instead, the Report deals only with the key findings and issues where the Review is making specific recommendations for change.

The executive summary of this Report provides a complete synopsis and overview of the Review's key findings, recommendations and conclusions. It also provides the complete list of savings and revenue opportunities identified by the Review.

Part 2 of the Report assesses the financial position of the Territory, taking into consideration its economic and demographic setting. The Chapter critically analyses the risk factors for the economy and the budget. It also provides estimates of revenues and expenditures, taking into account known budget pressures since the Mid-Year Review.

Part 3 provides an outline of the strategic response and approaches that the Review has taken in developing its recommendations in response to the fiscal and economic assessment in Chapter 2, and in specific response to the matters sought in the Terms of Reference.

Part 4 includes the proposed changes to the Machinery of Government.

Part 5 includes the Review's analysis and assessment across a range of issues that impact on a whole-of-government basis.

Part 6 provides an overview of the proposed shared service arrangements for the delivery of corporate support services across the ACT public sector.

Part 7 provides an analysis of each portfolio area and presents a range of recommendations in response to the Terms of Reference in each portfolio. This section has only covered those areas in which the Review has made specific recommendations or provided conclusions.

Part 8 is a short overview of Aboriginal and Torres Strait Islander issues and an analysis of service delivery across the sector.

Part 9 is the capital investment and asset management chapter providing an evaluation of asset management planning and the capital works program.

Part 10 provides an overview of the community sector grants and service agreement process and includes recommendations for streamlining, integration and assimilation of policies and processes in this area of service delivery.

Part 11 responds to the Terms of Reference regarding revenue, and provides a range of proposals and recommendations.

Part

2

FISCAL AND ECONOMIC POSITION OF THE TERRITORY

CHAPTER 2 FISCAL AND ECONOMIC POSITION OF THE TERRITORY

OVERVIEW

This Chapter assesses the financial position of the Territory taking into consideration its economic and demographic setting.

The Territory is a small self-governing city-state combining state and local government functions in one jurisdiction. Its finances are established on essentially the same basis as other state-local jurisdictions in Australia.

In aggregate, the Territory has approximately the same public expenditure costs and needs as the average of the States and Territories, with advantages offsetting disadvantages. Total ACT revenues including Commonwealth grants are also similar per head of population to the average of the other States and Territories, except that the ACT has long supplemented this by selling from its uniquely large stock of land.

KEY CONCLUSIONS AND RECOMMENDATIONS

- The ACT's economy is strong. The economy grew by 3.0 per cent in 2004-05[1]. The unemployment rate is the lowest of all jurisdictions at 3.2 per cent. The Territory has one of the strongest balance sheets of all jurisdictions.
- However, on the basis of current policies and trends, the Government's operating budget is likely to remain in substantial deficit indefinitely unless corrective action is taken. The operating deficit will not "correct itself".
- The Government's financial management goals and AAA credit rating are at risk.
- Broadly, the trajectory of aggregate general government spending is at least 5 per cent higher than total revenues – a fiscal gap of at least $150 million pa.
- The fiscal gap arises because general government spending in the ACT is well above the average of the States to a greater extent than can be matched by higher revenues (mainly from land sales). The higher spending levels reflect ACT policy decisions rather than higher underlying costs or levels of community needs.
- The ACT community has higher incomes and private spending levels than average in Australia. ACT people pay higher taxes as a result, but this revenue flows overwhelmingly to the Commonwealth through income tax, GST and excises. State and local taxes and charges overall have only weak links to community prosperity and increasing many of them would impose unfair burdens on that part of the population that has low or medium incomes.
- In addition, the fiscal gap is likely to widen in later years as pressures intensify from the ageing population and other developments in the health sector. Additional risks arise from current underspending on asset management and maintenance.
- The ACT economy is robust and growing well, but for a number of years population growth has been low. Territory policies may need to take increasing account of population issues.
- The ACT is the only Australian jurisdiction that focuses budget reporting on accounting measures (AAS). All other States and Territories use internationally recognised government financial statistics (GFS). It is possible, desirable and probably inevitable for the ACT to shift its focus to the same GFS measures.

2.1 FINANCIAL POSITION AND BUDGET OUTLOOK

The ACT has a sound balance sheet (with a low level of accumulated debt) but faces an extended period of expected shortfall in revenues relative to expenditures.

The operating budget position of the Territory is set out in Table 2.1 below. This table modifies the published forward estimates to take account of some additional known factors that are excluded from the official figures.

[1] Gross State Product as per the 2005-06 Budget Mid Year Review – Page 19.

- The published forward estimates reflect a projection of the budget based on formally established government policy decisions and projections of underlying parameters such as economic growth, population and so on.
- The Review, however, is concerned to base its recommendations on the "most likely" budget position taking account also of very firm pressures or strongly enunciated policy commitments that have not yet been the subject of formal decisions of Cabinet (for example, 2004 election commitments that have not yet been implemented).

Table 2.1: Operating Budget Position of the Territory (General Government Sector)

	2005-06 $m	2006-07 $m	2007-08 $m	2008-09 $m	2009-10 $m
Published Forward Estimates					
Total Revenue	2,716.0	2,851.4	2,999.0	3,146.2	3,146.2
Total Expenditure	2,807.5	2,850.5	2,959.7	3,072.9	3,072.9
Published Operating Result	**-91.5**	**0.9**	**39.3**	**73.3**	**73.3**
Mid Year Review					
Total Revenue (Mid Year Review)	2,822.2	2,808.3	2,954.1	3,108.7	3,182.2
Total Expenditure (Mid Year Review)	2,859.6	2,917.2	3,011.6	3,125.5	3,218.3
Revised Operating Result (Mid Year Review)	**-37.4**	**-108.9**	**-57.5**	**-16.8**	**-36.1**
Additional Pressures on Operating Result					
Policy and Parameter Variations - *Post MYR*	18.4	-0.5	-10.3	-12.0	24.7
Identified Risks - *Post MYR*	-13.0	-10.6	-11.6	-12.3	-12.3
Operating Result with Additional Pressures	**-31.9**	**-120.0**	**-79.3**	**-41.0**	**-23.7**
Emerging Risks identified by Treasury - *Post MYR*	-2.8	-5.7	-8.9	-9.5	-10.4
Functional Review Provisions					
Additional Police	0.0	-5.5	-5.6	-5.8	-5.9
Past Election Commitments	0.0	-0.6	-20.0	-20.0	-20.0
COAG Reforms / Mental Health	0.0	-2.0	-2.0	-2.0	-2.0
Integrated Document Management System (IDMS)	0.0	-1.0	-1.0	-1.0	-1.0
Total Revenue (All Pressures)	2,841.6	2,806.7	2,941.1	3,095.1	3,202.5
Total Expenditure (All Pressures)	2,876.3	2,941.5	3,058.0	3,174.4	3,265.6
Revised Forecast Operating Result	**-34.7**	**-134.8**	**-116.8**	**-79.3**	**-63.1**
Deficit over the Budget Cycle (2006-07 to 2009-10)					**-394**

2.2 BUDGET RISKS AND THE ACT COMMUNITY

Why the Budget Balance Matters

The ACT Government is committed to responsible financial management. This includes a commitment to maintaining the operating budget in balance over the economic cycle.

Every government in Australia has adopted similar responsible financial management goals. There are several reasons for making, and holding firmly to, this fundamental policy commitment:

- First and foremost, a balanced operating budget means that each generation of the ACT community pays for government services as they are delivered to them - future generations will not be asked to pay interest and debts arising from past spending on services that were consumed by their forbearers. This delivers inter-generational fairness. It does not rule out borrowing for the creation of matching assets - assets can be passed on to future generations and the operating balance does not include these transactions.
- A balanced operating budget over the economic cycle is vital to maintaining the AAA credit rating for the ACT. This rating carries two benefits – first, it allows the ACT to borrow at the lowest possible costs for infrastructure and other capital purposes, creating assets for future use and benefit. Second, the AAA rating is a widely recognised symbol of budget sustainability, increasing investor confidence in the future prospects of the ACT economy. This benefits the whole community through promoting economic development, creating new jobs and expanding the government's revenue base.
- Thirdly, a balanced operating budget provides a sound foundation for the ACT to better manage any uncertainties and risks that may emerge in the future. It is far better to face uncertainties and risks with sound underlying finances than from a position of fiscal weakness. For example, a key risk that is widely acknowledged is that all government budgets could come under rapidly increasing pressures from the ageing of the population, particularly in the second and third decades of this century. As these pressures materialise, major changes to Australia's health arrangements will be necessary, but there is every chance that the ACT budget will face heavy pressures for many years before national solutions are forthcoming. To assure continuing good outcomes for the Canberra community, the ACT budget including the financial baselines in our health programs must have the soundest possible footings to deal with this risk.

Could the Deficit Correct Itself?

This is a fair question, because the forward estimates in the past have often proven an unreliable guide to actual budget outcomes. ACT Government spending and revenues are both very much higher today than were projected for this year in the forward estimates published in Budget papers several years ago.

There was a clear pattern in the forward estimates of earlier years to project very small growth of government revenue and spending relative to expected economic growth. For example:

- The 1999 Budget projected out-year revenue growth of about 3 per cent a year and forward spending growth of only 0.5 per cent a year.
- The 2001 Budget projected forward growth of about 2 per cent a year for both revenues and spending.

In each of these budgets, the economic projections in the forward years suggested economic growth in the Territory (in current price terms) of over 6 per cent per year. The implicit sharp shrinking of the relative size of government suggested by the forward estimates did not happen – and was never likely to happen. The forward estimates then were not a reliable reflection of revenue or expenditure prospects.

But this is not so now, at least for revenues. The Review has found that the forward estimates of revenues are now much more consistent than in earlier years with underlying economic, population and price trends in the ACT as a whole. Forward projections of population and nominal economic growth in the ACT are now around 5 per cent a year and, overall, the main revenues of the Territory including GST grants should broadly match this (subject to year to year volatility of some items).

The forward estimates of revenue growth for 2007-08 and 2008-09 in the latest Mid Year Review are now projected to grow at over 5 per cent per year. This is fully consistent with underlying population and economic growth projections[2]. Expenditure projections in the out-years, however, remain lower than underlying economic growth – at around 3½ per cent per year. The gap between the projected growth of expenditures and revenues suggests that, far from any substantial prospects that the deficit could correct itself (through future revisions to the estimates), the greater risk is that it could worsen. Indeed, during the course of the Review this risk emerged as a key concern, particularly in areas such as health and emergency services where actual expenditure growth substantially exceeds growth in forward estimates.

In summary:

- forward estimates of revenue growth are consistent with broader population and economic parameters - unlike in earlier budgets, there is now no greater upside risk than downside in these estimates; and
- forward estimates of expenditures are more consistent with underlying population and economic parameters than in earlier years, but remain below those parameters. This alone suggests that there is a greater upside risk to expenditure growth than downside.
- **In short, the operating deficit WILL NOT "correct itself".**

It should also be noted that the forward estimates currently project a steady return to longer-term trends in land sales in the ACT. There is no reasonable basis for assuming that the unusually high level of revenues from land sales that were obtained in 2003-04 can be gained in future. Similarly, the unusually high returns from superannuation investments in 2005-06 to date do not constitute a sustainable higher revenue source.

Medium Term Budget Risks

As noted above, the forward estimates period (current and next three years) carries the risk that the budget will remain in deficit. Corrective action is required to eliminate

[2] These figures refer to Mid Year Review projections of revenue growth in each of the 2007-08 and 2008-09 – growth in 2006-07 is excluded because it is significantly affected by unusual results in volatile items in 2005-06, particularly the unusually high returns thus far in 2005-06 from the Territory's superannuation investments.

the existing fiscal gap of about 5 per cent of budget over the course of the forward years.

At the same time it will not be enough to make one-off budget adjustments. Nothing stands still and new budget pressures can be expected to emerge each year as they have in the past. Managing this continuing risk requires a second strategic response – a means for continually finding policy options for greater efficiencies or termination of lower priority activities in order to offset future unavoidable pressures.

Evidence from the past few years and from the plans and expectations adopted or being developed across the ACT Government suggest that additional medium-term risks that could create substantial new budget pressures are likely to include:

- Under-recognised costs associated with asset management and maintenance (or arising due to maintenance shortfalls). The ACT has very substantial assets – roads, trees subject to conservator interest, government schools, surrounding land tracts, urban recreational spaces, public swimming pools, many with considerable unused capacity yet all deteriorating and requiring management and substantial maintenance expenditure.
- Under-recognised social risks – for example in recent years the number of children in out of home care has rapidly increased, housing affordability has suffered significantly from high developed land prices etc.
- Health costs – while forward estimates allow for growth of about 5½ per cent per annum, actual growth has been almost double this in recent years – and internal health planning projects the same to continue. The drivers of this cost are partly ageing (which will worsen rapidly in the second and third decades of this century) but more particularly the high costs associated with many new medical procedures and technologies (including the effect on acute hospital bed days).

A third class of risks arises in relation to the possible effects of state-local government policy on the economic, and particularly, population base of the Territory. This base drives the revenues of the Territory, both tax and charge revenues and even the ACT share of GST grants.

While Canberra has long sustained a relatively strong rate of economic activity growth, there is concern that its weak population growth for a number of years (especially recently) is both a constraint on future growth potential as well as signifying other underlying problems.

Canberra has competitors for people and growth in the immediate region (which has attracted much higher population growth for many years) as well as in the other major cities of Australia. Policies in the ACT affecting living costs and choices (such as taxes, charges, education opportunities, and land use and development policies) should take into account their possible implications for these outcomes. If population growth is not restored in the near-term, at least to longer-term trends, there is a risk that current forward estimates of revenue will fall short (and other public policy problems could multiply).

2.3 PROFILE OF THE ACT

The ACT and Canberra comprise a small self-governing city-state of approximately 325,000[3] people.

The main economic foundations of the ACT are the Commonwealth functions conducted in Canberra, the National Capital. In economic terms, these are functionally equivalent to service industries exporting most of their output to the rest of Australia. Canberra has grown largely through capturing a considerable share (about a quarter) of the large-scale expansion of central government over the course of the last century.

As the city has grown other activities have also developed, including tourism and several knowledge-intense industries leveraged from the core public functions and from the research and educational institutions located in Canberra. Canberra has also grown through its place as a regional service centre within the larger geographic area defined by the ABS as the Australian Capital Region. This region has a total population of about 535,000 people, in both the ACT and SE NSW. The ACT provides substantial services to this wider population (e.g. about a quarter of ACT hospital patients are from NSW).

Although smaller than any State, and remaining constitutionally a Territory of the Commonwealth, the ACT like the Northern Territory has been granted self-government. In most respects, this means that the ACT functions as if it were a State.

2.4 THE TERRITORY COMPARED

Overview

The ACT combines in one jurisdiction both state and local public functions. As a State it is relatively small, while as a local government it is relatively large. Its primary functions, however, are those of a state such as health, education, and law and order.

Being a small city-state, and having a service-based economy, brings both advantages and disadvantages to Canberra. Taking as many factors into account as it can, the Commonwealth Grants Commission has found that the advantages and disadvantages broadly cancel one another out.

Being small creates some diseconomies of scale for state like activities. Against this, the ACT is compact and does not have the high costs of rural and remote areas. The ACT population is younger, participates more in the workforce, has higher incomes, and is better educated and healthier than the Australian population overall. These factors reduce service needs. On the spending side, the ACT therefore receives no net subsidy from the GST distribution arrangements relative to the average of the States and Territories.

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[3] ABS Catalogue No. 3201.0 – ACT Population at June 2005 was 325,161.

Per person, the ACT share of GST grants to the States is higher than average, but this reflects the fact that the Territory's own tax base is smaller than the tax base of the other States – largely because the main employers in the ACT (Commonwealth agencies) do not pay payroll tax. The GST grants formulae compensate the ACT for this and other revenue base disadvantages. As a result, the ACT has total tax and tax-based revenues (including both its own taxes and its share of GST) that are broadly similar to the average of the States.

Of course, ACT residents pay significantly more than average income tax due to their above average incomes, but income tax is kept entirely by the Commonwealth. They also spend more (having more to spend) than Australians on average – and so pay well above average levels of GST, and other Commonwealth indirect taxes such as excise, as a result. It is fallacious to argue that the higher income ACT population is an untapped potential revenue source – higher taxes on the higher income are already collected. Under the financial arrangements that have emerged in the Australian federation, the States and Territories cannot directly access that revenue.

Since self-government, the Territory budget has provided for higher than average general government expenditures. Combined state-local expenditure per person is about 20 per cent higher than in Australia as a whole (ABS figures for 2003-04). This margin is much higher than for revenues (4 per cent) and is possible for two main reasons – first, the Territory has unusually large land sales revenues (not included in ABS measures) and second, the Territory has an operating deficit in GFS terms while the States on average have a surplus.

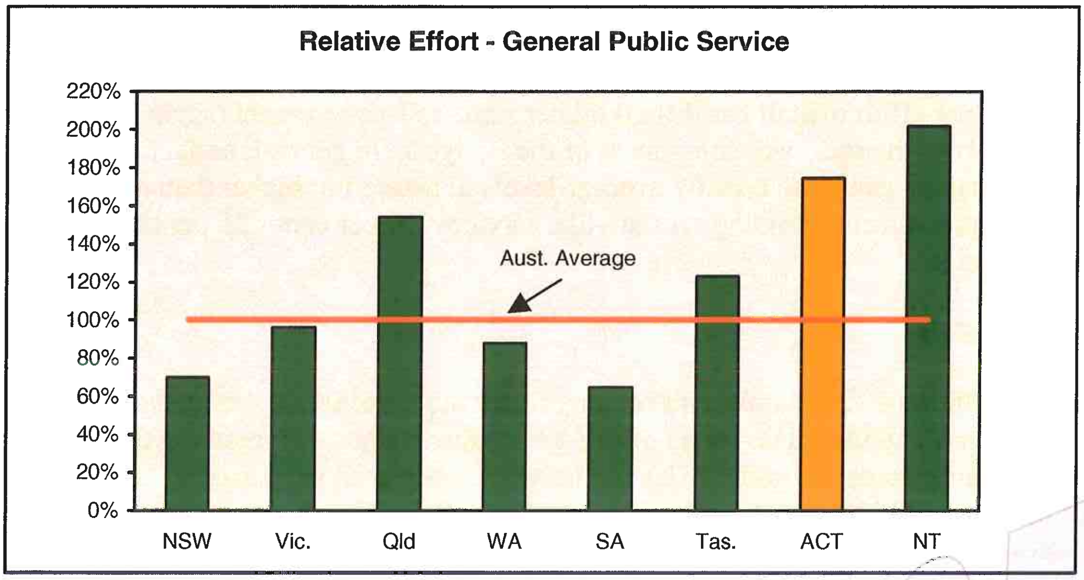
Over the past 10 years, the balance between land sale revenues and budget deficits has fluctuated with cycles in land markets. There is virtually no prospect that land sales revenues will be sufficient in future years to sustain the current higher-than-Australian-average level of general government spending in the Territory.

The City-State Government

The governance model in the Territory is unique in that it combines responsibilities for both state and local government services. As a city-state, with a small geographic area and virtually no rural population, the Territory should have significant advantages over other jurisdictions in Australia.

The extent to which those advantages have been drawn on remains questionable. The cost of general public services in the ACT is around 75 per cent higher than the average of other jurisdictions, even after taking into account its diseconomies of scale[4].

[4] *Report on State Revenue Sharing Relativities*; Commonwealth Grants Commission, 2005 Update, Page 237.



Source: Commonwealth Grants Commission Relative Fiscal Capacities of the States 2006.

Fiscal Imbalance Since Self-Government

While the socio-demographic profile in the Territory suggests relatively lower service needs, government expenditure on services has remained consistently high since self-government.

Assessments by the Commonwealth Grants Commission provide a measure of the level of expenditure effort relative to the needs of a jurisdiction's population. This methodology is comprehensive, has developed over a long period of time, and has been subject to considerable scrutiny from all the States and Territories.

The Commission's methodology to distribute GST revenue between States and Territories includes an assessment of the expenditure required to provide an average level of service at an average level of efficiency, taking into account the circumstances of a jurisdiction – the so called Standardised Expenditure.

The ratio of actual expenditure to the Standardised Expenditure provides an indication of the excessive costs incurred by a jurisdiction in delivering its services. These may be due to a higher level of service, a higher quality of service, or relatively lower efficiency in service delivery.

The following table provides snapshots since self-government of Grants Commission assessments of the ratios for revenue effort, total expenditure, and expenditure on key service areas – these relate only to state-like services (excluding local government).

Table 2.2: Ratio of Actual Effort to Standardised Assessments

Category	Ratio 1989-90 (%)	Ratio 1995-96 (%)	Ratio 2000-01 (%)	Ratio 2003-04 (%)	Ratio 2004-05 (%)
Total Revenue	91	97	105	95	102
Total Expenditure	115	111	118	125	126
Education	121	115	109	121	115
Health and Community Services	137	125	115	126	139

Source: Commonwealth Grants Commission Relative Fiscal Capacities of the States 2006.

The above table suggests, in broad terms, that the Territory's revenue effort increased soon after self-government but has not changed appreciably in the past decade. Expenditure effort overall has drifted higher since self-government (again noting this refers only to the state-like component of the Budget). In general, budgetary policies have remained geared to broadly average levels of taxing but higher than average general government spending on state-like services (20 per cent - 25 per cent higher than average).

Land Sales

While additional Commonwealth funding under the transitional arrangements funded the imbalance in the earlier years of self-government, since the cessation of transition funding arrangements (mid 1990s), the imbalance has been supported by the proceeds of land sales and by lower surpluses (or higher deficits) than for the average of the States and Territories. The balance between these has varied with the volatile land sales market.

Land revenues will become an increasingly smaller proportion of the revenue base. Structurally, the budget can not rely on these revenues to the same extent as has occurred in the past. In addition, for reasons discussed later in this Chapter, the ACT should move to reduce its reliance on this revenue source over time.

Service Areas

The higher than average expenditure is not limited to any one specific service area. The table below highlights that almost all areas of government services have a higher level of service provision than the standardised level.

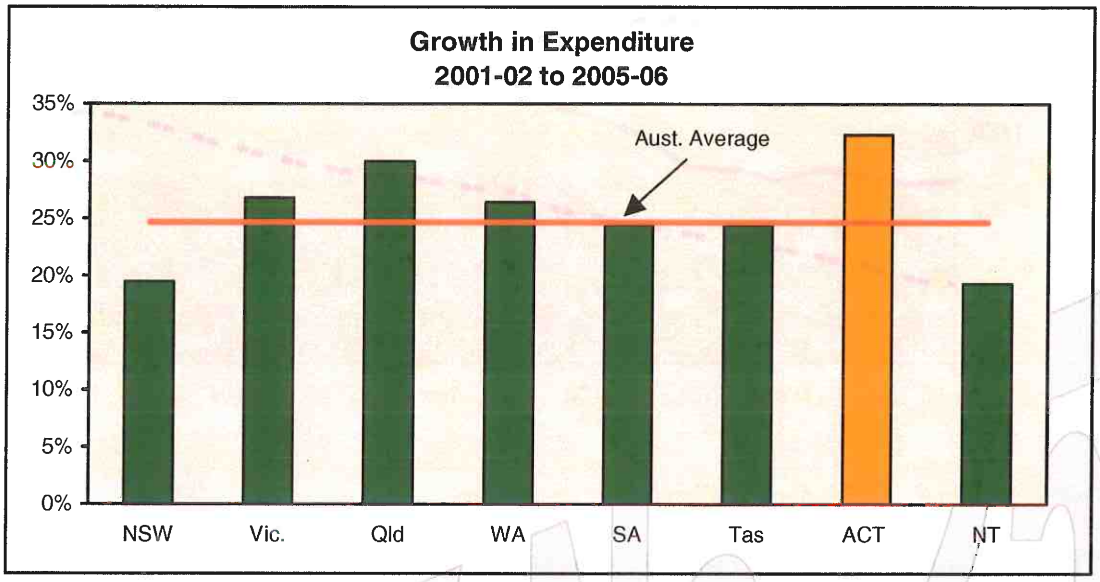
Table 2.3: Level of Service Provision by Commission Category (Population 325,000)

	Assessed $ Per Capita	Actual $ Per Capita	Level of Service Provision	Impact on Expenditure $'m
Superannuation	510.2	1,220.9	239%	231.0
General Public Services	473.3	925.2	195%	146.9
Population and Preventative Health	78.0	313.5	402%	76.5
Family and Child Services	68.7	233.3	340%	53.5
Non-Inpatient Services and Community Health Services	394.4	528.8	134%	43.7
Inpatient Services	653.9	735.7	113%	26.6
Public Safety	102.1	133.5	131%	10.2
Tourism	35.5	60.9	172%	8.3
Vocational Education and Training	256.6	279.3	109%	7.4
Pre-school Education	21.2	40.6	192%	6.3
Housing – Net	62.1	69.5	112%	2.4

Source: Commonwealth Grants Commission Relative Fiscal Capacities of the States 2006.

As mentioned previously, the relatively higher expenditure may be due to a higher level of service, a higher quality of service, or relatively lower efficiency in service delivery. Further analysis on the reasons for higher expenditure is included in the relevant chapters later in the report.

Besides having a relatively higher level of expenditure, the rate of growth in government expenditure over the past five years has been the highest of all jurisdictions – cumulating to around 7 per cent higher than the Australian average, as highlighted in the chart below.



Source: Commonwealth Grants Commission – Relative Fiscal Capacities

Continuing this trend is unsustainable.

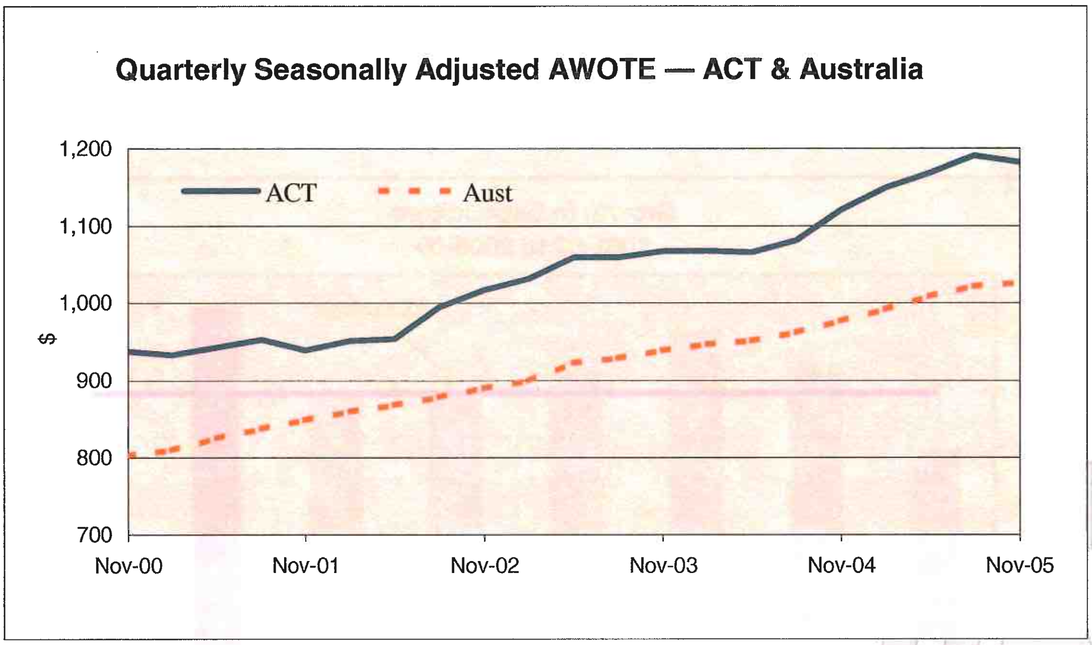
Outcomes and Value for Money

The preceding discussion has referred to the assessments by the Commonwealth Grants Commission. These assessments are based on national averages and do not in any way necessarily imply a judgement about the appropriate level of services.

For the ACT, and indeed for any government, a higher than average expenditure could be justified if there were better outcomes, or if the community was getting value for money for those expenditures. This does not appear to be the case in general.

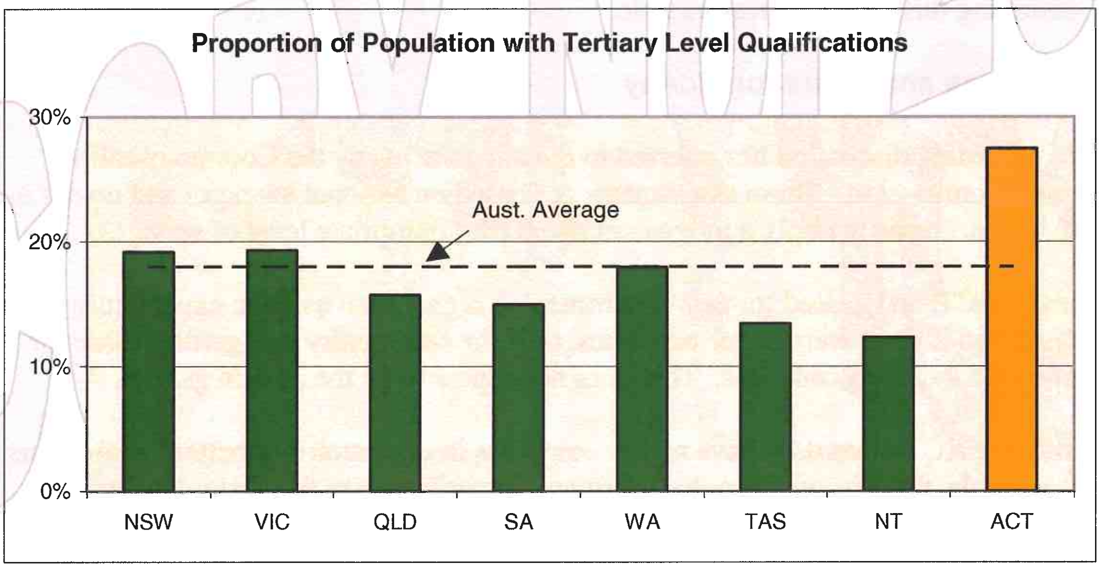
While the ACT often does have higher outcomes in education and better health status for example, there is evidence that these are primarily due to the socio-demographic profile of the population rather than due to the higher level of expenditure on government services. These issues are discussed in further detail in the relevant chapters in the report.

The general ACT population is relatively more affluent compared to the overall populations of other States and the Northern Territory. It has the highest median and average income.



Source: ABS Cat No. 6302.0, Average Weekly Earnings Australia.

The population is relatively more highly educated with the proportion of the population having qualifications at the tertiary level being the highest in the country.

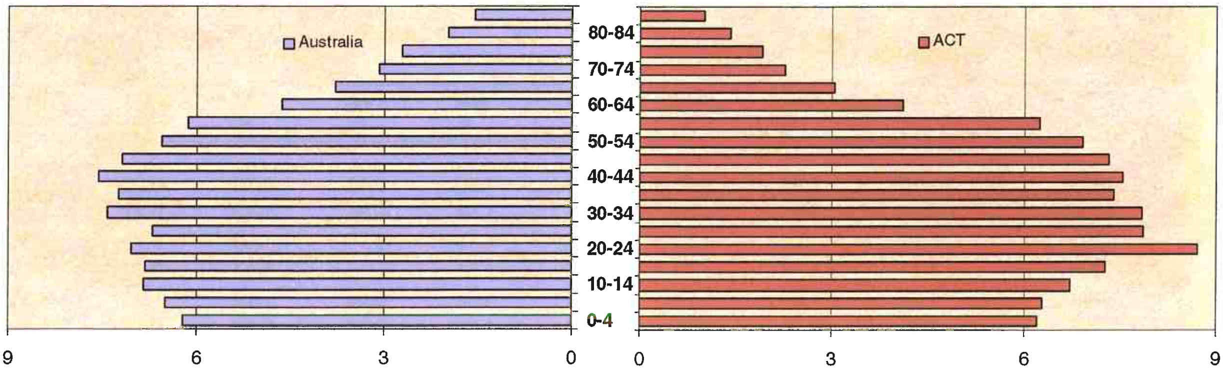


Source: ABS Cat. 6227.0, Education and Work, and ABS Cat. 3201.0, Population by Age and Sex, Australian States and Territories.

The Territory has historically had the youngest population of all the jurisdictions. While the population is ageing at a relatively faster rate, it is still younger than the population of other States[5].

[5] ABS Cat. No. 3201.0. At 30 June 2005, South Australia had the oldest population of all the States and Territories with a median age of 38.8 years. Tasmania was the second oldest with a median age of 38.7 years, followed by New South Wales and Victoria (36.8 years), Western Australia (36.2 years), Queensland (35.9 years), the Australian Capital Territory(34.5 years) and the Northern Territory (30.9 years).

Age Profile of the ACT in comparison to Australia



Source: ABS Cat. 3235, Population by Age and Sex, Electronic Delivery.

The impacts of ageing are just beginning to emerge, particularly in the area of aged accommodation. However, the more severe economic and budget impacts of ageing – in particular the rapid fall in the rate of growth of the working age population and an increase in mortality – is still at least five to ten years away.

A significant proportion of health expenditure relates to the last few years of life. Death rates in the Territory have remained the lowest in the country for many years due to the relatively younger and healthier population.

Owing to higher incomes and higher education, the ACT population has lower health risk factors, as highlighted below.

Table 2.4: Health Risk Factors

Risk Status	ACT (%)	Australia (%)
Current Smoker	18.7	22.4
People with Low Alcohol Risk	56.4	50.8
Exercise – No Participation	23.5	30.4
Exercise – High Participation	8.1	6.4
Obesity	11.8	15.1

In summary, the Territory has a relatively younger, more educated population that is relatively more engaged in its health. This profile drives lower than average needs for services at this time.

2.5 THE ECONOMIC SETTING

Population

Population growth in the Territory has remained below the national growth rate for the past decade, averaging around 0.7 per cent per year. It has been well below the population growth of NSW. The population in the surrounding region in fact has been growing at about double the ACT growth rate (above the national average).

Increasingly population growth is concentrated in the older age groups, so that growth in the workforce is likely to rapidly slow in coming years.

Table 2.5: Population Growth Rates

	NSW %	Vic. %	Qld %	SA %	WA %	Tas. %	NT %	ACT %	Aust. %
1997	1.16	0.81	1.68	0.48	1.68	-0.18	2.79	0.26	1.13
1998	0.99	0.88	1.56	0.55	1.54	-0.35	1.59	0.27	1.05
1999	1.14	1.05	1.56	0.55	1.48	-0.11	1.50	0.79	1.15
2000	1.17	1.17	1.72	0.48	1.34	-	1.47	0.92	1.20
2001	1.37	1.34	1.89	0.44	1.42	0.08	1.13	1.30	1.36
2002	0.99	1.41	2.16	0.56	1.38	0.20	0.12	0.78	1.29
2003	0.79	1.22	2.26	0.57	1.42	0.94	-0.15	0.40	1.21
2004	0.73	1.23	2.09	0.51	1.63	1.00	0.70	0.22	1.19
2005	0.80	1.18	1.91	0.60	1.59	0.62	1.48	0.31	1.17

Source: ABS Cat. 3101.0, Australian Demographic Statistics.

The low ACT population growth is driven by substantial net emigration – more people leave the ACT than come here to live. While the ACT has low fertility rates (even lower than the national average) it continues to have above average natural population growth due to its relatively young age profile.

For 2005-06, the population is expected to grow by 0.5 per cent, down on the budget estimate of 0.8 per cent[6]. Growth in the two previous years averaged less than 0.3 per cent per year. Clearly, the Territory has not been successful in attracting and retaining people. This is reflected in the tight labour market with supply constraints lowering the expected employment growth in 2005-06 and 2006-07[7].

The ACT's lack of competitiveness on this measure has been attributed to several social and economic factors. The much higher population growth rate in the immediate region across the border suggests that some of the factors could relate to land and housing related costs or choices within the ACT.

Employment

The Territory has a narrow economic base with a significant proportion of its economic activity related to Commonwealth and the Territory governments. Unlike other States, the Territory does not have mineral resources, large scale manufacturing industry or farming sectors.

Government consumption[8] accounts for approximately 45 per cent of the total State Final Demand. The Territory's economy to a large extent is dependent on Commonwealth government activity, which accounts for 38 per cent of the total State Final Demand.

The forecast for employment growth in 2005-06 has been revised down from 1 per cent at Budget to 0.25 per cent. For 2006-07 the employment growth rate has

[6] *2005-06 Mid Year Review*; ACT Treasury, Page 20.

[7] ibid.

[8] Government consumption is current expenditure by general government bodies on services to the community such as education, health, public order and safety, public administration and defence.

been halved[9]. While the forecast for employment growth for 2007-08 and beyond in the Mid Year Review remains unchanged at 1.5 per cent, on current trends there is little evidence that such growth would eventuate. Such rates almost certainly would require an appreciable increase in population growth.

The ACT has long had much higher participation rates in the workforce than the Australian average. This is likely to continue, particularly as participation rates are linked to educational attainment levels. However, the already high rate of participation in the Territory may also mean that there is less scope for future increases in participation to offset the coming rapid slowdown in growth of the main working age cohort populations. The other States have some potential to catch up to the ACT on this front. The ACT as a result faces labour supply problems unless it can address the present net emigration problem.

Slower growth in employment impacts on economic activity. Final expenditure in the economy as measured by State Final Demand has been revised down for 2005-06 from 3.3 per cent at Budget to 3 per cent. For 2007-08 and beyond State Final Demand is forecast to grow at 4.7 per cent. However, there is a significant and growing leakage of demand to production elsewhere – this may reflect in part the labour supply constraints in the Territory.

While there is some uncertainty about the quality of ABS measures of Gross State Product (GSP) in the ACT, it is quite likely that the slower growth of production than demand revealed by these data is indeed occurring. Ultimately, measures of production (and of income) are more relevant than demand in assessing the prospects of the ACT economy and the revenue base of the ACT government.

[9] *2005-06 Mid Year Review*; ACT Treasury, Page 20.

Part

3

STRATEGIC RESPONSE OF THE REVIEW

CHAPTER 3 STRATEGIC RESPONSE OF THE REVIEW

OVERVIEW

- The Terms of Reference of the Review sought recommendations that, having regard to the Government's agreed priorities, identify:
  - specific options for reducing expenditures or increasing revenues;
  - programs that could be delivered more efficiently or could be scaled back to more effectively meet whole-of-government objectives; and
  - options to improve efficiency through more effective structures for government operations.
- The Chief Minister advised the Review that the overwhelming Government priority is to meet the Government's financial management targets, in particular to restore operating budget balance and maintain the Territory's AAA credit rating.
- This chapter outlines the strategic approaches that the Review has taken in developing its recommendations in response to its fiscal and economic assessment in Chapter 2 and the matters sought by the Terms of Reference.

KEY RECOMMENDATIONS AND CONCLUSIONS

- The underlying fiscal gap in the ACT does not need to be closed immediately, and it would be unnecessarily disruptive to attempt to do so. The Territory has a sound balance sheet and does not have an immediate cash or fiscal crisis. The Review recommends instead a strategy to restore fiscal balance over the three budget years of the Government's remaining term of office – 2006-07 to 2008-09.
- The Review has focused on finding sustainable revenue and expenditure measures to restore the budget operating balance over the forward years. Adoption of its recommendations would result in proportionally similar changes to Territory own-source revenues and expenditures (including restraint in trend health spending growth).
- The Review's approach is not to reduce standards of health and education – its focus is making the higher priority services possible and sustainable.
- In high priority expenditure program areas, the Review considers that the Government should emphasise achieving community outcomes, rather than levels of public service inputs or outputs. Where possible, the Review sought to preserve (or even enhance) priority outcomes in these areas while seeking more efficient use of inputs and more effective scale and selection of outputs.
- However, the long-run sustainability of the Budget depends also on avoiding the development and continuation of unsustainably high expectations in lower priority areas of government activity. In these areas the Review has recommended efforts to scale back expectations of outcomes and the level of associated expenditures.
- The Review considers that longer-term fiscal sustainability also requires (a) the structure and operations of government in the ACT be simplified and streamlined in keeping with its small city-state scale; and (b) arrangements supporting the fiscal management responsibilities of Cabinet and each Minister be strengthened.
- The responses recommended in this report will require sustained attention from Ministers and stronger support from public service leaders for a considerable time. Recommendations are made on critical implementation issues.

3.1 REVENUE AND SAVINGS TO RESTORE BALANCE OVER THE FORWARD YEARS

Size and Timing of the Task

As noted in Chapter 2, in considering the program adjustments that are required the Review has sought to take into account not only the official forward estimates position but also other known unavoidable pressures (such as election commitments and the clear trend for health spending growth to considerably exceed forward estimates).

This produced an overall picture suggesting that the fiscal gap that has emerged in the ACT is in the order of $150-175 million per annum (about 5 per cent of budget). This gap is the difference in the medium term trajectories of spending and revenues. To change the trajectories and take account of known budget costs and pressures, the savings task is in the order of $200 million per annum.

Clearly in any one year volatile factors such as superannuation returns or land asset sales can result in sharply, but temporarily, different results. Provided underlying fiscal management is sound, these volatile factors are neither threats nor opportunities – their effect on the balance in any particular year, whether or not anticipated, should be accepted without generating policy responses (in the longer run, higher and lower results from volatile factors will likely cancel out).

The underlying fiscal gap in the ACT does not need to be closed immediately, and it would be unnecessarily disruptive to attempt to do so. The Territory has a sound balance sheet and does not have an immediate cash or fiscal crisis. The Review recommends instead a strategy to restore fiscal balance over the three budget years of the Government's remaining term of office – 2006-07 to 2008-09.

Specifying and Emphasising Priority Outcomes

Particularly in the main priority areas, such as health and education, the Review considers that the emphasis should be on achieving well-specified and sustainable community outcomes.

An outcomes focus has not been strongly developed in the Territory, in particular because most of the high level outcomes that have been specified for departmental programs are too general to be of practicable value. This has meant that many statements of desired outcomes are not subject to essential critical assessment. A further problem has been the limited scope and paucity of outcome measures.

As a result, the real focus of policy and management decisions in the Territory has continued to be on inputs and outputs, which have been assessed and justified only by reference to broadly stated outcome goals. Illustrations of these problems include:

- ACT spending (inputs and outputs) on public and community health programs is very much higher per person than in the rest of Australia, yet there is poor linking of this spending to achieving outcomes in areas that are most critical to reducing demand on stretched, high-cost acute hospital services and beds. There is scope to better specify outcomes, and then attain them at a higher level, while reducing total spending in these program areas.

- In a range of program areas, unreasonable approaches are taken to specifying risk outcomes. Since risks can never be eliminated, programs that have weakly specified approaches to risk can be driven to almost unlimited levels of inputs and outputs. The ACT has a number of programs costing much more per capita than in the rest of Australia where high risks are claimed as the rationale – even though the risk level in the ACT is below national averages (eg most emergency services, children's services and supported accommodation).
- Community outcomes are always the product of multiple influences and too broad a specification can miss the vital link between outputs and outcomes. For example, the performance of our school children is commendable on the small number of available benchmarks – but does this reflect schooling performance or instead the influences of well-above average income and education levels of families. The available research points to Canberra's performance outcomes falling short of average when account is taken of the advantageous non-school factors – higher outcomes are not following from the current level and mix of inputs and outputs in the school system.

Given limited time and resources, the Review has not attempted to specify outcomes for public sector programs. However, as far as possible it has had regard to the available indicators of outcomes in formulating recommendations. Broadly, its strategic approach has been as follows:

- To maintain outcomes as far as possible in the highest priority areas. Given limited meaningful information, in education, health and other key areas account was taken of available performance indicators and evidence of experts on critical success factors.
- In lower priority areas, where ACT spending is well above average without clear reasons, to propose that expectations of outcomes be reduced and that spending be brought more into line with averages. In areas of strong funding support from the Commonwealth, some of these areas involved reducing ACT spending to matching requirements.
- In areas where risk issues play a major part, the Review proposes that the ACT benchmark itself against the average of the other States and Territories rather than adopt poorly specified risk minimisation goals of its own. In all of these areas, public service managers should be asked to actively develop strategies that allow increasing demands to be either resisted or responses managed (and reforms to systems developed) in a way that prevents further growth in budget costs.

While the Review has taken these strategies only as far as necessary to achieve the immediate fiscal task, there is a pressing need for a rigorous approach to outcome specification and management to become a core feature of ACT policy and administration. Demands on the Territory's budget will continue to grow, very likely much faster than revenues. Continuously improved management of and by outcomes will be essential to allow these demands to be met from available existing resources.

Requiring this continuous improvement from public service leaders is a challenge for Government discussed further below in section 3.3.

3.2 STREAMLINING GOVERNMENT

The ACT is a compact City-State. While there are diseconomies of scale in some areas, the ACT has many offsetting advantages. For example, the ACT does not need to provide substantial services to rural and remote communities. As a relatively large local government, it has positive economies of scale. Overall the Grants Commission assesses the advantages to match the disadvantages.

This, however, is based on looking at what States actually do, in the average ways that they do them. It is not an assessment of what they could do if they set out to maximise the advantages that they have – to create unique and better solutions to reflect their unique circumstances.

One strategy of the Review has been to consider the scope for streamlining government to maximise the potential benefits of small and compact scale. This has suggested the following main approaches:

- To create a single ACT public service in all areas where activities take a common, generally transactional, form. The whole of the ACT Government is equivalent in size to just one of the larger Commonwealth or State departments or agencies (indeed smaller than a number of them). It can achieve scale economies (and other advantages) in 'back office', procurement and IT functions by operating as a single service in these areas. This approach is aimed predominantly at creating a better, more flexible and effective service. At the same time, some financial savings are expected over time.
- A second strategy is to streamline the policy service. The broader the reach of a policy agency, the greater its internal program and funding flexibility. This strengthens the capacity to design and change strategic approaches to problems. More importantly, the broader the scope of the department, the wider its perspective of the ways that outcomes can be formulated and delivered. There is no greater problem in public policy advising and administration today than the tendency, time and again, to base a decision on too narrow a worldview[1]. The review proposes a smaller number of policy advising offices in the ACT, again to increase effectiveness as much as to reduce costs.
- A third strategy for streamlining government is to fold currently separate functions and agencies into existing departments. This reduces coordination and governance costs, creates scale benefits, facilitates greater staffing flexibilities and clarifies lines of accountability. Again, the main goal is the improvement in effectiveness, although gains to efficiency and hence budget savings are also available. Additional benefits flow when these changes result in fewer instances of (a) multiple reporting, review and oversight of functional areas or (b) functional duplication across different parts of the service.

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[1] The bounded awareness problem for decision making within firms is discussed in the January 2006 edition of Harvard Business Review (Vol 84, No1, Boston)

3.3 STRENGTHENING THE ROLE OF CABINET AND MINISTERS

In addressing the effectiveness of government structures, the Review has considered whether existing arrangements provide adequate support to Ministers and Cabinet.

In a small five-member executive, it is vital that all Ministers take a whole-of-government perspective. In particular, all Ministers must share the task of ensuring that the Government can meet its financial management goals. For this to happen, Ministers must ask more of their public service advisers.

Ministers and Cabinet need better support. It is not enough for public servants to merely interpret and develop new proposals for responses to the growing claims and needs in their areas of responsibility. To give real choices to Ministers and to take account of the financial management context facing the Territory as a whole, advisers must develop effective strategies to reduce demands, to reduce existing costs or to find substantially different strategic approaches to problems.

This need underpins the Review's recommendation for a closer, one-to-one relationship between Ministers and Departments.

In addition, the Review proposes several other changes to improve the command that Ministers and Cabinet can effectively have over the affairs of the Territory:

- **strengthening of the cabinet process to require much stronger compliance with whole-of-government needs, in particular for effective budgeting;**
- **improvements to program analysis and financial information;**
- **reducing the number of boards, agencies and commissions. Too many of these maximise the number of conflicting voices with narrow, rather than whole-of-government, perspectives. Where independent (or quasi-independent) agencies are necessary, the Review proposes that their functions be constrained solely to their essentially independent purposes; and**
- **departments operating under the leadership of Ministers and taking whole-of-government perspectives to their tasks should carry out all other functions.**

3.4 FINANCIAL IMPACT OF REVIEW'S RECOMMENDATIONS

The following table provides a summary of the financial impacts of the savings and revenue measures proposed by the Review.

Table 3.1: General Government Sector Operating Result (Review Impacts)

	2005-06 $m	2006-07 $m	2007-08 $m	2008-09 $m	2009-10 $m
Published Forward Estimates					
Total Revenue	2,716.0	2,851.4	2,999.0	3,146.2	3,146.2
Total Expenditure	2,807.5	2,850.5	2,959.7	3,072.9	3,072.9
Published Operating Result	**-91.5**	**0.9**	**39.3**	**73.3**	**73.3**
Mid Year Review					
Total Revenue (Mid Year Review)	2,822.2	2,808.3	2,954.1	3,108.7	3,182.2
Total Expenditure (Mid Year Review)	2,859.6	2,917.2	3,011.6	3,125.5	3,218.3
Revised Operating Result (Mid Year Review)	**-37.4**	**-108.9**	**-57.5**	**-16.8**	**-36.1**
Additional Pressures on Operating Result					
Policy and Parameter Variations - *Post MYR*	18.4	-0.5	-10.3	-12.0	24.7
Identified Risks - *Post MYR*	-13.0	-10.6	-11.6	-12.3	-12.3
Operating Result with Additional Pressures	**-31.9**	**-120.0**	**-79.3**	**-41.0**	**-23.7**
Emerging Risks identified by Treasury - *Post MYR*	-2.8	-5.7	-8.9	-9.5	-10.4
Functional Review Provisions					
Additional Police	0.0	-5.5	-5.6	-5.8	-5.9
Past Election Commitments	0.0	-0.6	-20.0	-20.0	-20.0
COAG Reforms / Mental Health	0.0	-2.0	-2.0	-2.0	-2.0
Integrated Document Management System (IDMS)	0.0	-1.0	-1.0	-1.0	-1.0
Total Revenue (All Pressures)	2,841.6	2,806.7	2,941.1	3,095.1	3,202.5
Total Expenditure (All Pressures)	2,876.3	2,941.5	3,058.0	3,174.4	3,265.6
Revised Forecast Operating Result	**-34.7**	**-134.8**	**-116.8**	**-79.3**	**-63.1**
Deficit over the Budget Cycle (2006-07 to 2009-10)					**-394**
FUNCTIONAL REVIEW OUTCOMES	0	124.3	179.1	186.7	189.4
Total Savings	*0*	*124.3*	*(124.3)+54.8*	*(179.1)+7.6*	*(186.7)+2.7*
Increased Revenues		*80.9*	*84.9*	*89.1*	*94.3*
Net Expenditure Decreases		*43.4*	*94.2*	*97.6*	*95.0*
Post Review					
Total Revenue	2,842	2,888	3,026	3,184	3,297
Total Expenditure	2,876	2,898	2,964	3,077	3,171
Estimated Operating Result - Functional Review	**-35**	**-11**	**62**	**107**	**126**
Surplus over the Budget Cycle (2006-07 to 2009-10)					**285**

3.5 MEASURING THE OPERATING BUDGET

Headline Budget Measure

The Territory's headline budget measure is the operating result prepared under the Generally Accepted Accounting Principles (GAAP). This is essentially an accounting rather than an economic measure. Current Australian whole-of-government reporting arrangements also require the preparation of financial reports in accordance with Government Finance Statistics.

A project is underway to harmonise GAAP and GFS financial reporting. Once this standard is introduced, the ACT in practical terms will be required to produce its budget results on this basis. The harmonised standard was to be released ahead of the 2006-07 Budget. However, it is likely that the introduction date will be delayed, due to a number of concerns with the technical details of the proposed new standard. Nevertheless, while the harmonised accounting standard has not yet been introduced, all other State and Territory governments in Australia now use headline GFS measures in their budget reports. The GFS is also the primary focus of the rating agencies, the Commonwealth Grants Commission and economic analysts, such as Access Economics.

The current GFS financial statements for the ACT show very large operating deficits, in the order of $350 million. This arises because the ABS (which determines the GFS standard by reference to IMF rules) requires:

- land sales to be recorded as asset sales, rather than as operating revenues; and
- exclusion of unrealised gains and losses on superannuation investment assets (mainly the increase or decrease in the value of shares) from the measure of revenue. This is a highly volatile item in the ACT's current budget.

It is also apparent that the current published measure of the GFS result for the ACT is unduly unfavourable to the Territory for some technical measurement reasons (relating to land development costs and realised superannuation investment returns)[2]. There is scope to correct these so that the GFS result for the Territory is improved.

Increasingly, commentary on the ACT budget is focussing on GFS measures. Given this, and the other factors noted above, it is more than timely that the ACT shifts its reporting focus to the GFS basis. The measure should be corrected for the technical factors noted above.

[2] Because GFS reporting has not been a focus of the ACT budget, in some areas the estimates have been presented in ways that result in an unfavourable impact on the reported operating balance. For example:

- even though land sales revenues have been (correctly) excluded, the cost of land development has been included as a GFS expense; and
- some superannuation returns that could legitimately be treated as GFS revenues have been excluded because of the way the returns are recorded through the Territory's Superannuation Provision Account.

The Treasury is currently reviewing the presentation of the Territory's GFS statements, with a view to addressing both of the above factors before the publication of the 2006-07 Budget. It is expected that this will result in some narrowing of the reported GFS operating deficit, even without further adjustments for land sales revenues and long term unrealised superannuation gains.

Equally it will be necessary for some years yet that the Territory takes account of land sales revenues in its operating result and target. However, as soon as practicable (taking account of its declining significance and its status as an asset sale) the ACT should aim to reach a position of operating balance without any reliance on land sales revenues.

The Review suggests that it is better to make the change to GFS now rather than confront it in the next year or two. The effect is to produce a lower estimate of the operating surplus than the accounting measure. However, the accounting measure will still be published within the budget papers (at least until full harmonisation is achieved). Moreover, the GFS measure will be a more robust (and generally less volatile) measure on which to base Territory financial management policies.

Recommendation 1: for financial management and 'headline' budget reporting purposes, the Government adopt GFS measures from the 2006-07 Budget.

3.6 MEDIUM TERM FINANCIAL TARGETS

The following table provides the GFS operating balance as published in the Mid Year Review and an indicative result incorporating savings and revenue measures proposed by the Review.

Table 3.2: General Government Sector GFS Operating Result (Review Impacts)

	2005-06 $m	2006-07 $m	2007-08 $m	2008-09 $m	2009-10 $m
Mid Year Review - GFS					
Total GFS Revenue (Mid Year Review)	2,460.6	2,536.6	2,658.7	2,784.8	2,784.8
Total GFS Expenditure (Mid Year Review)	2,854.0	2,915.1	3,004.5	3,117.4	3,117.4
Revised GFS Operating Result (Mid Year Review)	**-393.4**	**-378.5**	**-345.8**	**-332.6**	**-332.6**
Total Revenue (All Pressures)	2,590.0	2,645.0	2,755.7	2,881.2	2,915.2
Total Expenditure (All Pressures)	2,868.6	2,939.5	3,050.9	3,166.3	3,164.7
Revised Forecast Operating Result	**-278.6**	**-294.5**	**-295.1**	**-285.1**	**-249.6**
GFS Deficit over the Budget Cycle (2006-07 to 2009-10)					**-1,124**
Post Review					
Total Revenue	2,590.0	2,725.8	2,840.6	2,970.3	3,009.5
Total Expenditure	2,868.6	2,896.0	2,956.7	3,068.7	3,069.7
Estimated GFS Operating Result - Functional Review	**-278.6**	**-170.2**	**-116.0**	**-98.4**	**-60.2**
GFS Deficit over the Budget Cycle (2006-07 to 2009-10)					**-445**

The treatment of land development activities and unrealised superannuation gains is subject to consultation with the ABS. The above results, however, are presented on a conservative basis.

The table indicates that substantial progress will be made towards achieving a balanced result under a GFS measure. The Review proposes that the Government set a financial management goal to achieve GFS balance or surplus over the budget cycle.

Further important considerations for rating agencies are:

- that a strong GFS cash operating surplus is maintained in all years (this cash is needed to meet future obligations that are recognised in accrual terms, such as superannuation expenses); and
- that the forward estimates always show a strongly rising trend towards higher surplus (to take account of new or unanticipated risks or pressures).

Recommendation 2: the Government announce in the forthcoming Budget that it will pursue the following financial management goals for its operating result:

- **substantial GFS operating cash surpluses in every year;**
- **restoring budget balance or surplus within the forward estimate years, measured by GFS result supplemented by the proceeds of land sales;**
- **as soon as possible thereafter, achieving full GFS balance or surplus over the budget cycle (without any reliance on land sales revenue); and**
- **a clear pattern of rising GFS operating results through the forward estimates.**

3.7 THE CHANGE STRATEGY

Monitoring and Central Management

The Review has given consideration to possible strategies for explaining, implementing and sustaining the changes that are recommended in this Report.

A key part of this strategy is the strengthening of the structure and machinery of government, since it will be Ministers who overwhelmingly must take the lead in this process, supported in particular by their policy advising departments.

With all or most of the change announced in the 2006 Budget, along with any other policy decisions determined at that time, the major part of implementation falls to each Minister, department and agency as for any other Budget round. Each Chief Executive will be responsible, and accountable to their Minister, for implementing the changes recommended in this Report.

It has not been expected that the Report of the review will be publicly released. Unlike some past reviews (McLeod, Vardon, etc), it will not be meaningful or desirable to announce that all or a specified set of recommendations have been agreed and then create a publicly accountable process for reviewing implementation progress of the package. The formal indications of the government's intent will be confidential Budget Cabinet decisions. Most, but not necessarily all, will be reflected within published budget measures. Those measures will include others not part of the Review.

The monitoring and oversight of implementation should instead be an internal government process undertaken by the Chief Minister's Department and directed at regular reporting to the Chief Minister and Cabinet.

Treasury should be actively engaged particularly to ensure that financial results are met. Oversight should be focused on meeting milestones and achieving budget results, and on securing the more substantive public reforms in a sustainable and effective way.

There is no need to maintain a comprehensive register of action on every cabinet decision – many are matters for individual Ministers and agencies to address as for any other cabinet decision. However, the main strategies should be monitored and actively managed by Cabinet, as should overall agency financial performance.

Recommendations 3 and 4:

- **the primary responsibility for implementing the Review's recommendations agreed by Cabinet rests with the portfolio Minister and the relevant Chief Executive;**
- **from a whole-of-government viewpoint, the Chief Minister's Department be responsible for overall implementation coordination, monitoring and progress reporting to Government, with financial oversight by the Department of Treasury.**

Explaining Change

The Review has proposed significant change in the ACT Public Service. The Government will need to explain both:

- the change in the overall budget context and how it is responding to that; and
- the strategies it is adopting in each substantive program or revenue area.

In areas where funding reductions are made or revenues increased, it will often be necessary to explain the decision on the basis of wider budget and economic considerations rather than appeal only to considerations specific to the policy.

An outline of the major elements of the overall budget context and response is provided in **Box A**. It is anticipated that this will be developed further in the budget preparation process, taking account of updated financial information and the final budget decisions of the Government.

Restructure Fund

Impacts on staffing levels from the proposed measures are highlighted in Chapter 7 under the respective agency sections. To achieve the proposed reduction in staff numbers, especially in 2006-07, redundancy funding will be required[3]. The following table provides estimates of redundancy costs over the next four years[4].

Table 5.9: Summary of Redundancy Costs

	2006-07	2007-08	2008-09	2009-10
Number of Staff	550	250	140	60
Average Cost	70,000	71,750	73,500	75,400
Take Up Rate	35.00%	25.00%	15.00%	10.00%
Estimated Redundancy Cost	**$13.5m**	**$4.5m**	**$1.5m**	**$0.5m**

The estimated redundancy costs in the above table impact on the operating result. It is proposed that a Restructure Fund be established to fund agencies for severance pay. In addition, agencies will be required to fund (subject to their cash holdings) the employees' leave provisions. These are expected to be considerably less than severance pay, and will only impact on the balance sheet.

In Chapter 5.2, the Review is proposing for the return of excess cash from agencies to the Central Financing Unit. In settling individual agency cash balances, Treasury would need to take into account their cash needs related to payment of leave provisions.

Given the extent of change, particularly in relation to organisational structures and systems, the Review proposes that a further provision of $1 million in 2006-07 be made to address an unforeseen need to engage specialist external expertise. Access to this funding should be subject to approval by the Treasurer.

Recommendation 5: a Restructure Fund to be administered by Treasury be established, with funding of $14.5 million in 2006-07, $4.5 million in 2007-08, $1.5 million in 2008-09, and $0.5 million in 2009-10.

[3] The expected demand on redundancy funding is estimated at between 25 per cent and 35 per cent of the 550 positions in 2006-07. A lower take up of redundancy is assumed in the forward years as agencies are expected to better prepare and manage the staff reduction through turnover and natural attrition. Attrition across the service is estimated at 9 per cent. The attrition, however, will not fully match the skill sets of the positions identified.

[4] The current EBA provides for a minimum of 26 weeks' pay for redundancy. The actual payouts could be higher depending upon the length of service. Further assumptions are:

- Average Salary Level: $91,000; and
- Average Payout: 40 Weeks

Box A: Sustaining Service to the Territory

The ACT has a strong economy, with low unemployment and considerable further growth prospects. It has excellent infrastructure, a well-educated workforce, and strong policy and research institutions. Public and private sector industries continue to thrive across a range of growth-oriented service sectors.

The ACT community is well served by high quality public services and infrastructure. The ACT community has above-average incomes and expectations of government. Compared with the other States, the ACT provides higher levels of service in nearly all sectors, obtaining higher outcomes as a result.

The Government strongly supports high standards and levels of public service in the ACT. It has ensured that programs receive the funding they need to deliver high service levels. Resources devoted to priority areas have been steadily increased, including in health, education, and children, community and emergency services.

However, higher levels of public services come at a higher financial cost. Meeting this has been possible through a combination of several factors including balance sheet strength, some higher revenues and, most significantly, through the sale of commercial and residential land from the Government's considerable holdings.

For this strategy to be sustainable over the longer term, it is essential that financial management goals continue to be met. Spending growth must always be constrained by the revenue capacity of the Territory.

In this also the ACT has done well. The ACT Government has a AAA credit rating. It has maintained its very strong balance sheet, low debt and excellent record of financial management.

However, the capacity of the Territory to maintain above average spending is steadily diminishing. Revenues from land sales have fallen and, while likely to vary considerably from year to year, can be expected to provide an ever-decreasing proportion of ACT revenues over the longer term.

To maintain its excellent financial management record, the ACT must respond to this change. Maintaining that record is vital for three reasons: Strong ACT finances:

- *are essential to the long run sustainability of higher service levels;*
- *underpin the AAA credit rating, which is vital to confidence in the ACT economy and to low borrowing costs; and*
- *position the Territory to respond to newly emerging pressures, such as the ageing of the population.*

The adjustment required in the short to medium term is to eliminate the emerging gap between operating revenue and expenditure. This can be done through a combination of efficiency measures on the spending side and modest increases in revenues.

In the medium to long term, further adjustment will be required to completely remove the dependence of the ACT budget on revenues from land sales. The ACT budget will need to achieve balance without relying on cash flow from selling its ultimately finite land assets.

The strategy required can be neatly encapsulated as sustaining the AAA credit rating. In more specific terms, its requires achieving the financial management goals that are important to the rating agencies and which signify financial health and good management:

- *Operating balance (or surplus) over the cycle;*
- *A clear pattern of increasing operating surplus through the forward estimates (recognising the ongoing risk for unanticipated new spending pressures to emerge year by year); and*
- *A very strong operating cash surplus (essential to meet cash needs in the future as accruing liabilities such as superannuation reach their maturity).*

Following the Strategic and Functional Review conducted earlier this year, the 2006 Territory Budget responds to the revenue losses in land sales and firmly establishes the Territory on a sustainable budget path. It builds the essential foundations for ensuring that the ACT's high standard public service outcomes are sustainable indefinitely.

Part

4

GOVERNANCE AND STRUCTURE OF GOVERNMENT

CHAPTER 4.1 BUDGET AND CABINET FRAMEWORK

OVERVIEW

The Territory's fiscal challenges and the responses proposed by the Review will require strong leadership and ongoing fiscal discipline from the ACT Executive. The Executive will need to tightly control public service departments and agencies and make new and stronger demands on the strategic financial management capabilities of the public service.

This Chapter proposes a range of measures to support the strategic control task of Cabinet and Ministers.

While the measures proposed by the Review would restore the forward estimates of the Territory's operating results to a minimal surplus position, in recent years the level of aggregate spending has greatly exceeded that earlier projected in the forward estimates. The budget balance cannot be restored if this continues. The fiscal position that will be reached after implementation of the Review proposals will prove quite inadequate if future new policies are not offset by further savings, or if continuing efforts are not made to continually find new cost control strategies.

For this reason, the Review is proposing (in Chapter 4.2) that each Department report, at least primarily, to a single Minister. In this way Ministers can take full responsibility for the overall strategy of their departments, combining service and financial goals.

At the same time, a range of other measures can be taken to improve the capacity of Ministers to give effect to this strengthened responsibility, particularly given the likelihood that the funding situation of the Territory will remain extremely tight in coming years.

KEY CONCLUSIONS AND RECOMMENDATIONS

- On occasions, Cabinet has been left to make judgements on differences between agencies on matters of fact. As a general rule, the ACT Executive should expect its public service to present an agreed view of facts. On financial implications, Treasury should be the final authority.
- The Chief Minister and Treasurer are particularly important roles in defining, securing and coordinating whole-of-government strategies. However, in each case the central policy departments that support these Ministers should work in close cooperation with the rest of the ACT service, mainly through leading official taskforces, committees or through other coordinating mechanisms. These approaches maximise the scope for cooperative rather than adversarial mindsets within the ACT public service, and promote the development of whole-of-government strategic thinking within line agencies.
- There remains scope for improvement in the strategic focus of Cabinet consideration, tightening up on determining matters requiring Cabinet consideration and enhancing policy administration.
- Medium term planning depends upon the forward estimates representing a well-based projection of the budget position under current policies and trends. The forward estimates of revenue are now much more consistent with broader economic trends than in earlier years. It will be important to ensure that forward estimates of expenditure are also a reasonable reflection of likely trends.
- Strategic management of the Budget should be strengthened, with Cabinet determining clear fiscal targets, including savings initiatives in each portfolio, early in the process, and agencies to develop options for Cabinet's consideration (in consultation with central departments) strictly within those targets.
- The Review proposes that each spending initiative from an agency be accompanied by a proposal to scale down or cease an existing program, or for improvement in efficiency, to offset the fiscal impact of the new policy proposal.

4.1.1 STRATEGIC DIRECTION AND POLICY ADVICE

The small scale of the ACT is a potential source of advantage for establishing and sustaining whole-of-government strategies. With an Executive of only five ministries, policy communication and coordination should be an ACT strength.

The ACT has generated an excellent suite of strategic plans and service delivery strategies. These provide vision and guidance across a wide range of dimensions of public activity in the Territory. However, at least equally important for the effective functioning of any Government is the strategic guidance provided by an ongoing, disciplined budget process.

Unless the strategic planning and service frameworks of the ACT are brought together and coordinated through the ongoing budget process, key strategic goals will be compromised. It is not that the budget goals stand separately from those of service delivery. Rather, the budget and service strategies are inextricably combined and essential to each other. If the budget process is a weak link in the system of government processes, all government strategies and priorities are put at long-term risk.

The public sector management framework is geared towards accountabilities for service delivery being with chief executives and individual agencies. Strategic policy making is settled through the Cabinet process. This process needs to be strengthened. Chief Executives and individual agencies must be asked to more actively assist Ministers to pursue strategic budget goals, as part of their commitment to implementing the wider strategic goals of the Government.

The Chief Minister and Treasurer are particularly important roles in defining, securing and coordinating whole-of-government strategies. However, in each case the central policy departments that support these Ministers should work in close cooperation with the rest of the ACT service, mainly through leading official taskforces, committees or through other coordinating mechanisms. These approaches maximise the scope for cooperative rather than adversarial mindsets within the ACT public service, and promote the development of whole-of-government strategic thinking within line agencies.

In every case, the strategic priority or other whole-of-government mechanisms established by the central agencies work for, and to, the Chief Minister and Treasurer. The Chief Minister has the responsibility to ensure that Government priorities are reviewed and met, and so has unlimited scope to commission the establishment of whole-of-government processes under his Department's leadership.

Duplication of functions by the creation of special purpose units, programs or other bodies within Chief Minister or Treasury Departments has a high direct and indirect cost and should occur only in exceptional circumstances (for example, if urgent developments arise in areas where no established functional responsibility or expertise is already established).

Recommendations 6 and 7:

- **the Budget process be established as the central strategic policy setting mechanism of the Government (see further recommendations below).**
- **the primary function of the Chief Minister's Department is to advise the Chief Minister on all strategic government priorities and on matters where whole-of-government coordination is vital. CMD should pursue these tasks mainly by chairing taskforces or committees that bring together the agencies (or bodies external to government) that have responsibilities for service delivery. Primary carriage of service delivery should not shift from portfolio agencies to CMD other than in exceptional circumstances.**

4.1.2 EFFECTIVE POLICIES AND PUBLIC ADMINISTRATION

Cabinet Framework

A new Cabinet Handbook was issued in September 2005. Key changes included:

- greater focus on decision-making and better use of Cabinet Sub-Committees;
- greater enforcement of timelines;
- mandatory statement of Budget impact, and Treasury sign-off on costings;
- use of alternative approaches to seeking decisions/informing Ministers; and
- simplification of paper flows.

While these changes have improved Cabinet processes during the course of its work, the Review noted that a number of submissions were clearly outside of the guidance set in the Handbook.

A number of submissions lack adequate information, for example cost implications, and fail to provide genuine policy choices.

On occasions, Cabinet has been left to make judgements on differences between agencies on matters of fact. As a general rule, the ACT Executive should expect its public service to present an agreed view of facts. On financial implications, Treasury should be the final authority.

Recommendation 8: in relation to Cabinet Submissions:

- **agencies be required to obtain agreement from the central agencies, and other agencies where applicable, for the adequacy and accuracy of factual information in their Cabinet Submissions prior to their lodgement; and**
- **every submission include financial implications determined by Treasury.**

The process by which Cabinet Submissions are prepared and circulated for coordination comment should be strengthened and streamlined.

Departments should develop Submissions in consultation with their Minister and key departments with an interest in the policy. Matters of fact and financial information should be verified and resolved at this stage. Submissions should be comprehensive and provide Cabinet with full information and alternative options to assist discussion by Ministers.

Once settled, Submissions should be circulated for formal co-ordination comment, consistent with the timings and circulation agreed in the Cabinet Handbook. Submissions should be finalised following co-ordination comments, and (as per present arrangements) departments' co-ordination comments should be attached to the final Submission for Cabinet's information.

Appropriate time should be allowed before Ministers consider Submissions. The Cabinet Handbook prescribes a seven-day rule and the Review supports this as the minimum time that should be allowed. This has the benefit of giving Ministers an opportunity to discuss the Submission with colleagues prior to its formal consideration in Cabinet, and resolve any policy issues.

Where Submissions do not abide by the Cabinet Handbook they should be rejected by the Cabinet Office, unless explicit agreement is given by the Chief Minister that the item being considered is absolutely essential and meets the financial guidelines for offsets being explicitly identified.

Recommendation 9: in relation to the development and lodgement of Cabinet Submissions:

- **Departments develop Submissions in consultation with their Ministers, and other departments with a key interest in the policy matter;**
- **formal co-ordination comments on the final version of the Submission be provided in accordance with the Cabinet Handbook; and**
- **the Cabinet Office reject any Submissions that do not abide by the Cabinet guidelines, including financial impacts.**

Strategic Focus and Timing

Since October 2004, Cabinet has considered more than 300 submissions and made more than 600 individual decisions. Whilst the administration around Submissions (seven-day rule, clearance rates etc) has improved, greater emphasis is required to contain Cabinet's focus on strategic global matters.

A starting point is to determine whether Cabinet consideration is essential, or whether consultation and agreement between Ministers and agencies would suffice. The use of correspondence as an alternate means of settling a matter should be applied, particularly when there is full agreement.

More importantly, many submissions with substantial budget implications are being brought for consideration outside of the Budget process. While this is necessary when matters relate to urgent and unforseen developments, many submissions do not meet these criteria. At least for the next few years as the Government addresses the serious budget position, it would be advisable to adopt a practice (already used in other jurisdictions) of requiring all submissions with budget implications to be deferred to the Budget process, unless they deal with urgent and unforseen matters. This discipline allows matters to be assessed against the other priorities and pressures faced by the Government, and to ensure that offsetting savings can be found to secure the financial management goals of the Government.

Even for urgent and unforseen matters, a requirement should be imposed on Ministers to bring forward realistic offsetting savings proposals at the same time as the proposed urgent measure.

Recommendation 10: all submissions with substantive budget implications be deferred for consideration in the Budget process. Exceptions to this rule should be allowed only where the Chief Minister agrees that a matter is urgent and unforseen; in all such cases the matter brought by a Minister should be accompanied by realistic options for offsetting savings within the Minister's portfolio.

4.1.3 BUDGET FRAMEWORK

Evaluation and Post Implementation Review

The Territory's budgeting framework does not include post implementation review mechanisms, although departments may undertake evaluations in some cases. There is no established process to ascertain whether new initiatives funded through the budget have been implemented, and how effective they were in achieving their objectives.

This in part stems from the indefinite nature of many new initiatives, which then form part of the departments' budget base and are automatically rolled forward. Circumstances under which a program was initiated would invariably change, and it is important that the relevance of a program is assessed on an ongoing basis.

A preferable approach in most cases is to commit to new programs for a limited period. This allows the Government to consider the effectiveness of its initiatives, and the need (if any) to continue those programs, or allocate those resources to other areas of budget priority. Note, however, that for forward estimates purposes these programs should be assumed to be continued to maintain a prudent view of likely out-year expenses.

This approach relates to new programs and services only. Base adjustments for cost and/or demand increases should be incorporated in the budget on an ongoing basis.

Recommendation 11: where practicable funding commitments for new programs be made for a limited time (two to three years), with their continuation subject to evaluation, and the consideration through the Budget process (such programs should however, be reflected in the forward estimates on a continuing basis, unless formally terminated).

Forward Estimates and Planning Horizon

The usefulness of Budget Papers in medium term planning depends upon the forward estimates representing a well-based projection of the budget position under current policies and trends. The performance of the forward estimates in this regard was assessed in Chapter 2. It was noted there that the forward estimates of revenue are now much more consistent with broader economic trends than in earlier years. It will be important to ensure that forward estimates of expenditure are also a reasonable reflection of likely trends.

In most jurisdictions, including the ACT, there is a tendency for new spending pressures to emerge over time, relative to expenditures projected in the forward estimates. For this reason, the forward estimates should always show an improving trend, with reasonable surpluses in the later years.

Recommendation 12: forward estimates should be based on the best possible projections of existing policy and trends; and budget policy should aim to show a rising surplus in each successive year, with substantial surpluses in out years.

4.1.4 BUDGET PROCESS

The Territory's budget process is centered around government agencies bringing forward proposals for increased spending, which could be broadly split into:

- funding for budget pressures relating to increase in input costs, or increase in demand for existing services; and
- proposals for an expansion in the scope of existing services, or for new services.

The focus of the debate is on accommodating the spending proposals within the 'fiscal envelope'. In essence, the expenditure would grow from its original forward estimates, the so called, 'incremental budget'. The major proportion of the existing expenditure remains invisible to budgeting.

The bidding approach in an environment of limited resources leads to ambit bids on the part of agencies while recognising that only a fraction of the proposals may get funded. For example, the value of agency initial bids for 2006-07 Budget was around $121 million, even though agencies were aware of increasing fiscal pressures and limited budget capacity to fund additional expenditure. Following a request to reduce their bids, the proposed initiatives reduced to around $80 million.

While the process is based on the recognition that government agencies should be in a position to provide best advice on service demand pressures, and needs for expanded or new services, it has:

- little or no incentives for cost control, or to achieve matching reductions in spending; and
- inherent opportunities for budget maximization.

The ambit nature of the process is evident from a very small number of proposals that fail to get funding support in a particular Budget[1], being brought back in the following years.

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[1] For example, in 2003-04 Health brought forward 21 initiatives, of which 9 were funded in the 2003-04 budget. Of the 12 initiatives (or 57%) not funded, 4 (or 33%) were put forward in the 2004-05 budget in a slightly different form. In 2004-05, Health brought forward 104 initiatives, of which 20 were funded in the 2004-05 budget. Of the

The Review proposes that each spending initiative from an agency be accompanied by a proposal to scale down or cease an existing program, or for improvement in efficiency, to offset the fiscal impact of the new policy proposal.

Recommendation 13: in relation to the annual Budget process:

- **the process be initiated in September with Cabinet setting its policy agenda for the coming Budget including strategic goals for budget savings in each portfolio;**
- **clear fiscal targets be established early in the process with agencies being required to develop options for Cabinet's consideration strictly within those targets; and**
- **all spending proposals be accompanied by options for efficiency or service offsets.**

4.1.5 BUDGET OPERATIONAL RULES

A more disciplined approach to budget and financial management requires a clear set of rules to reinforce accountabilities and Cabinet's control over expenditure decisions by departments and agencies.

The *Financial Management Act 1996* makes Chief Executives, under their respective Ministers, responsible for ensuring that the operations of each department in a financial year 'are consistent with, and comparable to, the budget for the department for the year….' [s31(2)(6)] Chief Executives are also required to provide explanations of material variances from budget in their annual reporting [s31(3)&(4)].

It is desirable that this legislative requirement, which is specified in quite broad terms, be supplemented by a set of more detailed budget operational rules. In particular, this would improve understanding of the requirements for amending departmental budgets, and reinforce the requirements of the Cabinet Handbook. The rules should:

- include a requirement for Chief Executives to manage to a firm 'net cost of services' budget (that is, total expenses net of "own source" revenues such as fees and charges) - this would ensure that Chief Executives are held accountable against a benchmark that measures the impact of their department's operations on the general government budget operating result;
- reinforce the requirements of the Cabinet Handbook and the recommendations made earlier in this chapter in relation to the consideration and evaluation of budget proposals;
- include a requirement that if an agency increases its own source revenue outside certain limits, approval from the Treasurer or Cabinet is required before that revenue can be used by the agency - this would allow Cabinet to consider whether

84 initiatives or 81% not funded, only 13 or 15% were put forward in the 2005-06 budget in a slightly different form.

the agency should be able to increase its expenditure or whether the extra revenue could be returned to the budget as a saving; and

- include a requirement that all requests to carryover funding from one year to the next be subject to approval by the Treasurer or Cabinet - if a department has not been able to spend the funding in a given year, Ministers should be given the opportunity to consider whether it is reasonable for the department to carryover expenditure to the following year.

Recommendation 14: a concise set of budget operational rules be agreed by Cabinet that includes, at a minimum:

- **a requirement for Chief Executives to manage to a firm net cost of services budget (total expenses net of 'own source' revenues such as fees and charges);**
- **a requirement that all variations to an agency's net cost of services budget outside the annual budget process be agreed by Cabinet or, in the case of minor or technical variations, the Treasurer;**
- **a requirement that all proposals for additional expenditure must include realistic options to offset the cost;**
- **a requirement that if an agency increases its own source revenue outside certain limits, that approval from the Treasurer or Cabinet is required before that revenue can be used by the agency;**
- **a requirement that the arrangements for the expenditure of funds from special accounts must be approved by the Treasurer;**
- **a requirement that new policy measures that involve additional expenditure should not be brought forward outside the annual budget process unless the Chief Minister agrees that there is an urgent and compelling case for earlier consideration; and**
- **a requirement that all requests to carryover funding from one year to the next be subject to approval by the Treasurer or Cabinet.**

CHAPTER 4.2 ADMINISTRATIVE STRUCTURE AND GOVERNANCE

OVERVIEW

This chapter considers the structure and governance arrangements of the ACT Executive and Administration.

The ACT Executive is limited by legislation to five ministers. The responsibilities and tasks of the Executive are a contrast of scope and scale:

- the scope of issues is wide, covering most of the functions that typically arise in the States as well as all local government responsibilities; and
- the scale of each State-like function is relatively small – the entire ACT administration is smaller than many single departments in other jurisdictions.

KEY CONCLUSIONS AND RECOMMENDATIONS

In considering structure and governance, the primary consideration is policy and program effectiveness because top-level performance is critical to outcomes at all other levels. Structure and governance arrangements do not have simple or direct links to effectiveness, but rather have an influence over time through their effects on mind-sets, strategies, organisational flexibility, responsiveness and accountability.

While effectiveness is paramount, cost and efficiency are important subsidiary considerations. In general, more complex and fragmented structures have higher costs, through governance overheads, coordination costs, and diseconomies of small scale. Such structures often work also against effectiveness and accountability.

Effectiveness and efficiency can both be improved by simplifying the structure of ACT administration, and by clarifying and strengthening lines of accountability of agencies to and through Ministers. The main goals of the changes proposed here are:

- maximise agency accountability to cabinet and ministers;
- concentrate ministerial and administrative resources on priority outcomes;
- strengthen and broaden strategic focus of policy advising and development; and
- seek greater economies of scope and scale wherever possible: savings rising to $6 million per annum.

The Review proposes a small number of strategic portfolios, each with one minister

- Chief Minister– leading government and the economy;
- Treasurer – leading public finances and administration;
- Health – maintaining a healthy population;
- Community Services – sustaining individual and community wellbeing;
- Education and Training – developing human capabilities and the workforce;
- Justice and Community Safety – justice, regulation, emergency services; and
- City and Territory – urban services, land and transport.

4.2.1 THE CHALLENGE

The fiscal and other problems that have emerged in the ACT reflect an adverse, and probably permanent, shift in the balance of circumstances in the Territory. Higher than average per capita spending levels have relied especially on a strong balance sheet and associated land sale revenues. As discussed in part 2, the scope for sustained higher spending is now much reduced. Moreover, population ageing and other developments are likely to generate increasing risks and pressures, in the medium to longer term.

The required response is two-pronged:

- first an initial adjustment to revenues and expenditures to restore balance; and
- second, directing ACT policy and administration at continually delivering outcomes through higher levels of efficiency and effectiveness.

Structure and governance changes can contribute towards both of these tasks. There is scope to adjust the way that the ACT is organised to generate lower costs and to maximise the prospects for delivering further gains in the future.

To meet these strategic needs requires a considerable change in focus in many key areas of ACT policy and administration. Ministers and policy advising departments will need to concentrate on this change task for a sustained period if it is to be successfully delivered.

The main elements will include:

- leading community understanding of the need to sustain high-level public program outcomes through renewed skills and operational reforms rather than through continuing higher spending;
- shifting mainstream public services to lower cost delivery models;
- revitalising declining service areas, particularly the government school system;
- reducing the social and economic costs imposed on land development and use by inefficient or onerous regulatory processes and requirements; and
- creating simpler, clearer and more efficient government structures, consistent with the potential advantages of smaller administrative scale.

4.2.2 STRUCTURAL AND GOVERNANCE GOALS

The performance of the public sector depends critically on the leadership provided by ministers. At the same time the work of ministers depends heavily on the policy advising and implementation arrangements of the public service.

Agency structures and governance should support the difficult task that ministers have in balancing and reconciling multiple goals – including financial management goals. Simpler and clearer arrangements support this by promoting strategic approaches across wider communities of interest, whole-of-government perspectives, and greater responsiveness and accountability to ministers.

The ACT Government has inherited a disproportionately large and complex public administration relative to its small scale, with above-average costs that are not sustainable. In some cases, it is apparent that these structures (or their governance) have been associated with the pursuit of narrowly defined interests and goals, with inadequate attention to whole-of-government and strategic financial management considerations.

To address this, the Review proposes a range of changes across wide areas of ACT public administration. The effective design and delivery of this change will require sustained focus and leadership from ministers and their policy support areas.

Securing these is the main consideration in determining the most effective structure for the ACT Government. The problem of small scale is regularly called upon in discussions of high ACT costs, but it is an overworked concern. It is also important to recognise and seek advantage for the potential benefits of small scale (and the compactness of the city state). The potential benefits include lower communication and coordination costs, provided structures are simple and adaptable.

Maximising agency accountability to cabinet and ministers

- The community holds ministers accountable for outcomes. To ensure that Ministers can deliver intended results, the line of accountability flowing from them through the public administration should be clear, and not impeded by complexity, duplication or inessential structural barriers. Cabinet must work effectively as a whole of government executive, under the Chief Minister. At the same time, ministers must have clear authority to lead government strategy and implementation in their fields of responsibility. Departments provide an effective structure for this purpose. Statutory independence should be granted to entities only where, and to the extent that, it is essential for the effective performance of a regulatory or commercial purpose.

Concentrating ministerial and administrative resources on priority outcomes

- A number of significant new directions will need to be taken if the ACT is to respond successfully to the problems and challenges now facing it. Each will require new strategies, and the clear and undivided attention of ministerial leaders. The structure of portfolios should support the focus on these priorities as much as possible – this works best if each policy department has one Minister and if each has a broad and comprehensive reach in its pursuit of outcomes, with maximum capacity to readily redirect resources to the highest priorities. This of course would be subject to Chief Minister's considerations on the allocation of responsibilities, taking into account workloads and interests of Ministers.

Strengthen and broaden the strategic focus of policy advising and development

- Particularly in present circumstances, Ministers should expect and demand rigorous and pro-active efforts by agencies to develop strategies that allow current and future commitments to be met within financial constraints. A small number of integrated portfolios confer broader strategic reach on each area, reducing the 'silo' effect in public administration. This is reinforced if the policy advising structure also remains small, flexible, outcomes-focused and strategic – in general with one whole-of-portfolio advising structure supporting each Minister.

Seek greater economies of scope and scale

- Economies of scope arise when the aggregation of functions generates efficiency benefits through better coordination, cooperation or learning. Increasingly, the challenges faced by governments (such as ageing, urban design and security) are multi-faceted. Policies that are holistic, and have a broad reach within portfolios of interest often better serve this outcome.
- Economies of scale arise through proportionally reducing overheads, optimising job design and specialisation, and securing greater operational flexibilities through greater numbers. The ACT has the capacity to increase scale economies by some structural aggregation – particularly in back office functions (see part 6), in policy advising, and in some functional areas (such as regulation).

4.2.3 POLICY PORTFOLIOS

The considerations set out above lead towards structuring the Government as far as possible around a small number of strategic policy portfolios (noting the established limit on ministerial numbers), each covering a broad community of interests.

Policy departments would each report to one minister. As much as possible, program functions would be brought within departments, under clear ministerial authority.

Independent agencies would be retained where their functions demand it – with their scope of operations and their level of independence strictly limited to that necessary for their purpose. Independent agencies would report to Ministers within the portfolio that best reflects their field of activity, and the departments in those portfolios would provide policy advice to the Minister in relation to their legislation and functions.

In effect (if not formally), the current eighteen ministerial appointments would reduce to five and the number of policy departments from eight to six. Further consolidation and amalgamation of authorities and other legal entities is also proposed.

The recommended structure is summarised in **Table 4.2.1**. Further detail is provided in **Table 4.2.3** at **Attachment A** to this document.

Table 4.2.1: The Proposed ACT Executive

MINISTER	THEMES	PRIMARY FUNCTIONS
Chief Minister and Treasurer	Leading Government and the Community	Executive Leadership, Central Agency Coordination, Public Finances, and Economic Strategy
Attorney-General	Institutions of Justice, Rights and Laws	Justice, Community Safety, Regulation, and Emergency Services
Minister for Canberra and Territory Development	Local and City Services and Physical Territory Development	Land, Transport, Environment, Local Services
Minister for Health Minister for Community Services[1]	Sustaining Individual and Community Well Being	Health Housing and Community Welfare Services
Minister for Education and Training	Developing Human Capabilities	Schools, Education and Training

[1] This role may be undertaken by the Minister for Health, or the Minister for Education and Training.

Chief Minister and Treasurer

Achieving the large scale of reform proposed in this Review will require the strongest possible leadership and attention from the Chief Minister.

At least for the next few years, the role of the Chief Minister should be predominantly focused on the related tasks of leading the overall change program of the ACT Government and building community understanding of the need for change. The Chief Minister is by far the best placed for this role.

Given the central importance of economic development and its interdependencies with other whole-of-government policies, major economic strategy and business development functions would transfer to and be integrated within the Chief Minister's Department.

The Department of Economic Development would be abolished – its major strategic functions would be absorbed by the Department of the Chief Minister, Gambling and Racing would transfer to the Treasury (reflecting its strong revenue significance), and other functions would transfer to the proposed Department of City and Territory (Tourism and Events, Stadiums, Sport and Recreation).

Most other substantive functions now in the Chief Minister's Department would transfer to and integrated within their substantive portfolio areas. Where issues require the strong engagement of the Chief Minister for a limited time, the preferred model of engagement is to establish a strategic interdepartmental task force under the chair of the Chief Minister's Department rather than duplicate agencies or organisational units.

The main policy advising responsibilities of the Chief Minister's Department would be:

- through monitoring and coordination as required, whole-of-government strategies across any or all areas of ACT policy;
- Cabinet;
- economic and business development strategy, including high level strategies for the utilisation and release of commercial and residential land;
- arts, signature events, major commercial sports; and
- public sector employment, industrial relations.

The Treasury would be retained as a separate department given its particular roles and focus on financial management. It would retain its traditional functions in economic forecasting and analysis, financial management and coordination, expenditure review and budgets, and revenue administration. Gaming and Racing, given its revenue significance, would also be placed in the Treasury. In addition, Treasury would take responsibility for the single 'back office' functions proposed in this report:

- Procurement Solutions;
- Shared Services Centre; and
- InTACT.

Given the diversity of interests in the Chief Minister and Treasury portfolios, consideration could be given to appointing "ministers assisting the Chief Minister" for example in areas such as Industrial Relations.

Health and Community Services

These portfolios could operate either separately (as now) or as one. It is desirable but not essential that each has the same Minister – but whatever the combination, it is highly desirable that they have only one Minister each.

Community services covers the current Departments of Health and Disability, Housing and Community Services (including Children Youth and Family Support and ACT Housing). Some related functions presently within the Chief Minister's Department would transfer also to this department. At present, ministerial responsibilities for these areas are dispersed among several ministers.

It would be possible to retain two departments. Alternatively, considerable efficiencies and some effectiveness gains are available from bringing the two departments together, and this would be worthwhile. However, if health and community services are not merged, it would not be desirable to merge at the departmental level Community Services with any other department – the balance of synergies and cultural issues would not generate sufficient gains. This does not preclude Community Services reporting to a Minister who is responsible also for another department.

While the scope of services under these portfolios is wide, the scale of each area of activity is small relative to the States. Apart from their common wellbeing theme (recognised in some other jurisdictions by a similar combination) other common strategic features include:

- a high level of reliance on service delivery through contracts with the community sector. Strategies to further strengthen the performance of these arrangements are critically needed;
- high and increasing interaction with the policies and programs of the Commonwealth Government (including possible reallocation of responsibilities at some future time); and
- strong growth in demand and costs, due to demographic change (ageing, family relationships), strengthened recognition of needs (e.g., mental illness) and technological change (e.g., diagnostic equipment).

If a single Health and Community Services Department were established, it would bring together different professions and cultures, although this is not new in that each area already combines multi-disciplinary staff and functions. There are both potential advantages and disadvantages in such combinations and it is necessary to actively manage the issues to maximise outcomes. The development of the most effective strategies often benefits from holistic and multi-disciplinary approaches. On the other hand, there are dangers if a mind-set that works effectively in one area is allowed to dominate in other areas.

It is anticipated that a new department would facilitate the creation of a strong, flexible, multidisciplinary, and strategically focused senior executive and policy team.

There would also be benefits from combined corporate support areas (non-transactional)[2], grants program administration[3] and closer links in some program areas such as Community Health and Welfare. However, under the Chief Executive, there will be continuing benefits in maintaining separate 'offices' for Health, Disability, Housing and so on as the main elements of the structure for both management and reporting purposes (this combination of mix and separation already exists within DHCS). These considerations of course work equally well if the departments remain separate – although in that case there should be heightened effort to achieve cooperation between them (and perhaps shared service arrangements in areas such as community service contracting and grants)[4].

In either case also, given the breadth of responsibilities and the need to actively manage at the strategic level, it will be desirable also that Chief Executives be able to effectively delegate statutory responsibilities (for example, relating to child protection) to senior office leaders within the department(s).

Minister for Education and Training

While there is no substantive change in coverage of this portfolio, the review considers that major revitalisation and change is needed in this area (mainly in strategies for government schools, but also in central office areas and vocational training). This is discussed in detail in part 7. These tasks would occupy considerable time and energy for the Minister and Department for several years.

At the same time, education is also a field in which the Commonwealth is taking an increasing role, including in challenging State/Territory strategies for vocational training.

Minister for the City and Territory

The combination of state and local government in the ACT provides an opportunity for delivering highly effective community and physical services without the costs associated with essentially artificial boundaries between levels of government.

To maximise the advantage taken from this opportunity, a single department responsible across this range of services is proposed. Under a single policy centre it would combine:

- urban and municipal services (now essentially in DUS);
- sport, recreation, stadiums and other sporting facilities;

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[2] These are estimated at $7 million per annum, however, this Report does not include savings from such a merger.

[3] Savings of $0.9 million per annum are estimated from consolidating grants administration, and $1.7 million per annum from consolidating service purchasing from the community sector.

[4] The Review has proposed that, irrespective of the departmental structures, these savings be realised through shared administration in grants and service purchasing (Chapter 10).

- a single office of transport services – including bus services;
- a single manager of territory lands, conservation, heritage and environment; and
- a single works program.

Canberra needs more certain, lower cost and more commercially responsive planning and development processes. The various interests should be much more closely integrated and processes of approval and review streamlined as far as possible. The portfolio Minister for City and Territory would also be responsible for planning. ACPLA and the LDA would retain their present organisational status and report to the Minister.

A large range of specific changes to functions in each of these areas are proposed and discussed in Part 7.

Minister for Justice and Community Safety

With the Chief Minister focused on central coordination and community leadership, a separate portfolio would take responsibility for existing Justice and Community Safety functions. This would include:

- functions of the Attorney General;
- Government legal services;
- Police;
- Emergency Services – to be brought within the department;
- a range of regulatory functions (many merged into a single office); and
- Commissioners and tribunals.

The relevant chapters of Part 7 discuss a range of detailed proposals affecting arrangements in many of these areas.

4.2.4 SUMMARY OF SAVINGS AND STAFFING IMPACTS

An initial broad estimate of savings that may be achieved by implementation of these structural reforms to create unified Ministerial arrangements, combined with the amalgamation of major departments, functions and the merger of Territory Authorities back into Departments, where grounds for separation cannot be justified, is outlined in **Table 4.2.2.**

The extent of potential savings depends in part on whether Health and Community Services are merged. In summary, savings starting at $8 million, rising to $13 million by 2009-10 will be achieved through the proposed structural changes, prior to consideration of the efficiencies that may be achieved through effective alignment and assessment of programs, activities and functions within each portfolio.

Realisation of these savings will be delivered by adjustment to portfolio budgets. These will be timed to allow adequate time for agencies to successfully merge, with corporate service and support functions united and governing board structures abolished, where applicable.

Table 4.2.2: Broad Savings Estimates

	2006-07 $'m	2007-08 $'m	2008-09 $'m	2009-10 $'m	Total FTE Impacts	Board
ACT Health						
Healthpact	0.592	0.607	0.610	0.620	5.8	Abolish
Department of Justice and Community Safety						
Emergency Services Authority	0.743	1.486	1.523	1.561	11.68	N/A
Department of City and Territory						
Transport (ACTPLA)	0.480	0.492	0.504	0.517	4	N/A
Stadiums Authority	0.229	0.235	0.241	0.247	1	Abolish
ACTION Authority	0.792	1.082	1.109	1.137	9.9	Abolish
Australian Capital Tourism	0.396	0.406	0.410	0.420	2.55	Abolish
Sport and Recreation	0.765	0.784	0.804	0.824	6	N/A
Chief Minister's Department						
Economic Development & Business ACT	0.590	0.605	0.620	0.635	4	N/A
TOTAL SAVINGS	**4.587**	**5.697**	**5.821**	**5.961**	**44.93**	

Recommendations 15 and 16:

- **the ACT Government be structured as a limited number of policy portfolios, each policy department reporting to a single Minister, with the Chief Minister responsible for both the Department of Chief Minister and Department of Treasury (See Table 4.2.3).**
- **Savings of a minimum $6m per annum be delivered to the Budget through the adjustment of portfolio funding allocations in recognition of the efficiencies available as a result of the new structure and related governance reforms.**

Table 4.2.3: Summary of Portfolio/Departmental Changes

Ministerial Portfolio / Department (Theme)	Primary Functions	Detail Functions / Matters of the Department	Commission / Statutory Office or Position	Territory Authorities and Territory Owned Corporations	Boards / Tribunals / Councils / Committees	Legislative Amendments / Critical Issues / Challenges
Independent Positions		• Auditor-Generals Office • Legislative Assembly • ACT Executive	• Auditor-General • Assembly Clerk			
Judicial Appointments		• President Court of Appeal • Chief Justice of the Supreme Court • Chief Magistrate • Magistrates • Special Magistrates • Master of the Supreme Court				
Chief Minister's Portfolio Chief Minister's Department (Leading Government and the Community)	Executive Leadership, Central Agency Coordination, Economic Strategy	• Government & Executive support - Communications - Signature Events - Management of Government strategic priorities and projects • Cabinet • Inter-governmental relations (COAG) • Policy (Social) incorporating, but not limited to: - Social, Community, Health, DHCS, Welfare • Policy (Economic & Business) incorporating, but not limited to: - Economic Development Policy - Energy & Water - Planning and Regional Policy - Business Development & Policy - Business ACT - National Teams (Elite Sport) Business Transactions • Public Sector Management • Industrial Relations • Arts and Cultural Services - ArtsACT	• Commissioner for Public Administration (Nominal)	• Cleaning Industry Long Service Leave • Construction Industry Long Service Leave • Cultural Facilities Corporation • Workers Compensation Supplementation Fund (Administered by ACTIA)	• Occupational Health and Safety Council • Canberra Partnership Board • Cleaning Industry Long Service Leave Board • Construction Industry Long Service Leave Board • Cultural Facilities Corporation Board • ACT Cultural Council	• Abolition of the Department of Economic Development – Economic and Business functions to the Chief Minister's Dept • Abolition of the Small Business Commissioner and associated legislation. Integrate back into Department. • ACTIA to administer the Workers Compensation Supp Fund

Ministerial Portfolio / Department (Theme)	Primary Functions	Detail Functions / Matters of the Department	Commission / Statutory Office or Position	Territory Authorities and Territory Owned Corporations	Boards / Tribunals / Councils / Committees	Legislative Amendments / Critical Issues / Challenges
Treasurer's Portfolio Department of Treasury (Leading Government and the Community)	Executive Leadership, Central Agency Coordination, Economic Strategy	• Fiscal & economic policy • Budget & financial reporting • Investment • Cash Management • Insurances • Competition policy and associated market reform • GBE ownership policy & monitoring • Residual issues management • Taxation & Revenue • Gambling and Racing (Policy, Regulation & Collection) • Purchasing and project management • WofG Shared Services - Central Service Providers (InTACT, Procurement) - Transaction Services (HR, Corporate, Payroll etc)	• Commissioner for ACT Revenue (Nominal) • Gambling and Racing Commissioner (Nominal)	• ACT Insurance Authority • Gambling and Racing Commission • ACTTAB Limited (TOC) • Rhodium Asset Solutions (TOC) • ACTEW Corporation (TOC)	• ACT Insurance Authority Advisory Board • Finance and Investment Board • ACT Gambling and Racing Commission Board • Racing Appeals Tribunal • ACT Government Procurement Board • ACTEW Corporation Board (TOC) • Rhodium Board (TOC) • ACTTAB Board (TOC)	

Ministerial Portfolio / Department (Theme)	Primary Functions	Detail Functions / Matters of the Department	Commission / Statutory Office or Position	Territory Authorities and Territory Owned Corporations	Boards / Tribunals / Councils / Committees	Legislative Amendments / Critical Issues / Challenges
Attorney General Department of Justice and Community Safety (Institutions of Justice, Rights and Laws)	Justice, Community Safety, Regulation, and Emergency Services	• Administration of Justice • Legal Policy • Legal Services • Electoral Services (ACT Electoral Commission) • Parliamentary Council • Community Advocate • ACT Courts • ACT Ombudsman • Director of Public Prosecutions • Nominal Defendant • Government Solicitor • Corrective Services • Police Services (Federal Police) • Emergency Services - ACT Ambulance Services - ACT Fire Brigade - ACT Rural Fire Services - ACT State Emergency Services	• Electoral Commissioner • President of the Administrative Appeals Tribunal • Nominal Defendant • Director of Public Prosecutions • Community Advocate • ACT Chief Coroner • Chief Executive Office, Legal Aid • Deputy Executive Office, Legal Aid ***Commissioners*** • Human Rights President • Human Rights Discrimination • Health Services • Disability and Community Services • Children and Young People	• Legal Aid Commission • Office of the Public Trustee	• ACT Electoral Commission • Legal Aid Commission • Liquor Licensing Board • Administrative Appeals Tribunal • Essential Services Consumer Council • Guardianship and Management of Property Tribunal • Mental Health Tribunal • Sentence Administration Board • Children's Court • Consumer and Trader Tribunal • Credit Tribunal • Discrimination Tribunal • Residential Tenancies Tribunal • Domestic Violence Prevention Council • ACT Law Reform Commission • ACT Law Society, Professional Conduct Board • Management Assessment Panel • Quamby Official Visitor • Remand Centres Official Visitor • Police Consultative Board • ACT Bushfire Council • ACT Bill of Rights Consultative Committee	• Emergency Services Authority amalgamated back into the Department • Abolition of Emergency Services Commissioner Position • Amalgamation of Human Service Commissioners to achieve back-end savings.
		Regulatory Services - Office of Fair Trading - Registrar & Regulatory Services (inc Rental Bonds) - Tobacco Licensing and Smoke Free Regulation (ACT Health) - Occupational Licensing within the construction industries (ACTPLA) - Regulatory Parking Operations	• Commissioner for Fair Trading • Occupational Health and Safety Commissioner • ICRC Commissioners	• ACT WorkCover • Independent Competition and Regulatory Commission	• COLA Advisory Boards (Building, Plumbing and Electrical) • Independent Competition and Regulatory Commission	• Amalgamation of Regulatory functions and activities

Ministerial Portfolio / Department (Theme)	Primary Functions	Detail Functions / Matters of the Department	Commission / Statutory Office or Position	Territory Authorities and Territory Owned Corporations	Boards / Tribunals / Councils / Committees	Legislative Amendments / Critical Issues / Challenges
Minister for Health and Minister for Community Services Department of Health and Department of Community Services (Sustaining Individual and Community Well-being)	Health, Housing, Community Services and Children, Youth and Family Support	• Health - Hospitals / Acute Care - Mental Health - Population Health - Community Health - Health Policy - Health Promotion (incorporating Healthpact functions) • Housing - Housing Policy - Public Housing - Housing Assistance Services - Supported Accommodation - Community Housing • Community - Community Support Services - Community Facilities - Concessions - Volunteering - Multicultural Affairs - Community Engagement - Office for Ageing - Office for Women - Office for Aboriginal and Torres Straight Islander Affairs • Disability - Disability Policy and Services - Therapy services • Children Youth and Family - Children Services - Youth Services - Family Support & Services - Child and Family Centres	***Nominal Positions*** • Commissioner for Housing • Chief Health Officer • Chief Psychiatrist		• Chiropractors and Osteopaths Board • Dental Board • Dental Technicians and Prosthetists Registration Board • Medical Board • Nurses Board • Optometrists Board • Pharmacy Board • Physiotherapists Board • Podiatrists Board • Psychologists Board • Radiation Council • Veterinary Surgeons Board • Mental Health Tribunal • Human Research Ethics Committee • Mental Health ACT Official Visitors • Treatment Assessment Panel (Drugs of Dependence) • Children's Services Council • Ministerial Youth Council • Official Visitor – *Children and Young People Act* • Disability Advisory Board • Housing Review Committee	• HealthPACT Abolished • Health Promotions Board abolished

Ministerial Portfolio / Department (Theme)	Primary Functions	Detail Functions / Matters of the Department	Commission / Statutory Office or Position	Territory Authorities and Territory Owned Corporations	Boards / Tribunals / Councils / Committees	Legislative Amendments / Critical Issues / Challenges
Minister for Education and Training Department of Education and Training (Developing Human Capabilities)	Schools, Education and Training	• Education Policy • Government Schools • Non-Government Schools • Vocational Education and Training • Preschools • Early Childhood Education Programs	Director – Canberra Institute of Technology	• Canberra Institute of Technology • Building and Construction Industry Training Fund Board • CIT Solutions Pty Ltd (PTE)	• CIT Advisory Council • ACT Accreditation and Registration Council • Board of Senior Secondary Studies • Government School Education Council • Non-Government School Education Council • Ministerial Advisory Council on Non-Government Schooling • Indigenous Education Consultative Body	• Vocational Education and Training Authority Abolished

Ministerial Portfolio / Department (Theme)	Primary Functions	Detail Functions / Matters of the Department	Commission / Statutory Office or Position	Territory Authorities and Territory Owned Corporations	Boards / Tribunals / Councils / Committees	Legislative Amendments / Critical Issues / Challenges
Minister for City and Territory Department of City and Territory (Local and City Services and Physical Territory Development)	Land, Planning, Transport, Environment, Municipal Services, Tourism, Sport and Recreation	• Urban Services / Environment - Road and Transport Services - Municipal Services - Public Libraries - Parks and Places - Canberra Connect - Government Asset Management - Public Transport (inc ACTION) - Sports Grounds - NoWaste - Ranger Services - Land Development and Release - Environment /Conservation - Environment Management & Regulatory Services - Environmental Protection - Parks and Conservation - Forests (non-commercial) - Sustainability - Greenhouse • Tourism, Events, Sport and Recreation - ACT Academy of Sport Programs - Community Sport Grants Program - Sports Grounds / Facilities (inc. Stadiums/Manuka Oval) - Sport and Recreation - Economic Events, Marketing and Promotion - Tourism Policy and Services	• Commissioner for the Environment • Advisor to the Conservator (Tree Protection Act) • Commissioner for Surveys • Chief Planner • Chief Executive, Land Development Agency	• Exhibition Park in Canberra • ACT Public Cemeteries Authority • Land Development Agency • Planning and Land (ACTPLA) - Planning, Development and Building Control - Survey and leasing - Heritage	• LDA Board • Planning & land council • Public Cemeteries Board • Environment Advisory Committee • Animal Welfare Authority and Advisory Committee • Conservator of Flora & Fauna + Advisor • ACT Flora & Fauna Committee • Agricultural & Veterinary Chemicals Coordination Network • Heritage Council • Interim Namadgi Advisory Board • National Exhibition Centre Trust • ACT Surveyors Board • Urban Design Advisory Committee • ACT Architects Board • Land and Property Joint Ventures • Property Advisory Council • Transport Reform Advisory Committee • Forests Board of Advisors • Sport and Recreation Council	***ABOLISHED*** • Stadiums Authority Act & Board • ACTION Authority Act & Board • Australian Capital Tourism Corporation Act & Board • Manuka Oval Management • Abolition of the Department of Economic Development – Sport and Recreation functions to the Dept of City

CHAPTER 4.3 WORKFORCE CULTURE AND PERFORMANCE

OVERVIEW

The diversity of the changes required in responding to the fiscal pressures faced by the Territory require a fundamental shift in workforce approaches and culture across the Public Sector. The challenges are 'whole-of-government' in their nature and require "whole of service" ownership and commitment to resolving them. No single area of government should feel immune from the challenges, or from the macro and micro changes required.

The success of the Review will, in many respects, hinge on effective and progressive leadership, at both the middle and senior levels. This should be expected, indeed demanded, from the Public Sector.

4.3.1 WORKFORCE CULTURE

All modern public services face the challenge of balancing the need for "collective", whole of service perspective against individual and agency performance focus. The challenge for the ACT Public Service is no different.

The ACT Public Service, however, is better placed than many other public services because of its small size and compactness of its operations.

The culture across the Service in general can be described as tending towards individual silos and work group areas. Engendering a whole of government thinking and focus is a key element of the philosophy underpinning the Review's strategic response – drawing on the benefits of small scale and establishing 'one government'.

The capacity and will for change is an unknown quantity, and still to be tested.

A more active workforce management policy is needed, covering leadership, skills development and the capacity for continuous review and improvement. The timing of the Review, for example, should not be the sole catalyst for driving change – all areas of government should review themselves proactively and seek improvements within the workplace and client services.

4.3.2 SENIOR EXECUTIVE SERVICE

The size of the senior executive service in the public sector has been the focus of much public discussion and media attention. The number of senior executives is in the order of 150 to 160. The size of the senior executive service is not dissimilar to, and indeed smaller than some of the other public services, given the range of state and local services managed.

The number of senior executives (or equivalents) as a proportion of the reported workforce, as at 30 June 2005, in the ACT was 0.9 per cent. The proportion of senior executives was 1.6 per cent in the Commonwealth, 1.4 per cent in South Australia, and 0.9 per cent in Tasmania. Relative to the Commonwealth, the ACT has only a little more than half the senior executives. It is at these levels that the ACT Public Service has to compete most strongly with the attractions of the Commonwealth Public Service. Any focus on the number of executives as a measure of the efficiency of the public service therefore is diversionary.

A key element of efficient and effective service delivery is the productivity of the work force. The Review has highlighted significant productivity issues (such as in relation to teachers and nurses) in the relevant chapters on the individual agencies. Seeking improvements in productivity should be the main focus.

From the Review's perspective, the efficiency and effectiveness of the public sector depends on the quality and leadership from the middle and senior management as mentioned above. Reducing the size of senior executive service will be a false economy – the Government requires best leaders to deliver on its priority outcomes, that is, sound economic management and delivery of efficient and effective services to the community, and manage areas of high risk.

4.3.3 PUBLIC SECTOR CHARACTERISTICS

Characteristics of the Public Sector should be its professionalism, strong leadership at government and public sector levels, high skill levels and willingness to adopt modern management practices and progressive service delivery arrangements. Willingness to use community expertise and service organisations should also feature high on the Public Sector's agenda.

More flexible workforce arrangements are becoming an increasingly important feature of the workplace environment. Priorities often change across the Public Sector, and workforce policies should allow for this through employment of specialist staff and skills on an 'as required' basis. Capacity to offer targeted specialist employment packages seem practical for the ACT Public Sector, particularly given its unique and diverse mix of state and local government services.

The Review accepts that the Service culture will not change overnight, and requires significant investment in staff and leadership development. Central agency focus on this is required to facilitate the one service ethos and drive the changes required from the Review.

Recommendation 17: the Chief Minister's Department develop a program of cultural change for the Public Service, particularly targeted at middle and senior management, to strengthen focus on strategic, whole-of-government, outcomes and continuously improving efficiency considerations. Other elements of public service organisation should be aligned with this new focus.

CHAPTER 4.4 ONGOING REVIEW AND COMPLIANCE

OVERVIEW

The Review recognises the significance of the changes its proposing, and the magnitude of the tasks faced by Ministers, Chief Executives and their departments. In progressing these, it will be important that they are implemented in a way that is clear to understand and follow, and they can stand the scrutiny and tests of accountability expected from the Public Sector. Proof of compliance with the Government's objectives from the Review will also be an important measure of performance.

Many recommendations touch on areas that have been subject to close interest over the years from the Legislative Assembly, industry and business, and the community. The degree of improvement in services to clients and the better positioning of the Territory economically as a good place to do business will measure the success of any changes implemented. Issues of probity will also come to the forefront, particularly in the high capital investment areas being proposed by the Review.

Key areas of change range across procurement practices, asset management and infrastructure development, and planning and land development. The Review is also proposing critical investment in areas such as education. The size of these tasks, and the Government's expectations, justifies higher levels of response and compliance from departments.

4.4.1 SCRUTINY AND COMPLIANCE

Implementation of the Review's recommendations requires an enhanced compliance and accountability audit framework.
The ongoing and continuing nature of the reforms over the medium to long term dictates that appropriate capacity for compliance and performance auditing is also available to the Auditor-General across this horizon. The Review proposes that additional resources of $1.0 million per annum be provided to the Auditor-General to enhance capability for the Office to undertake future compliance and performance audits.

Recommendation 18: additional funding of $1.0 million per annum be provided to the Auditor-General for compliance and performance auditing.

Summary of Savings and Staffing Impacts

	2006-07 $'m	2007-08 $'m	2008-09 $'m	2009-10 $'m	Total FTE Impacts
Auditor General - Additional Funding	-1.000	-1.025	-1.051	-1.077	TBC

Part

5

WHOLE OF GOVERNMENT ISSUES

CHAPTER 5 WHOLE OF GOVERNMENT ISSUES

OVERVIEW

This Chapter covers a range of issues that impact across a number of agencies, or the whole public sector. Those are:

- Public Service Superannuation Arrangements;
- Cash Management and Control;
- Non-Executive (Advisory) Boards and Committees;
- Customer Services;
- Sustainability;
- Annual Reports;
- Territory Records;
- Municipal Services;
- Whole-of-government Fleet;
- Office Accommodation;
- Legal Services;
- Intergovernmental Agreements and Negotiations;
- Integrated Document Management System; and
- Insurable Risk Management.

The Review has identified potential efficiencies and savings in a number of these areas.

5.1 PUBLIC SERVICE SUPERANNUATION ARRANGEMENTS

Introduction

The States have closed former state superannuation schemes to new members. New employees in most cases are offered only the standard minimum Superannuation Guarantee level of employer contributions (9 per cent). Some States allow a small supplement to employer contributions where the employee makes undeducted contributions of specified minimum amounts.

In general, private sector employees (including in the ACT) in industries directly competing with public sector employees (e.g., private school teachers) also are provided by their employers with 9 per cent superannuation.

In contrast, ACT arrangements for public sector employers match those of the Commonwealth. This imposes significantly higher costs on the ACT budget compared with schemes in the other states. This cost will accumulate to very high levels in coming years.

From 1 July 2005, the Commonwealth has changed its superannuation arrangements with the replacement of the open PSS defined benefit scheme with a lump-sum accumulation scheme (PSSAP) for new entrants. The Commonwealth has set the employer contribution rate for PSSAP at 15.4 per cent of salary. This is the same level as actuarially determined for current PSS members, and the employer continues to meet the scheme administration charges.

From 1 July 2006, the ACT Government must adopt superannuation arrangements that comply with the Commonwealth's choice of fund requirements under the *Superannuation Guarantee (Administration) Act 1992*.

Superannuation entitlements are not specified in industrial agreements for new employees. The Review considers that:

- maintaining employer contribution rate at 15.4 per cent for new employees places unsustainable long-term pressure on the ACT budget;
- there does not appear to be compelling reasons to replicate the arrangements adopted by the Commonwealth;
  - the ACT Government does not compete with the Commonwealth for a substantial proportion of its workforce;
  - for staff categories where the ACT competes with the Commonwealth, non-superannuation remuneration options are a more appropriate tool to attract and retain select staff if this proves necessary;
- while unions and prospective employees appear to place more emphasis on salary levels than on superannuation contributions, this, however, does not mean that unions will not resist a reduction in employer contribution rate.

The Government may adopt superannuation arrangements for new employees separate to the Commonwealth and more in line with those of the States and Territories, and the Review recommends this approach. It is proposed that the employer contribution rate be set at the statutory 9 per cent level. This, however, may be increased by 1 per cent as an incentive for employees to make undeducted contributions of a matching or higher amount.

Options for the Future

Other Jurisdictions

All other jurisdictions have adopted fully funded accumulation scheme arrangements, with employer contributions set at the minimum requirement of 9 per cent. Some (including Queensland and SA) provide slightly higher employer contributions where employees make matching non-deductible contributions.

Compared with other jurisdictions, the ACT budget has faced financial uncertainties due to the defined benefit nature of the previous PSS scheme. The cost of the public sector to the ACT Government has also been higher compared with other jurisdictions due to a higher contribution rate. This would continue under current arrangements.

Financial Considerations

While the introduction of an accumulation scheme (PSSAP) will shift investment risk to the employee, the impact of superannuation costs on the ACT Budget will continue to increase. Mortality risks (death and disability) are compulsorily covered through insurance arrangements linked to the scheme (compulsory cover should continue in the proposed new scheme).

The reimbursement to the Commonwealth for CSS and PSS employees is forecast to increase from around $58 million per annum in 2005-06 to $250 million per annum in 2038-39[1], in today's value. In addition, the Territory will be required to meet an estimated cost of $198 million per annum (in real terms) for PSSAP employees.

This is a seven-fold increase in real terms over the next thirty years. In order to maintain the budget flexibility and structure of today, it will need to grow by around 5 per cent per annum in real terms over this period. A fiscal strategy that is based on achieving such growth rates in budget is not practical. In summary, maintaining employer contributions at 15.4 per cent is not affordable in the long run.

The following table highlights the potential savings across the forward estimates period from the adoption contribution rates for new employees lower than the current rate of 15.4 per cent[2].

Table 5.1: Savings from Lower Employer Contribution to PSSAP

Contribution Rate	2006-07 $'m	2007-08 $'m	2008-09 $'m	2009-10 $'m	Total $'m
Statutory Contribution Rate of 9%	1.7	5.2	8.6	12.0	27.5
Contribution Rate of 10%	1.5	4.4	7.3	10.1	23.3

Source: ACT Treasury.

The savings increase significantly in the medium to longer term, being in excess of $700 million over the next 20 years.

Recommendation 19: in relation to public service superannuation arrangements:

- **the Government adopt the statutory employer contribution rate of 9% for its new employees from 1 July 2006;**
- **the employer contribution rate be increased by an additional 1%, to 10%, for employees who opt to make employee contributions of at least 1%; and**
- **the contribution rate be maintained at the current level for employees joining the ACTPS prior to 30 June 2006 (grandfathering provision).**

[1] Data provided by ACT Treasury – Superannuation Unit.

[2] These estimates assume that employees already in the PSSAP will be grandfathered from any reduction in employer contribution, i.e., there are no savings for new employees joining the ACTPS (and therefore joining the PSSAP) in the period 1 July 2005 to 30 June 2006. Similarly, there is no change to contributions for existing CSS and PSS members.

Need for Alignment With the Commonwealth

At self-government, the Commonwealth and the Territory agreed that the ACT Government employees would continue the membership arrangements that applied to Commonwealth employees. The main reason at that time was to recognise staff mobility from the Commonwealth to the ACT Public Service.

In future, separate superannuation arrangements for ACTPS employees are not expected to unduly affect mobility between the two services. After 1 July 2006, accrued superannuation benefits can be transferred should an employee elect to do so.

A more significant issue that has been raised in favour of replicating Commonwealth arrangements relates to the competitiveness of the ACTPS to attract and retain staff, given that both draw their staff from the same population.

The ACT, however, does not compete with the Commonwealth for a substantial proportion of its public servants, such as teachers, nurses, health service professionals, child protection workers, fire fighters, rangers etc. Staff attraction and retention strategies for these categories do not need to be based on parity with the Commonwealth.

For administrative/clerical and policy staff, the ACT indeed competes with the Commonwealth. Special Employment Arrangements available under the Certified Agreement may be a more appropriate and cost effective tool to maintain competitiveness with the Commonwealth in these staff categories. However, this should be considered only if market experience demonstrates that it is essential. In practice, different superannuation entitlements have co-existed in competing labour markets with limited effect in competitiveness.

It should be noted that about 75 per cent of Commonwealth employees work in the States, and arguably compete with the States for workers. The States nonetheless have closed their superannuation schemes.

Implications for Wage Negotiations

In the wage negotiations, the unions have generally sought to achieve parity with NSW (for example for nurses and teachers in the previous EBAs). However, the ACT's higher superannuation rate has not been recognised by the unions in negotiating parity on wage outcomes.

The higher superannuation costs relative to NSW have not resulted in relatively lower costs in direct salaries.

5.2 CASH MANAGEMENT AND CONTROL

Introduction

The *Financial Management Act 1996* provides for the departmental appropriations to be deemed as net appropriations, i.e., departments are able to retain (and spend) any additional interest revenue without seeking a further appropriation. Over time, departments have (collectively) built up significant cash and investment balances.

As at 30 June 2005, departmental cash and investment balances totalled $230 million. Interest earned by agencies in 2004-05 was $12.9 million, which was approximately $6 million above the original budget estimate.

Agencies have discretion over the use of these funds, without any reference to Cabinet. The Review proposes provision of cash to agencies on 'just in time' and needs' basis. Benefits of cash holdings should be retained at the whole-of-government level, except where precluded by intergovernmental agreements (e.g., Housing).

Current Arrangements

The Territory's financial management framework introduced in 1996 included devolved banking arrangements, and the ability for departments to invest surplus cash. This was introduced with an aim of providing incentives for agencies to effectively manage cash balances.

Since its inception (in 1996), the cash management framework has been unclear about the appropriate levels of cash reserves to be retained by departments, and the use of additional cash accumulated, for example through interest earnings.

At 30 June 2005, 9 departments held between 1.8 and 9.9 times their budgeted cash and investments. All departments earned more interest than budgeted - 7 departments earned between 1.5 to 2.1 times their budgeted amount.

The following table provides actual results for cash and investments and interest revenue by agency for 2000-01 and 2004-05, which highlights the significant increase in agency cash holdings. It also provides the estimates of interest revenue as included in the 2005-06 Budget.

Table 5.2: Cash and Investments and Interest Revenue by Agency

	Actual Results								2005-06 Budget Estimates			
	Cash and Investments				Interest Revenue				Interest Revenue			
	2000-01 $'m	2004-05 $'m	Increase $'m	Increase %	2000-01 $'m	2004-05 $'m	Increase $'m	Increase %	2005-06 $'m	2006-07 $'m	2007-08 $'m	2008-09 $'m
CMD	7.752	19.389	11.637	150%	0.449	1.378	0.929	207%	0.821	0.851	0.878	0.878
DED (created 2004-05)	-	2.919	2.919	-	-	0.157	0.157	-	-	-	-	-
WorkCover	0.086	0.563	0.477	553%	0.015	-	-0.015	-100%	-	-	-	-
DT (Procurement added 2001-02)	11.706	43.480	31.774	271%	0.512	1.496	0.984	192%	0.706	0.761	0.816	0.816
ACT Health (inc TCH & ACTCC)	36.342	42.022	5.680	16%	1.901	1.913	0.012	1%	1.236	1.186	1.186	1.186
DUS	25.955	24.137	-1.818	-7%	0.808	0.655	-0.153	-19%	0.614	0.614	0.615	0.615
ACTPLA	-	3.018	3.018	-	-	0.208	0.208	-	0.200	0.100	0.100	0.100
JACS[3]	3.453	7.379	3.926	114%	1.594	1.689	0.095	6%	1.010	1.010	1.010	1.010
ESA (created 2004-05)	-	2.060	2.060	-	-	0.025	0.025	-	-	-	-	-
DET (excl School Accounts)	8.822	21.681	12.859	146%	0.411	1.467	1.056	257%	0.300	0.300	0.300	0.300
DDHCS (created 2002-03	-	7.322	7.322	-	-	0.331	0.331	-	0.224	0.244	0.265	0.265
OCYFS (created 2003-04)	-	5.126	5.126	-	-	0.173	0.173	-	0.050	0.050	0.050	0.050
ACT Housing	17.201	18.472	1.271	7%	1.185	1.947	0.762	64%	1.054	1.107	1.161	1.120
InTACT	9.801	30.453	20.652	211%	0.288	1.348	1.060	368%	1.088	1.129	1.216	1.311
ACT Forests	0.567	1.985	1.418	250%	0.056	0.069	0.013	24%	-	-	-	-
Total	**121.686**	**230.006**	**108.321**	**89%**	**7.218**	**12.856**	**5.638**	**78%**	**7.303**	**7.352**	**7.597**	**7.651**
Total (excl ACT Housing)	**104.485**	**211.534**	**107.050**	**102%**	**6.033**	**10.909**	**4.876**	**81%**	**6.249**	**6.245**	**6.436**	**6.531**

Source: ACT Treasury

[3] Budget estimates for JACS includes $0.911 million per annum to fund the Rental Bond Board.

Apart from retaining cash from unspent appropriated funds relating to specific uncompleted purposes, there is little justification for departments holding excessive cash and investment balances, either during or at the end of each year. The benefits from excessive cash holdings should not necessarily accrue to individual departments, but rather be available to the wider Budget as a whole, and for consideration and redistribution by the Government against its priorities.

There is a lack of clarity under the framework relating to defining the use departments can make of any unspent cash. Some departments have, for example, used cash and investment reserves to meet additional costs such as salaries, supplies and services and grant payments as examples.

While this can be useful, for example, in minimising calls on Treasurer's Advance and supplementary appropriations, it carries a perverse impact of allowing departments to incur unapproved expenditure. This unapproved expenditure by departments lacks transparency, and puts the Territory's budget targets at risk.

Proposed Changes to the Framework

The existing cash management policies and practices should be modified to ensure that full opportunity is available to the Government to utilise any financial benefits from its cash management policies, and to strengthen the transparency and accountabilities around the cash management framework.

Departments' Cash Balances Reduced to an Appropriate Level

Cash balances should be reduced, maintained, and monitored, at "just in time" limits. The limit should include a buffer (e.g., 5% of supplies and services) plus other agency specific items (such as revenue received in advance, salary packaging monies and special funds held by the department).

Establishment of a working cash buffer should be determined individually for each department, taking account of specific financing circumstances.

Flexibility should be incorporated to review levels of required cash during the year if/as additional cash requirements are identified by departments (e.g., higher payout of leave provisions due to increased retirement levels).

No Investment of Unspent Funds by Departments

The Review proposes that departments no longer invest or earn interest, except where specific conditions apply to special funds held by the agency (e.g., NRMA fund held by ACT Health, and Housing ACT).

Where specific conditions apply, the balances should be quarantined, and be prescribed by instrument limiting the use of any interest earned to that purpose only.

Recommendation 20: in relation to cash management and control:

- **the cash management framework be modified to provide for monitoring agency cash balances and maintaining these on a needs basis;**
- **interest earnings accrue to the Budget, except where specific conditions apply to special funds held by the agency (e.g., NRMA fund held by ACT Health, and Housing ACT); and**
- **necessary amendments to the *Financial Management Act 1996* be introduced with the aim of their passage before the start of 2007-08 financial year.**

Budget Impact and Savings

These changes to the cash management framework will provide a net benefit to the Budget. Given that agency cash and investments have typically been higher than the budget estimates, it is reasonable to expect that benefit to the Budget will be higher than the forward estimates of interest revenue.

The additional benefit is from the revenue not included in the forward estimates.

Table 5.3: Estimate of Savings and Additional Interest Earnings

	2006-07 $'m	2007-08 $'m	2008-09 $'m	2009-10 $'m
Savings against the Budget Forward Estimates	4.9	5.1	5.2	5.2
Additional Interest Earnings	4.7	4.5	4.4	4.4
Total Budget Impact	**9.6**	**9.6**	**9.6**	**9.6**

Source: ACT Treasury. Note: The above table excludes Housing ACT and schools accounts.

5.3 NON-EXECUTIVE (ADVISORY) BOARDS AND COMMITTEES

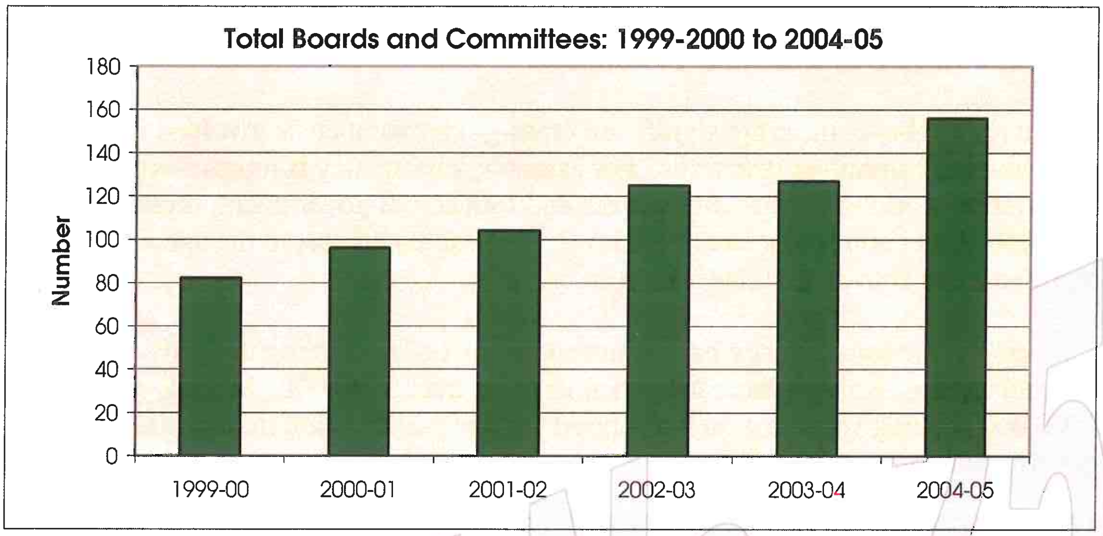
Introduction

Boards are either of an advisory nature, or have executive functions assigned to them. The latter category is discussed in the Machinery of Government Chapter (Chapter 4.2) and in some other individual chapters. This section deals with boards, councils and committees that are of an advisory nature.

Ministers and departments seek policy advice from a range of sources, including through community consultations, consultants, their own staff, boards, committees and councils, which include members external to the ACT Government. There is value in sourcing a diversity of opinion and advice, as it leads to innovation and the ability for issues to be considered from different perspectives. Departments also establish cross-departmental committee arrangements, to seek wider input into policy development.

Boards and Committees Across Government

The Review sought information on the number of advisory Boards and Committees, and the costs of supporting these structures. Significant resources are consumed through the process of supporting these structures. The number of boards and committees, has grown dramatically over recent years.



The mechanism for reviewing the roles and ongoing need for boards and committees is unclear.

In many cases, groups only need to be established in the short term, while in other cases, different forms of community engagement could be pursued, such as regular community forums or targeted consultations. Under any model, the key governing principle should be one of minimal overhead support and costs.

Cost to Government

The cost of sitting fees for the current boards and committees is estimated conservatively at around $2 million per annum[4]. The Remuneration Tribunal also makes determinations regarding travel allowances for Part Time Holders of Public Office, which have not been included in this estimate. Other support costs[5] could be significantly higher than the sitting fees[6].

Only a third of the boards and committees identified to the Review have sitting fees approved by the ACT Remuneration Tribunal. The remaining entities will most likely have other methods to support the inclusion of community members, such as

[4] The estimate is based on the Remuneration Tribunal decision in December 2005 in relation to Part Time Holders of Public Office, with the assumption of each entity meeting four times a year for over three hours. In reality, it is clear that most of the entities approved by the Tribunal meet many more than four times a year, so the actual cost to government in sitting fees is much higher.

[5] These include for example, the cost of secretariat staff, food and refreshments, venue hire and other materials.

[6] One agency has estimated the costs of these support activities, as being over $650,000 per annum, when added to sitting fees, the costs of supporting their committees is over $830,000 per annum. Another agency has estimated the total cost of supporting its boards and committees at over $1.84 million a year.

reimbursement for costs of travel, or community participation payments etc. These groups will also incur costs in relation to secretariat, venue and associated materials.

In principle, the payment of sitting fees or other fees to board and committee members should be considered in cases where external expertise is required. All fee payments should be initially set, and subject to review, through the Remuneration Tribunal processes.

Inter and Intra Departmental Committees

Added to the above, there are significant cross-government costs involved in inter departmental committee structures. For example, one agency is represented on over 55 different working groups, committees and fora across government, predominantly at senior officer and senior executive level. The estimated cost to the agency of this representation is over $170,000 per year.

Conversely, the same agency has estimated the cost of resourcing and participating in internal entities, which it has established itself, at over $290,000. In total, around $500,000 is being spent just on the support for and participation in, internal government committees and fora.

Recommendation 21: each agency review its boards and committees structures (both internal and those which involve external members), targeted to reducing associated overheads. Savings from this are estimated at $1 million in 2006-07 and rising to $2 million onwards. Savings are to be apportioned on the basis of current costs, and applied to agency budgets from 2006-07.

Determinations of the ACT Remuneration Tribunal

In principle, sitting fees for boards and committees should be determined under the *Remuneration Tribunal Act 1995*. There are a number issues associated with the administration and tracking of the Tribunal's determinations. These are discussed below.

The most recent determination of the Tribunal in December 2005, with regard to sitting fees for chairs and members of boards and committees, includes a range of bodies that no longer exist and/or have not existed for some of time[7]. Some agencies are operating under an impression that the Tribunal has made a determination, when there is no evidence to support this[8]. Lastly, many of the names of entities in the Determination have changed, and, in some cases, both the old and new names of the same group appear in different categories of the Determination.

[7] For example, the ACT Bill of Rights Consultative Committee finished its work and reported to Government in May 2003. The Surveyors Board of the ACT was abolished through the passage of the *Surveyors Act 2001*.

[8] For example, the 2004-05 Annual Report of the ACT Planning and Land Authority indicates that three advisory boards which it established during the year, under the *Construction Occupations (Licensing) Act 2004*, are entitled to payments under the *Remuneration Tribunal Act 1995*. There is however, no reference to these advisory boards in the December 2005 determination by the Tribunal, or in any other of its determinations.

Whilst the above are examples only, they point to a need for greater responsibility for matters referred and determined by the Remuneration Tribunal. Payments to boards and committees, should not be made without formal determination by the Tribunal. This should include interim approvals for daily sitting fees in advance of the next formal round of determinations.

The Remuneration Tribunal Secretariat should update and issue guidance information to departments to assist in this administrative review.

Recommendations 22, 23 and 24:

- **agencies review the status of all boards, committees and office holders for which fees are determined by the Remuneration Tribunal, to review and update information to the Tribunal, including interim approvals to daily sitting fees.**
- **agencies review all boards and committees where sitting and other payments are made, to ensure eligibility under the Remuneration Tribunal's Determinations.**
- **policy guidelines on entitlements and practices be issued by the Remuneration Tribunal secretariat, to assist agencies in regularising these arrangements.**

5.4 CUSTOMER SERVICES

In 2001 the ACT Government established Canberra Connect to improve service delivery to the community by providing multiple information and transaction channels based on the same systems and processes.

Canberra Connect provides shopfronts, a call centre and internet services to enable easy access to government information and payment services. It currently provides call centre functions for the Department of Urban Services, Environment ACT, the Department of Disability, Housing and Community Services and Chief Minister's Department. The majority of calls are related to Department of Urban Services (52 per cent) or Switchboard (people seeking access to individual employees – 15 per cent)[9].

In total in 2004-05 Canberra Connect undertook 1.5 million transactions and collected $342 million in government revenues. Its transaction channels include over the counter, Internet, telephone, BPay and more recently, Australia Post.

In spite of its rapid growth, successful branding and introduction of on line payment and receipting functionality, Canberra Connect is still predominantly a vehicle for municipal type functions handled by the Department of Urban Services.

[9] *Australian Shared Services Excellence Awards 2006 – Submission for Best Mature Shared service Organisation*, Canberra Connect 2006.

Other ACT agencies have shopfronts, run on line payment and receipting services and operate call centres. Also, ActewAGL operates a number of shopfronts, a call centre and on line payment arrangements.

DUS identified further opportunities to rationalise and consolidate service counters into the Canberra Connect shopfront network. These changes would expand community access to services across the city. The table below, although not exhaustive, indicates the breadth of agencies that currently provide information and services through a shopfront-type arrangement.

Table 5.4: Shopfronts by Agency

Chief Minister's Department	ACT WorkCover Cultural Facilities Corporation Environment ACT
Department of Treasury	ACT Revenue Office
ACT Health	Community Health Centres Healthpact Health Protection Service
Department of Education and Training	Office of Training and Adult Education CIT campuses
Department of Economic Development	Tourism Shopfronts Business Gateway
Department of Urban Services	Canberra Connect Shopfronts ACTION Libraries
Department of Disability, Housing and Community Services	Youth Justice Housing ACT Care and Protection Therapy ACT
Department of Justice and Community Safety	Registrar-General's Office Office of Fair Trading Elections ACT ACT Ombudsman Discrimination Commissioner Public Trustee Legal Aid Office of the Community Advocate ACT Corrective Services ACT Policing Stations Magistrates Court Supreme Court
ACT Planning and Land Authority	Dickson Mitchell
Land Development Agency	Gungahlin Kingston Foreshore

While in some cases these may be inextricably linked to the agencies' core business, in other cases it should be possible to integrate these information and payment/receipt channels to deliver a more efficient service with greater capacity to manage peaks and troughs in workload.

It would appear that functions currently provided through the shopfronts of Housing ACT, the Registrar-General's Office, Environment ACT, Office of Fair Trading and ACT Revenue Office could be considered for incorporation into the Canberra Connect network.

The use of the Canberra Connect call centre to take the first line calls for a range of services provided by the Department of Disability, Housing and Community Services is but one example of the growth potential. However such growth will need to be carefully planned and based on a detailed business case. The business case should consider the range of options for managing the channels (either individually or collectively) and whether this is best achieved within the Department of Urban Services, the Shared Service Centre, another government related entity or outsourced.

Recommendation 25: a detailed business case be developed under the leadership of the Department of City and Territory, for consideration by the Government by December 2006, on the further consolidation of government information and payment and receipting services. This business case should include consideration of which shopfronts, call centres and other information portals and which payment and receipting systems should be merged into one Government approach and how and by whom, such a service should be managed.

5.5 SUSTAINABILITY

The Government's commitment to sustainability is demonstrated through policy documents such as *People, Place and Prosperity*. Further commitments were made in 2004 to consider the introduction of Sustainability legislation.

The Review is aware that the Office of Sustainability proposes to undertake community consultation in respect of creation of a *Sustainability in Government Act*. The cost impacts of this legislation are unclear. The Submission to Cabinet indicated that agencies were to absorb any costs.

Significant impacts are likely from such legislation. The assessment of true costs will only be known down the track, and beyond any period where the Government could pull back from the community expectation created by legislation.

Issues of sustainability are important and should be part of the Government's public policy. There is concern that the true costs have yet to be identified, and this is reinforced by most agencies. Given these uncertainties, the Review proposes that issues of sustainability be managed through administrative policy rather than in legislation.

Legislation could be considered once the framework has bedded into departments accountability/reporting frameworks, and assessed at the whole-of-government level.

Recommendation 26: the Government's sustainability framework be implemented through administrative policy mechanisms, rather than in legislation.

5.6 ANNUAL REPORTS

Guidelines for annual reports are issued by the Chief Minister under the *Annual Report (Government Agencies) Act 1995*. The Chief Minister issues annual report directions on the content of departmental annual reports, their structure and the standards to which the publication should be produced.

The directions to agencies have expanded considerably since 1995, with increasing cost and resource effort impacts. Annual reports are no longer a simple record of a department's performance, output and financial performance. They have also become the mechanism for reporting across a large range of government policies, reviews and responses to inquiries and the like. In order to accommodate all information requirements, many agencies' annual reports are published in two volumes.

The level of resources applied by agencies to the production of their annual reports has grown. Some agencies now employ contractors or engage senior staff for a six month period in order to co-ordinate the production of the reports. Added to this are the significant costs associated with staff across departments providing input for the report, the costs of design, editing, and publication. The costs of some agency reports would exceed $100,000 a year. Applying this across the government as a whole could see costs exceeding $1 million per annum.

It is proposed that the Annual Report Directions be significantly streamlined, and the production quality reduced without compromising content.

Agency Annual Reports for Financial Years

Annual reports by agencies should focus on financial, performance and output information, on a financial year basis. Reports on policy implementation and plans should be divided between those required on a calendar year basis and those devolved back to the agency with policy responsibility.

Agency annual reports should include the following:

- Overview, achievements and challenges;
- Strategic and organisational planning;
- Human resources (including staffing profile);
- Workplace safety;
- Learning and development;
- Workplace relations;
- Fraud prevention;
- Risk management and internal accountability;
- Financial statements and performance;
- Asset and capital works management;
- Territory records;
- External labour and services; and
- Service purchasing, grants and sponsorship.

This should result in a reduction in the size of annual reports, while ensuring that accountability is maintained.

Agency Annual Reports for Calendar Years

Agency annual reports for the calendar year would include that information not required to be produced on a financial year basis for management purposes, but which is still required to be disclosed for the purposes of community accountability. This information covers:

- Community engagement;
- Advisory boards and committees;
- External scrutiny;
- Legislative assembly committee reports;
- Auditor-general reports;
- Ombudsman reports;
- Government inquiries and reports; and
- Legislation and regulatory activities.

Whole of Government Policy Implementation Reports

A number of agencies responsible for whole-of-government policies already provide annual progress reports to the Legislative Assembly. It is proposed that greater use of this approach be adopted for reporting on whole-of-government issues, as opposed to the current inclusion of such materials in each department's annual reports. This may require legislative amendments in a number of cases. These reports cover, for example:

- *Human Rights Act*;
- Access to Government;
- Multicultural Framework;
- Aboriginal and Torres Strait Islander reporting;
- ACT Women's Plan;
- Freedom of Information;
- Public Interest Disclosure;
- Ecologically Sustainable Development reporting;
- Commissioner for Environment;
- Bushfire management plans; and
- Procurement processes.

Quality of Production and Publishing

There are significant costs associated with the current standards in annual and other reports, and the availability of hard print copies. The costs should be weighed against the benefits and the technology alternatives available to the community. A more reasonable approach is to standardise the quality across departments in more simple terms.

Release of Publications

The extent of availability of hard copies should be reconsidered and greatest possible use made of the IT facilities (internet etc), with minimal production copies retained. Electronic release arrangements should take account of statutory reporting requirements, and access to information by those not able to use electronic formats, such as through libraries.

Recommendations 27, 28, 29, 30 and 31:

- **annual and policy reporting arrangements be streamlined to smooth reporting pressures and costs, without reduction in accountability requirements of departments;**
- **financial year Annual Reports be streamlined to include only key reporting areas relating to financial, staffing, accountability, management, external labour and service purchasing matters;**
- **calendar year Annual Reports include community engagement, external scrutiny, advisory boards and committees, government inquiries and regulatory activities;**
- **policy implementation reporting be coordinated by originating policy departments, and tabled in the Legislative Assembly; and**
- **all government reports be produced to base publishing standards, with minimal printing of hard copies. Alternate use of electronic format and departmental websites be adopted.**

5.7 TERRITORY RECORDS

Public Access Regime

Records management carries a significant financial impact, which will only increase over time. Insufficient recognition has been made of the costs of effective record management, for example, the deficiencies identified by Boards of Inquiry and through the Courts system.

Many agencies have concerns about the cost implications of implementing the *Territory Records Act 2002*. It appears that most agencies have implemented the requirements of the Act without adequate resources to maintain the requirements under the legislation, and the further developments required.

The current legislation requires implementation of a public access regime in 2007. Departments have advised that this involves additional costs. Given the significant amount of personal records held by agencies across government, there is budgetary risk that an effective public access regime will require significant additional funding and resources. The priority for the next stage is considered low against other service pressures faced by the Government, and the next stage should be deferred, with legislation amended accordingly.

A number of agencies still have to undertake archival activities, to effectively account for their records that have not been registered on any retrieval or access system.

The legislation also makes an agency responsible for all records associated with functions that they have administrative responsibility for under the *Administrative Arrangements Orders* (including all historical records).

Further work is also required on a whole-of-government basis in relation to records created by non-government agencies contracted for the purpose of managing clients on behalf of government agencies.

Recommendation 32: the *Territory Records Act 2002* be amended to defer the commencement of the public access regime for Territory records, preferably to a date to be fixed by subsequent instrument.

5.8 MUNICIPAL SERVICES

Legislation

Specific municipal services are provided under a range of Acts and Regulations, some of which date back to the 1930s. The Department of Urban Services raised the development of a single Municipal Services Act as a strategic option for the Government.

Although consolidation of legislation may carry some benefits, it does not appear that the current fragmentation of legislation has compromised service delivery. A further issue to consider is that consolidation along the municipal services has the potential to fragment some of the existing legislation. An example in this regard is the Land and Planning legislation.

Consolidation of legislation is a potentially considerable task that would have direct and indirect costs. The Review is not convinced that legislation consolidation is a priority at this time, and considers that no additional resources should be made available for this purpose. Any legislative improvement in this area should be made without resource supplementation.

Recommendation 33: any work on the consolidation of municipal services and associated legislation be undertaken within the existing resources.

Financial Management

Potential for increases in General Rates are further discussed in Chapter 11 in the context of fully offsetting the costs of Municipal Services. The Review proposes a base increase of 6 per cent in 2006-07. It is also proposed that rates be increased annually by a Wage Cost Index, rather than the CPI, to reflect the increase in cost of services.

5.9 WHOLE OF GOVERNMENT FLEET

Government Vehicles

The ACT Government Fleet has 1,220 vehicles. The fleet includes Y-Series plated (senior executive) and 200-series plated (pooled) vehicles. These include sedans, wagons and other vehicles (such as utes and dual cabins).

Wagons and other vehicles in general may be used for particular services, such as ranger and inspectorial services. Excluding these vehicles, around two thirds of the sedans are of 4-cylinder construction.

The road system in Canberra is good and ordinary pooled vehicles are not required to go off-road or carry equipment. Requiring all vehicles to be of 4-cylinder construction, except those necessary for specific purposes, has potential for savings of around $650,000. There would also be a level of saving from reduced fuel consumption, estimated at $200,000.

A significant portion of 6 cylinder sedans and wagons are 'Y plated' vehicles, and a substantial number of these will be entitlements of the senior executives under their remuneration package. Accordingly, this policy may be viewed as lowering the remuneration package for senior executives. It is possible, however, that senior executives would take the equivalent cash component and not use a leased vehicle through the fleet arrangements[10].

Savings from the above measures, totalling $0.850 million will be progressively realised as leases expire and vehicles are replaced over the next two years.

Table 5.5: Estimated Savings from Vehicle Replacement Program (6-cyclinder to 4-cylinder)

	2006-07 $'m	2007-08 $'m	2008-09 $'m	2009-10 $'m
Vehicle Replacement Program	0.275	0.550	0.850	0.850

Source: ACT Treasury.

Recommendation 34: all 6-cylinder sedans in the Government vehicles fleet be progressively replaced with 4-cylinder cars, as their leases expire (with agency budgets adjusted accordingly).

Management Fees

The fleet management fee charged by Rhodium is on average around $130 per month, per vehicle[11]. Benchmarking undertaken by Treasury indicates that these costs in other jurisdictions range between $25 and $50 per month.

[10] Should a situation eventuate where a significant number of senior executives in a Department opt for the cash component, there may be less vehicles available for business use. The cash component, however, is lower than the actual cost of providing a leased vehicle, and therefore, there could be some further savings. In such a situation, those savings could be utilised to address travel needs.

[11] This includes vehicle changeover and disposal.

The Review recognises that fleet management is a scale driven business. However, the fleet management charges appear high when the size of the fleet managed by Rhodium is also taken into account[12]. The Review is advised that in the ACT market, a price of $50 per month per vehicle is expected. The future arrangements for Rhodium are being addressed separately by the Review. Irrespective of those arrangements, however, benchmark costs should be realised. This will return savings in the order of $1.1 million per annum.

Recommendation 35: management fees for government fleet be set at benchmark price (estimated at $50 per vehicle per month), providing estimated savings of $1.1 million per annum (with agency budgets adjusted accordingly).

Reducing the Size of the Fleet

Vehicles in the government fleet are replaced after two years or 40,000 kilometres, whichever is earlier. A significant proportion of the vehicles (in excess of 40% of the fleet) travel less than the allowable 40,000 kilometres before their disposal[13].

While the distance travelled under the allowable limit may not be an exact measure, it could be reasonable proxy for assessing excess capacity in the pooled fleet. Based on the information available, this equates to around 60 vehicles.

The Review proposes a conservative decrease of 40 vehicles in the pooled government fleet.

Recommendation 36:

- **the size of the pooled fleet be reduced by 40 vehicles, with savings starting at $0.2 million in 2006-07 rising to $0.5 million per annum being realised to budget; and**
- **the decrease be allocated to agencies on the basis of the distance travelled under the maximum allowable limit at the time of disposal.**

5.10 OFFICE ACCOMMODATION

Current Occupancy Rate

Governments across Australia have a range of occupational density targets, ranging from 15m^2 per full time equivalent staff member to 18m^2 per FTE, with the ACT sharing the upper end of the scale with South Australia and Victoria.

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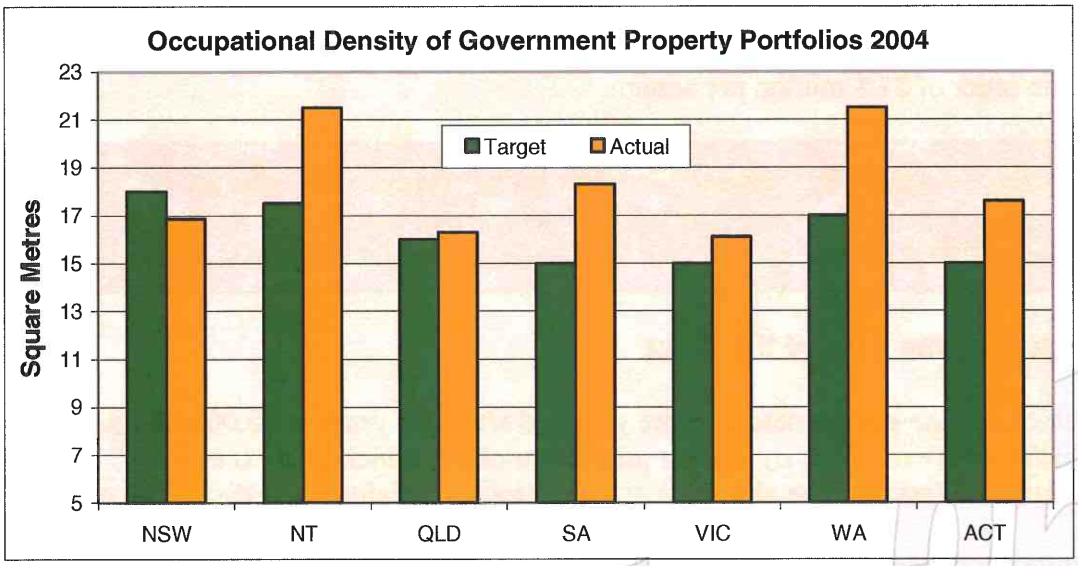
[12] For example, the unit costs in the ACT are more than five times the costs in another jurisdiction with a fleet which is around three times larger.

[13] For example, over the two-year period 1 October 2001 to 30 September 2003 there were 440 ('200 series') vehicles disposed, with an average of 11,423 kilometres under the allowable distance.

The ACT's actual density in 2004 was 17.6m^2 per FTE, down from 21m^2 in 2001, and about mid range of the States and Territories. It is notable that only one jurisdiction was at or below their density target in 2004.



Since 2004, however, the space usage across the ACT Government has increased considerably to around 20.6m^2 per person. The current occupancy rates by agency are set out below.

Table 5.6: Office Space Utilisation by Agency

Agency	Area Occupied m^2	Est. Staff 31 Dec. 2005	Average per Staff m^2
ACT Planning and Land Authority	6,125	310	19.8
Auditor-General's Office	500	30	16.7
Chief Minister's Department	7,792	312	24.9
Commissioner for the Environment	116	4	29
Department of Economic Development	2,690	105	25.6
Department of Education and Training	7,406	390	19.0
Disability, Housing and Community Services	16,300	827	19.7
Department of Urban Services	10,552	527	20.0
Emergency Services Authority	3,874	192	20.2
ACT Health	13,718	655	20.9
InTACT	5,243	288	18.2
Justice and Community Safety	10,146	434	23.4
Department of Treasury	4,480	257	17.4
ACT WorkCover	1,344	56	24.0
Total	**90,287**	**4,387**	**20.6**

It can be seen from the above table that all agencies are occupying well above 15m^2 person. The 90,287m^2 of office accommodation comprises 37,654m^2 in owned properties and 52,633m^2 in leased accommodation. The current annual rental for the leased space is $17.050 million.

Short Term Measures

Over the next 18 months to September 2007, six rental leases comprising 10,052m^2 at a current cost of $3.551 million will expire.

The staff within these six leases should be relocated into the existing owned or leased space. Assuming no reduction in staff numbers, the average space usage per staff as a consequence would improve to 18.3m^2.

Departments with excess capacity will be required to make space available for this purpose.

Additionally in 2009-10, further leases will expire, some of which will not need to be renewed. The accommodation implementation strategy discussed below will identify these leases.

Table 5.7: Saving by Lease

	2006-07 $'m	2007-08 $'m	2008-09 $'m	2009-10 $'m
Scala House Lease	0.108	0.144	0.144	0.144
14 Moore Street Levels 12 and 13	0.265	0.398	0.398	0.398
Eclipse House	1.021	2.041	2.041	2.041
20-22 Challis Street	0.047	0.097	0.097	0.097
Allara House	0.165	0.330	0.330	0.330
12 Moore Street Levels 2,7 and 8	0.000	0.406	0.541	0.541
Further Lease Reductions	-	-	-	2.700
Total	**1.606**	**3.416**	**3.551**	**6.251**

The Review proposes that the savings associated with lease costs be returned to budget. The following table provides estimates of savings allocated to agencies.

Table 5.8: Saving Allocated to Agencies

	2006-07 $'m	2007-08 $'m	2008-09 $'m	2009-10 $'m
Department of Urban Services	0.145	0.219	0.219	0.219
Chief Minister's Department	0.229	0.411	0.411	0.411
ACT WorkCover	0.075	0.156	0.156	0.156
Disability, Housing and Community Services	0.013	0.431	0.566	0.566
ACT Health	0.037	0.073	0.073	0.073
Department of Treasury	0.144	0.270	0.270	0.270
Justice and Community Safety	0.963	1.856	1.856	1.856
Further Lease Reductions	-	-	-	2.700
Total	**1.606**	**3.416**	**3.551**	**6.251**

Recommendation 37: in relation to government office accommodation:

- **the six rental leases due to expire by the end of December 2007 not be renewed;**
- **all current occupants of these be absorbed within existing Government owned or leased space; and**
- **savings from these leases expiries will amount to $3.551 million in 2008-09 and funding be returned to budget from the relevant Departmental appropriations, with a further $2.7 million realised from future lease expiration.**

Future Accommodation Strategy

As noted above, not renewing the leases identified in Table 5.6 and moving staff to other leased buildings improves utilisation to 18.3m^2 per staff. There will also be reductions in office staff if the saving measure proposed by the Review are accepted. Office space could be reduced by a further 10,000m^2 to 15,000m^2 depending on the actual requirements of non-standard office space for areas such as Corrections, Therapy and Mental Health.

A more detailed plan will need to be developed in conjunction with the new Departments to realise these savings over the next few years.

From 2008 onwards, there will be a surplus of leasing space in Civic as a result of the finalisation of the moves currently proposed by Australian Government agencies and prices should be low. In addition, Civic has several buildings which are large enough to co-locate agencies. In order to reach the target of 15m^2 per staff, the Property Group should be tasked with developing a longer term leasing strategy which would centralise most agencies in Civic (or possibly Woden).

Recommendation 38: further work be undertaken by the implementation team (in conjunction with the Property Group) to develop a strategy which:

- **accommodates the shared service centre within existing space. This will require staff in an existing building(s) to be relocated prior to February 2007;**
- **reduces leased space by a further 10,000m^2 to 15,000m^2, providing additional accommodation savings of $2.7 million up to $4.5 million;**
- **develops an accommodation plan to take advantage of likely vacancies in Civic following Commonwealth Departmental moves in 2008-09; and**
- **provides the Property group with authority to give final approval on any accommodation expansions and/or refurbishments.**

Government Office Block

The Chief Minister's Department is exploring options for a government office block in Civic.

It is desirable to accommodate all the ACT administrative staff, to the extent possible under operational requirements, in a single office block close to the Legislative Assembly. Given the outlook of a surplus of leasing space in Civic, however, the Review proposes that the Government should not proceed to construct its own office block. Move to accommodate staff in a single office block in Civic should be subject to no additional budget costs, and improvement in office space utilisation to the target of 15m^2 per staff.

Recommendation 39: move to a dedicated office block for ACT Public Service administrative staff should be subject to no additional costs to budget, and improvement in office space utilisation to the target of 15m^2 per staff.

Role of Property Group

The Property Group within Urban Services is responsible for the management of all government owned and leased properties. It also includes the Facilities Management Unit transferred from TotalCare (48 FTEs).

The Group has had difficulty in delivering cost effective and strategic solutions to accommodation needs of agencies. This is evidenced by the occupancy rates highlighted above, and in some instances, costly fitouts being undertaken. Presently, the Group has little influence to restrain the wishes of agencies.

The Review is not proposing that responsibility and accountability for accommodation be moved away from Chief Executives. There is, however, a clear need for policy guidelines on accommodation, and fitout standards. Protocols need to be established under which government agencies could lease office space. Such protocols, while allowing the Chief Executives to determine the appropriate accommodation to deliver services, should also take a whole-of-government perspective, and in particular take account of the available (leased or owned) accommodation.

The Review proposes a strategic role for the Property Group. In addition, it is proposed that lease or fitout proposals in excess of $0.5 million be brought forward for Cabinet's consideration.

Recommendations 40, 41, 42, 43, 44 and 45:

- **the Property Group be reduced to a small strategic central core by separating it from the facilities staff (the latter would remain in Urban Services but as a separate business);**
- **the Group should have ultimate responsibility for negotiating and signing all leases/sub leases and fit out contracts;**
- **a set of policy guidelines be developed (by the Property Group) to assist agencies in relation to all property matters. These guidelines would set clear limits in relation to agency powers and require agencies to provide regular reports on all properties within their portfolios;**
- **lease or fit out contracts in excess of $500,000 be taken to Cabinet by the Minister responsible for the Property Group (rather than individual Ministers);**
- **the Property Group should establish fit out standards that include size, cost and transportability specifications; and**
- **consideration should be given to transfer this Group to the Shared Service agency when it is settled.**

5.11 LEGAL SERVICES

The nature of ACT Government legal services

The ACT Government's needs cover the usual spectrum for government legal services and the broad range of commercial, litigation and administrative law matters.

The ACT Government Solicitor (GSO) is the primary legal services provider to Government and a number of agencies, but the ACT Government has no legal services policy. Accordingly government agencies and authorities are free to engage external legal service providers. Some agencies also have their own specialised legal units, which are used in conjunction with GSO.

The table below shows the usage of own source and external legal service providers for the financial year 2004-05. The free and within Government services are all provided through the Department of Justice and Community Safety, some on a cost recovery basis and some with only notional charging.

Table 5.9: 2004-05 Legal Services across Agencies

Agency	Own Source	External	Free	Within Govt	TOTAL
ACT Health	$90,480	$182,900	$741,000		$1,014,380
ACTIA	$28,000	$29,000		$1,870,000	$1,927,000
ACTION	$10,000	$67,000			$77,000
ACTPLA	$150,000			$731,000	$881,000
CMD	$265,133	$58,210	$482,000		$805,343
DED				$145,000	$145,000
DET		$1,000		$354,000	$355,000
DHCS		$23,000	$152,000	$6,000	$181,000
DHCS Housing	$125,000	$53,000		$227,000	$405,000
DHCS OCYFS	$122,000		$303,000		$425,000
DUS		$223,416			$223,416
EPIC				$12,000	$12,000
ESA		$48,000		$113,000	$161,000
Gambling			$25,000		$25,000
ICRC	$79,685	$158,246	$8,000		$245,931
InTACT		$50,900	$47,000		$97,900
JACS					$0
LDA		$894,000		$196,000	$1,090,000
Stadiums		$30,000		$2,000	$32,000
Tourism				$35,000	$35,000
Treasury		$18,000	$534,000		$552,000
ACT WorkCover	$64,000	$6,480	$138,000	$1,960	$210,440
Total	**$934,298**	**$1,843,152**	**$2,430,000**	**$3,692,960**	**$8,900,410**

Source: Review Legal Services Data Request

Issues Arising from Current Arrangements

The current arrangements raise a number of issues for the Government including:

- consistency of legal advice when different law firms are engaged by different agencies to perform similar services;
- ensuring that the interests of the Territory as a whole, rather than those of specific agencies, are protected;
- ensuring that appropriate advice is being obtained by agencies, particularly when it is of a specialist nature;
- avoidance of duplication of advice across agencies or, indeed, within departments;
- ensuring that legal advice is provided in a timely manner;
- avoidance of a conflict of interest where a private law firm acts both for and against the Territory, as happens at present; and
- the cost of legal services and value for money.

Australian National Audit Office Report

The Australian National Audit Office (ANAO) released a performance audit report on legal service arrangements in the Australian Public Service in June 2005. As part of this report, the ANAO included a summary of observed better practice in service delivery. Key points in this summary relevant to the ACT situation are:

- the importance of the presence of an informed purchaser who:
  - comprehensively understands the business of the Agency and is able to protect that Agency's interests;
  - coordinates all legal services arrangements and has an understanding of the market and how it operates;
  - provides a link between decisions taken at the strategic level and the day-to-day implementation;
  - provides assurance that agency is achieving cost effective legal services; and
  - is aware of the developments both legal and otherwise that are likely to impact on the Agency;
- the need for proactive management of client and provider relationships (both internal and external);
- the need to consider negotiation of volume rebates, learning discounts or other value delivery strategies;
- the need to measure quality of legal services against agreed standards;
- the need to ensure clearly understood service delivery standards and immediate discussing of issues where delivery does not meet expectations; and
- the importance of establishing a knowledge base and an ability to access the knowledge base to gain maximum value from services and advice for which the agency has already paid.

Preferred Model for the ACT

The best way to address these concerns and meet the ANAO best practice principles would involve consolidating legal service provision through the Government Solicitor's Office. To be effective these arrangements would require:

- the GSO to outsource services where required in collaboration with the relevant agency through a panel of preselected providers with expertise in defined areas of law would also be most practical;
- in house legal units to remain in some departments but with supervision and support provided by the GSO and be out-posted to agencies;
- agreed quality and timeliness service standards for the GSO; and
- a small number of statutory authorities and corporations that are required to operate commercially outsourced legal services.

To the extent that advice provided by a private sector law firm gives rise to contentious issues for the ACT Government, the matter may always be referred to the GSO for advice. In addition, certain types of work could be mandated as the sole responsibility of the GSO, for example, public sector and constitutional law and matters involving the Legislative Assembly and Cabinet.

The issue of implementing a full user charge system in the GSO was canvassed with the Department of Justice and Community Safety which advised that GSO would still require some Government funding for core work. The department indicated that the remaining devolved funding is 'unlikely to be sufficient' for agencies to meet the real costs of providing the service, resulting in a risk that agencies will limit the extent to which legal advice is sought.

Further, while the Department acknowledges the capacity of a user pays model to deliver savings by reducing the extent to which legal services are being performed unnecessarily, it does not believe that this factor is a significant issue in the ACT and hence the level of savings may not justify the potential risks and transaction costs. Finally, the Department indicated it would require 12 months to implement the system.

Potential Savings

While the figures above represent the estimates by agencies of their current legal costs, there is some concern that not all agencies have been able to provide details of full costs. Given this uncertainty, the relatively low level of outsourced work reported, and the need to boost GSO to some extent, while still maintaining some degree of outsourcing, it is envisaged that the savings from the recommended model would be not significant, and not in excess of $500,000 in the first year of operation of a new model.

However, consolidating legal services through the GSO would enable a more effective tracking of legal service costs, and accordingly, the capacity to identify more accurate savings targets. A detailed tracking of the costs of legal service provision from within ACT Government and from external providers over 2006-07 is therefore recommended, with savings targets to be established by June 2007.

Recommendation 46: legal services provision to ACT Government agencies be consolidated through the ACT Government Solicitor's Office, with:

- **legal services being provided on the whole through legal officers employed by the GSO;**
- **any outsourcing of legal services to be undertaken by GSO in conjunction with the relevant agency through a panel of pre-approved providers;**
- **legal units within agencies remaining only where there is a clear operational requirement and that the staff be engaged by and report to the GSO;**
- **statutory authorities and corporations being able to retain current outsourced arrangements for commercial legal issues; and**
- **clearly defined service standards be developed and agreed between the GSO and agencies.**

Recommendation 47: a detailed tracking of the costs of legal service provision from within the ACT Government and from external providers over 2006-07 be undertaken, with savings targets to be established by June 2007.

5.12 INTERGOVERNMENTAL AGREEMENTS AND NEGOTIATIONS

There are many intergovernmental agreements underpinning Commonwealth funding and state service arrangements. These cover programs under Specific Purpose Payments (SPPs) and other Commonwealth funding arrangements, and cross border services with NSW.

The Review has become aware of instances where agreements are being negotiated without Cabinet in-principle approval and/or central agency involvement. The approach carries significant risks and budget threats, for example, additional matching funding being targeted by the Commonwealth, new Commonwealth program initiatives without ongoing commitments, through to reprioritisation of funds to lower priority areas.

For accountability and fiscal policy purposes, future negotiations should require initial in-principle agreement from Cabinet, including decisions on specific negotiation directions. Financial obligations in agreements should be established as part of the budget process, preferably sooner than later.

For efficiency, a threshold point where Cabinet needs to be involved should be considered. The major areas of health, disability services and housing, for example, should be endorsed by Cabinet, whereas other Commonwealth payments could be agreed between Ministers and the Treasurer. Similarly, major cross border payments from NSW should be considered by Cabinet.

Central agencies should be advised of all negotiations with the Commonwealth, and other jurisdictions, and have the opportunity to bring a whole-of-government focus and influence to the outcome.

Recommendations 48: in relation to inter-governmental agreements and negotiations:

- **negotiations between the Commonwealth and the ACT be based on in-principle parameters approved by Cabinet and/or Ministers, in advance of negotiations;**
- **a threshold for Cabinet consideration should be tied to major specific purpose programs such as health, disability services and housing, with all other funding arrangements to be agreed between relevant Ministers and the Treasurer;**
- **major cross border arrangements should have in-principle parameters approved by Cabinet; and**
- **central agencies should be advised of all negotiations with the Commonwealth and other jurisdictions.**

5.13 INTEGRATED DOCUMENT MANAGEMENT SYSTEM

Background and Current Status

The Integrated Document Management System (IDMS) has been implemented in ACTPLA, ACT WorkCover and the Registrar General's Office[14]. To date, the total cost of implementation of IDMS (excluding agency implementation costs) is of the order of $8 million. Recurrent annual costs are approximately $1 million.

The system provides capabilities in at least the following areas:

- record keeping (allowing document tracking and retrieval);
- electronic document storage/retrieval (enabling the contents of documents to be searched electronically, not just authors, titles or keywords); and
- workflow management (supporting the progression of a document through a series of pre-defined and predictable processing steps. This reflects the style of much of ACTPLA's work but less so that of a policy agency).

IDMS (or indeed any form of electronic document tracking system) is not mandatory for agencies to achieve compliance with the requirements of the *Territory Records Act 2000* (TRA).

The total cost of the whole-of-government implementation of IDMS is estimated to be approximately $33 million[15], i.e., an additional $25 million for rollout to the remaining agencies. Current recurrent costs of licensing and support are around $835 per user. New users will also incur these costs, although with a rollout across government these costs could reduce by 30%-50%.

Options for the Future

Given the current budget position, a whole-of-government rollout cannot be justified. The Review considers that the original goal – a single searchable repository of online information for the entire ACT Government – has to be set aside, perhaps for a future, open standards based generation of technologies with a more compelling business case.

Three agencies (ACTPLA, Registrar General's Office, and ACT WorkCover) have based their business practices on the use of IDMS. If the IDMS project were to be disbanded and no longer supported, the agencies would need to implement alternative systems. There is no suggestion that replacement technologies would be any less expensive – and the costs of a transition of technologies would be prohibitive. Abandoning IDMS is therefore not a viable option, and the existing sites should continue[16].

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[14] The system (at November 2005) had 803 registered users. Of these, 427 were active users, connecting to IDMS at least once every two working days.

[15] Benefits Evaluation Report; 2004.

[16] The cost of supporting these sites (excluding agency incurred costs such as storage charges levied by InTACT) is $1.5 million per annum. Forward estimates provide for $0.5 million per annum, and the Review has incorporated an additional $1 million per annum in the provisions.

There seems no benefit in preventing agencies (or sections of agencies) that see merit in the use of IDMS from going ahead with its implementation. Such agencies may already have extensive dealings with ACTPLA or ACT WorkCover or the RGO. The costs of the implementation of IDMS should be funded by the agencies themselves. In the current budgetary environment, however, it is difficult to see how agencies could fund such costs against other high priorities.

No agency should be permitted to develop and commit to a full function electronic document management system (including workflow) that has capabilities directly comparable with those of IDMS. IDMS should remain the ACT Government's preferred product of this nature, as further implementation in other agencies would reduce costs at a whole-of-government level.

Other Solutions

Agencies whose interest in records is limited to compliance with the *Territory Records Act 2000* could benefit from other more cost effective solutions.

In conjunction with InTACT, DUS has proposed the 'EDMS[17] Light' approach. This approach offers search/discovery capabilities from the desktop, across an agency's digital records base both within the Microsoft directories domain (including email databases), and in other information databases, such as Lotus Notes, and SQL databases.

The license costs are $30,000 to $40,000 (maintenance is around $10,000 annually). Implementation costs are relatively modest, comparable with the license fees. EDMS light would thus deliver search/discovery functionality at a fraction of the cost of implementation and support of IDMS, albeit, at a much lower functionality.

It should be viewed as an interim measure to provide an affordable electronic search/discovery tool until there is a stronger business case for the deployment of a whole-of-Government IDMS – as the technologies mature and costs reduce.

Recommendation 49: a whole-of-government rollout of IDMS be deferred to a later time:

- **the existing sites continue to be supported on a fee for service basis;**
- **no agency should be permitted to develop and commit to a full function electronic document management system (including workflow) that has capabilities directly comparable to those of IDMS; and**
- **as an interim cost effective measure, the Electronic Document Management System proposed by Urban Services and InTACT should be explored further, on the basis of its costs being absorbed by agencies.**

[17] Electronic Document Management System.

5.14 INSURABLE RISK MANAGEMENT

Incidents reported to the ACT Insurance Authority (ACTIA) in the period 1 July 1999 to 30 June 2005 are expected to generate a total claim payment exceeding \$85 million[18]. The cost of claims is rising every year across Government – the majority of agencies have reported increases in the number and the expected cost of claims over this period.

Reducing the number and cost of claims and losses experienced across the ACT Government through the use of risk management should lead to significant savings in internal and external insurance costs that can subsequently release funds for the implementation of other Government policies.

If nothing is done to address the current trend, the cost of claims over the next six years will exceed \$85 million. Whilst these figures represent the amounts paid on claims or reserved against future claims by ACTIA, the true cost to Government is even higher – including administrative costs of dealing with claims and the costs of claims that fall below agency's insurance excesses.

Six ACT agencies account for over 96 per cent of non-bushfire claims paid by ACTIA from incidents in this period. The agencies are ACT Health (61.6 per cent), ACTION (9.6 per cent), Urban Services (7.7 per cent), Education (6.6 per cent), Disability, Housing and Community Services (5.7 per cent) and the Chief Minister's Department (5.4 per cent).

ACTIA has attempted to address this issue by promoting the benefits of risk management to agencies through the provision of seminars, training courses and one to one assistance and through the introduction of initiatives such as Risk Management Benchmarking and the Enterprise Wide Risk Management Framework[19].

The success of this work to date has been uneven - whilst a few agencies have managed to improve claims performance, the majority have not and more direct support is required. The Review proposes that the six agencies that generate the majority of insurance claims be mandated to work with ACTIA to improve their insurance claims performance. Agencies would also be required to accurately and regularly report the progress made to Cabinet. Performance in reducing the number or cost of claims should also be measured in and form part of Chief Executive performance agreements.

The majority of claims relate to public liability and medical malpractice. Claims in these classes often take many years to resolve and so it may take a number of years before costs to budget are reduced. There are, however, non-financial benefits - reduced insurance claims will relate to fewer injuries to customers of ACT Government services and a consequent improvement to the reputation of the agencies concerned.

[18] This excludes the January 2003 Bushfires incident.

[19] ACTIA's functions also include: to develop and promote good practices for the management of territory risks; and to give advice to the Minister about insurance and the management of territory risks; Section 8 (e) and (f); *Insurance Authority Act 2005*.

Recommendations 50 and 51:

- **the six agencies that generate the majority of insurance claims be mandated to work with ACTIA to improve their insurance claims performance and risk management; and**
- **performance in reducing the number or cost of claims should form part of Chief Executive performance agreements.**

5.15 SUMMARY OF SAVINGS AND STAFFING IMPACTS

	2006-07 $'m	2007-08 $'m	2008-09 $'m	2009-10 $'m	Total FTE Impacts
Public Service Superannuation Arrangements - Contribution Rate of 9% + 1% Matching	1.500	4.400	7.300	10.100	0
Cash Management and Control (Savings)	4.900	5.100	5.200	5.200	0
Cash Management and Control (Interest)	4.700	4.500	4.400	4.400	0
Advisory Boards and Committees	1.000	2.000	2.000	2.000	0
Government Vehicles - 6 to 4 Cylinder (Progressive Savings)	0.275	0.550	0.850	0.850	0
Whole-of-government Fleet Management Fees	1.100	1.128	1.156	1.185	0
Reduction in Whole-of-government Fleet Size	0.200	0.500	0.513	0.525	0
Office Accommodation to 15m^2 per Office Employee	1.606	3.416	3.551	6.211	0
Legal Services	0	0	0	0	0
TOTAL WHOLE-OF-GOVERNMENT SAVINGS	**15.281**	**21.594**	**24.970**	**30.471**	**0**

Part

6

ONE ACT SERVICE: TOWARDS SHARED SERVICES

CHAPTER 6 SHARED SERVICES

OVERVIEW

Core corporate services (including human resources, finance, information technology and communications, procurement and records management) cost in excess of $145m and are delivered by more than 1,000 staff. They provide critical support for front line service delivery. Governments nationally and internationally are moving to implement shared services approaches to corporate service delivery to drive higher performance. Shared Services enable governments to become more outcome oriented, client focused and accountable by allowing service delivery agencies to focus on their core responsibilities. Shared services can reduce administrative costs while improving service delivery.

KEY RECOMMENDATIONS/CONCLUSIONS

- The ACT has a hybrid approach to the delivery of its corporate service functions and would benefit from the introduction of a single Shared Service Centre. The benefits will derive both from improved service delivery and efficiencies.
- The Shared Service Centre should provide transaction and some tactical services to all ACT Government agencies.
- The Shared Service Centre be managed by a governing committee of departmental/agency chief executives but be attached to a central agency for administrative and legal accountability.
- The savings resulting from the proposed shared services arrangements will be $9.3 million in 2006-07 rising to $18.3 million in 2007-08 and forward years. The costs of implementing the initiative will be $7.2 million in 2006-07 and $1.7 million in 2007-08.

6.1 CURRENT CORPORATE SERVICE PROVISION: A HYBRID APPROACH

The ACT Government has a hybrid approach to the delivery of its corporate services currently but over the last few years had moved to more “shared” or centralised models.

Across departments and agencies, there are centralised and decentralised approaches. Some agencies are self sufficient (for example, significant corporate services are predominately provided from within the agency, such as, ACT Health) while some have entered into cross-portfolio arrangements for some components (for example, the Chief Minister’s Department provides financial services for the Department of Treasury and the Department of Justice and Community Safety among others, but its payroll service is provided by the Department of Urban Services).

In another case one department provides a service across the whole of the government (e.g. records management although even here some agencies manage their own mail distribution and file management services).

Information technology is an important tool to support corporate services provision and to drive efficiency. The Territory has invested in recent years to update its software and move towards a common platform across both finance and human resource management functions. Most departments and agencies now operate on Oracle Financials as the financial system platform. However, as each major department is responsible for its own upgrade path, there are now ten instances of the system in use. Similarly, the Territory is progressively implementing a new Human Resources Management system (CHRIS 21) across a significant portion of the sector. This is being delivered through four payroll centres that require the system to be configured differently to meet their different interpretations of policies. Again, there is a significant risk that multiple instances will become accepted practice.

Results from the data collection from agencies indicate that in total the ACT Government has 1,078 staff engaged in core human resources, finance, IT, procurement and records activities.

Table 6.1: Resources deployed for core corporate service activities

Activity	FTE (1)	$'000
Human Resources	350	33,065(2)
Finance	296	27,789(2)
IT	326	74,750(4)
Procurement	78 (3)	9,089(4)
ACT Records	28	3,800
TOTAL	**1,078**	**$148,493**

Detail in Attachment B

(1) These figures are probably under-estimated, as the agency returns of some agencies with highly decentralised structures did not include staff in functional areas or business units undertaking a range of finance, human resources or procurement activities.
(2) These figures do not include amounts spent by agencies on consultants/contractor for a range of HR and finance advice and support.
(3) Further transfers from Agencies are likely to increase these numbers by about 10 FTE.
(4) From 2005-06 budget papers for InTACT and Procurement Solutions. For IT this does not include approximately $60 million of agency controlled IT expenditure.

These staff represent 6.6 per cent of the public service FTEs.

In 2005, following a review of information technology services, the ACT Government decided to expand InTACT to create a Shared IT Services Group (still called InTACT) to provide all IT infrastructure, IT management and systems development and application support across government except for the education portfolio.

InTACT provides infrastructure for the Department of Education and Training (DET) Central Office and the Canberra Institute of Technology (CIT) administration. DET manages a separate network for schools including infrastructure. Similarly, CIT operates a student network. DET is scheduled to fully roll into InTACT in 2007-08.

Staff and associated resources from other government agencies are progressively transferring to InTACT (although in many cases they will remain physically located with their client agency). Benefits from this level of consolidation of InTACT are already factored into the forward estimates.

The ACT Government spent some $524.3 million on goods and services in 2004-05 (excluding grants, payments to the Australian Government for community policing, payments to the New South Wales government for prisons and payments to the Australian Government in respect of GST administration). In addition, the Territory Government spent approximately $129 million on capital works in the same year. This procurement activity represents 23 per cent of the Government's total expenditure and is a major enabler of the delivery of government services.

The Government has already introduced major procurement reforms with the introduction of the *Government Procurement Act 2001* and the establishment of Procurement Solutions in its current form in the same year to provide procurement services to the majority of Government agencies. Savings have already been achieved through centralisation of the staff involved.

Record Services within the Department of Urban Services provides records management assistance and advice including management and supply of records creation and storage, and mail, postage and courier services for a number of government departments and agencies.

Government printing services are currently managed by Publishing Services within the Department of Urban Services. Services are available to all departments, although not all agencies are under tied arrangements.

Publishing services manage about 1,620 publishing projects per year, at a cost of $2.85 million. In addition, departments undertake their own publishing. In the majority of cases, work is outsourced to the private sector.

6.2 ANALYSIS OF CORPORATE SERVICES ACTIVITY

From an analysis of the data and discussions with a number of people from a variety of agencies a number of conclusions can be drawn:

- there are pockets of good practice in a number of agencies (although no agency shows best practice across all areas of corporate services). However, with strong individual silos it is very difficult, if not impossible, to implement best practice processes across the entire government sector;
- there are inconsistent policies or interpretations of policy resulting from the decentralised approach of the last decade;
- the focus has been on compliance and process rather than on the quality of the outcomes;
- there is a lack of strategic focus on corporate service issues as a consequence of them being regarded as "back office" and not the core business of any agency;

- a number of agencies are too small to develop some of the corporate services capacity or capability they need;
- there are multiple instances of some core systems (e.g., Oracle Financials), however, not all agencies use these core systems. Even where the same software is used (e.g., CHRIS 21), there is customisation and different configurations. This divergence results in higher costs to government through the higher costs of maintenance and upgrades;
- specifically in relation to procurement, the focus has been on establishing Procurement Solutions and on the tendering process particularly for capital works. However, much remains to be achieved through policy review, strategic sourcing and aggregation, process simplification supported by appropriate technology with further development of procurement professionals and building capacity in relation to goods and services; and
- InTACT is well advanced in agreeing the transfer of relevant IT staff from most agencies (the exception being the Emergency Services Authority). Generally, this arrangement is well accepted with InTACT developing a client focused service delivery culture. However, the efficiency gains expected are at risk as a result of fewer staff transferring to InTACT than planned and the exclusion of the Canberra Institute of Technology and the Department of Education and Training.

6.3 SHARED CORPORATE SERVICES

Corporate service areas have been under pressure to deliver efficient services, to provide professional and value adding services to management, to be responsive to agencies needs and to be flexible to support government realignment of programs. This has led to the growth of shared corporate services initiatives by governments both nationally and internationally.

Shared services within the government sector can be usefully defined as "the consolidation of administrative or support functions (such as human resources, finance, information technology and procurement) from several departments or agencies into a single, stand-alone organisational entity whose only mission is to provide services as efficiently and effectively as possible"[1].

Both the words 'shared' and 'service' are critical: shared because it emphasises the shared responsibility for the end results and service for its emphasis on the delivery of high quality services to clients.

Shared services are not a centralised model in disguise. Historically the provision of corporate services has swung between centralised and decentralised models.

The following model describes the strengths and weaknesses of both the decentralised and centralised approaches and the promise of a shared service approach to capture the best of both.

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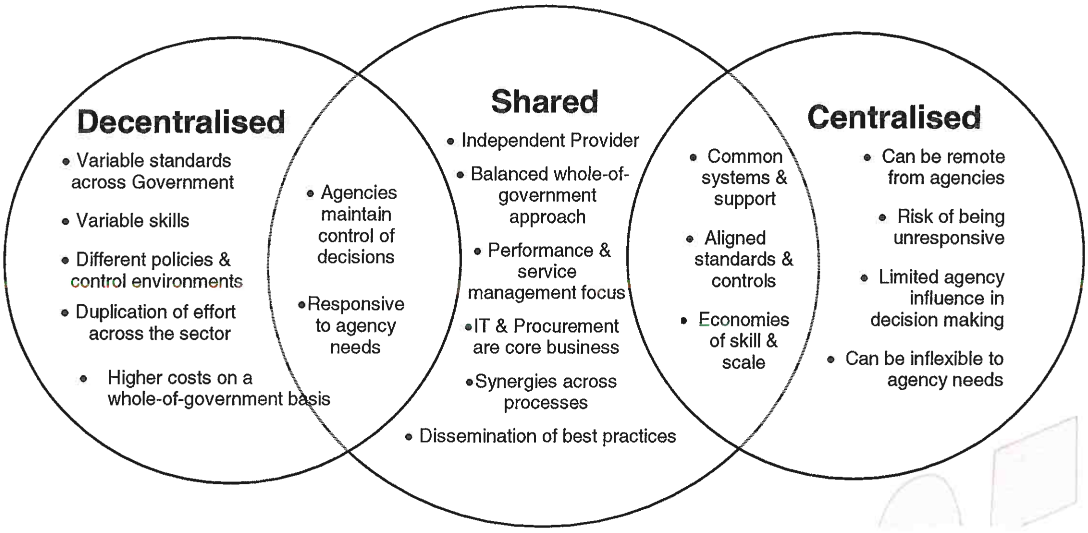
[1] *Driving High Performance in Government: Maximising the Value of Public-Sector Shared Services.* 2005. Accenture: www.accenture.com/Global/Research_and_Insights/By_Industry/Government.

Approaches to Corporate Services[2]



Shared services achieve efficiencies through:

- Consolidation – combining processing and expertise into one structure;
- Streamlining – all processes are streamlined and standardised with common underpinning policies; and
- Automation – common enabling technology used to automate transaction processing and improve transparency (eg standard, automatic reports produced, e-procurement (from procure to pay) and employee self service).

6.4 A MODEL FOR THE ACT

A shared services approach to corporate services will bring together resources to achieve economies of scale, performance improvements and realise tangible benefits.

6.4.1 A Single Shared Service

The model proposed for the ACT is for a single shared service centre incorporating tactical and transactional human resources, finance, information technology, records management and procurement. Strategic capacity should remain with individual departments/agencies as it relates to the setting of overall organisational direction and is inextricably linked to governance and the agencies performance framework. A single shared service is proposed, as a shared service centre needs a high volume of transactions to achieve processing efficiency. With some 16,500 FTE staff in the public service, a single ACT Government shared service would not be large by Australian or international standards[3].

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[2] Price Waterhouse Coopers Consulting, 2002.

[3] The four shared service centres in Western Australia support 25,000 to 35,000 staff.

However, any move to a centralised model as distinct from a shared service arrangement, to achieve quick benefits/savings should be resisted. In the medium to longer term this will effect the perception of shared services and damage the ability for a shared service provider to deliver corporate services transformation (process re-engineering, standard reporting etc).

The main underpinnings of shared service need to be in place from its commencement. These include:

- a governance structure that provides for client "ownership";
- service level agreements;
- charging (fee for service) arrangements which balances simplicity with accurate, transparent costing; and
- a performance framework that benchmarks the Shared Service and drives a continuous improvement culture.

Staff of the Shared Services Centre should be co-located as this will enable:

- better sharing of skills and experience between the staff;
- greater adherence to whole-of-government policies and standards;
- the development of a strong service oriented culture;
- ongoing training of corporate services staff;
- multi-skilling, job rotation and therefore enhanced career development of the staff;
- the centre to manage peaks and troughs in work; and
- the development of "centres of excellence" for tactical advice.

Recommendation 52: establish a single, co-located Shared Service Centre to provide transactional and tactical human resources, finance, information technology and telecommunications, records management and procurement services, on a fee for service basis.

6.4.2 Scope of the Shared Service

The Shared Service Centre should provide services to all ACT government departments/agencies. A full list is at Attachment 6.1.

An important principle for shared service operations is that agency executives remain accountable for their agency's activities. Decisions to procure certain goods, fill a vacant position, appoint a particular person as a result of a selection process etc remain with the agency but the procurement and recruitment processes will be located within a shared service.

There is also an important distinction between strategic and tactical and transactional activities. Strategic activities relate to the setting of the organisation's directions and policy framework and are integral to the governance and performance management of the organisation. Broadly the services to be provided by the Shared Service Centre will be both transactional and tactical. The transactional services (eg payroll, accounts payable) will need to be managed with a focus on delivering fast and accurate throughput to reduce the cost per transaction. Tactical services[4] require a greater level of agency understanding and, in a number of cases, can be delivered by the shared service as it will attract and develop professional staff and will have customer relationship managers for each department/agency.

The services to be provided through the Shared Service Centre will include the transactional and tactical components of:

- Human Resources:
  - payroll including tax payments and salary packaging;
  - recruitment, selection and appointment;
  - redeployment and redundancy;
  - labour relations;
  - performance management (advice on policy and guidelines);
  - workers' compensation (reporting and advice on policy and guidelines and possible case management for small agencies);
  - statutory and management reporting;
  - organisational data management; and
  - Equal Employment Opportunity.

- Finance:
  - accounts payable (including commitments capture);
  - accounts receivable and banking;
  - general ledger;
  - tax payments (preparation of returns, advice);
  - fixed assets including leases;
  - statutory and management reporting;
  - budgeting and forecasting (tools and templates);
  - cash flow management and bank reconciliations (reconciliation, monitoring and reporting); and
  - financial management planning, controls (including procedures, user manuals, monitoring of accounting standards).

- Procurement:
  - development and promulgation of toolkits to assist agencies in adopting a strategic, whole-of-government approach to procurement;
  - development and management of Common Use Contracts;
  - implement and manage a whole-of-government e-procurement system (in conjunction with InTACT);
  - statutory and management reporting of all procurement spending;
  - provision of information to companies doing business with the ACT Government;
  - standardisation and streamlining of documentation for agency specific procurement activities (including tender and contract documentation); and
  - procure capital works.

[4] Tactical services: focus on planning the means to achieve the outcome through the most effective business processes (e.g., redesigning recruitment processes).

- Records Management:
  - file creation, retrieval and storage;
  - mail postage, sorting and delivery; and
  - courier services.

- Information Technology: covering all operational aspects of IT within the ACT Government including;
  - infrastructure development and support;
  - management of whole-of-government applications;
  - IT help desk;
  - IT administration;
  - application support;
  - voice and communication technology; and
  - procurement of IT hardware.

- Publishing Services: covering all aspects of publishing and printing of Government material including;
  - graphic design;
  - desktop publishing;
  - web publishing;
  - editing;
  - printing; and
  - specialist publishing advice.

Recommendation 53: all ACT agencies be supported by and tied to the Shared Service Centre which will provide the transactional and tactical components of the full range of HR, finance, ICT, records, publishing and procurement services.

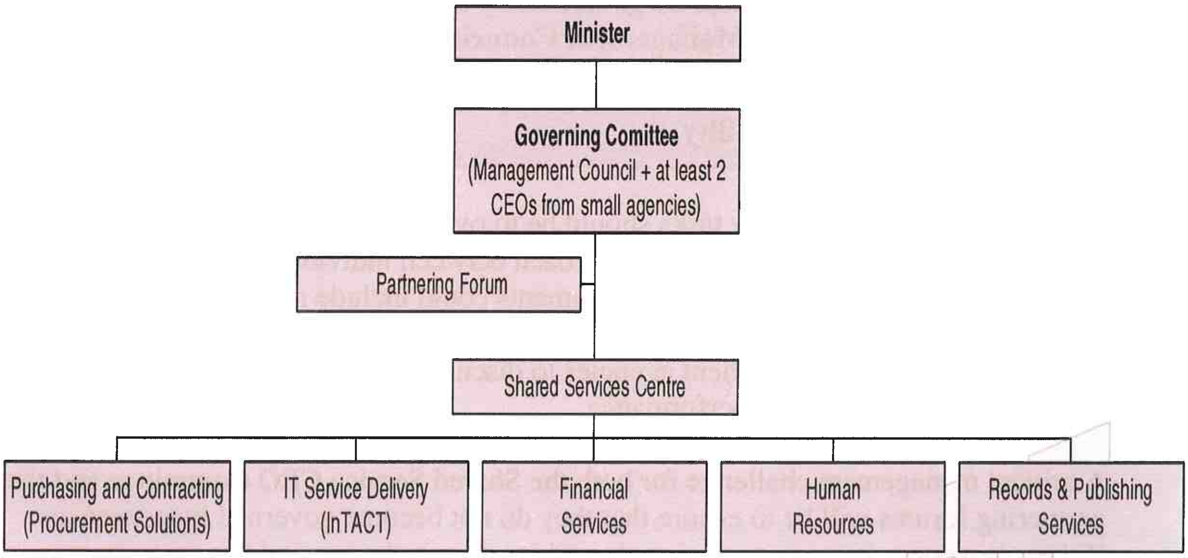
Recommendation 54: policy responsibility for consistency and standards of government printing and publications be transferred to the Communications Unit, Chief Minister's Department.

6.4.3 Governance and Performance Management of the Shared Service Centre

Clear governance arrangements will be critical to the success of the shared service initiative. The governance arrangement will need to ensure effective whole-of-government decision-making and involvement and participation of management. It will need to ensure that the whole-of-government benefits are achieved and that the shared service centre provides appropriate support for agencies' core business. The arrangements will need to encompass the principles of transparency, inclusiveness and accountability while ensuring delivery of the initiative within a tight timeframe.

The following diagram sets out the proposed governance model:

Proposed Governance Model



The Shared Service Centre should be attached to a department which is the employing authority under the *Public Sector Management Act 1994,* the *Financial Management Act 1996* and the *Auditor General Act 1996* for the shared service centre staff. The Minister accountable in the Assembly should be the Minster of the employing authority. Each agency remains accountable for its own expenditure, revenue, assets and liabilities transacted through the shared service centre.

A key component of the governance model should be a Shared Service CEO Governing Committee that, during the first couple of years, should provide both governance and stewardship of the Shared Service Centre. This Committee should be the Management Council, plus at least two CEOs from small agencies and should:

- oversee implementation planning to ensure that a whole-of-government approach is implemented;
- hold each CEO accountable for the implementation of their responsibilities during the implementation phase;
- demonstrate leadership across the public sector in relation to the changes necessary to implement the shared service centre;
- develop a whole-of-government performance management framework for the centre;
- be accountable for the ongoing viability of the shared service centre;
- resolve performance and resourcing issues which impact on all client agencies; and
- report to Cabinet on the progress of the initiative.

The Governing Committee should be chaired by the Chief Executive, Chief Minister's Department.

Recommendation 55 and 56:

- **the Shared Services Centre be governed by a Governing Committee which is a sub-committee of the Management Council;**
- **the Centre is to be attached to the Department of Treasury for administrative and financial accountability.**

One of the Committee's early tasks should be to oversee the development of formal arrangements to support a partnering approach between individual line agencies and the Shared Service Centre. These arrangements could include regular partnering forums (perhaps three monthly) between the Shared Service Centre (initially the implementation office) and client agencies to discuss business improvement initiatives and review service delivery performance.

A critical management challenge for both the Shared Service CEO Committee and the partnering forums will be to ensure that they do not become governed by consensus. If there is a consensus approach, inertia and inaction is the inevitable consequence.

Service level agreements (SLA) are an important element of the governance framework. This is partly because the very process of their negotiation results in a clarification of the expectations of both parties and greater understanding of the deliverable products and partly because they provide the framework for ongoing monitoring and continuous improvement.

Initially, there may be a tension between the level of detail required by most agencies and the necessity to produce a document that is practical, has measurable service levels and focuses on outputs rather then inputs. This issue will need early resolution by the CEO Committee to ensure the costs of implementing an SLA are commensurate with internal service provision and total cost of the service.

A pricing model based on full cost recovery principles including capital investment should accompany the service level agreement. It should provide equity, transparency and differential pricing for services. The link between levels of service provision and cost is an important one in any assessment of effectiveness of the service. Additionally, if the Government is to know the full cost of its front line service provision, agencies must be able to include the cost of their corporate overhead.

Recommendation 57: the Governing Committee oversee the development of service level agreements between the Shared Service Centre and agencies including appropriate service charging regimes.

Benchmarking is an accepted tool for accessing and identifying opportunities for greater efficiency. It will be particularly important for the ACT to participate in benchmarking with other government shared services to help the Steering Committee manage the risks inherent in a monopoly provider. Benchmarking requires the establishment of a baseline that should be done as part of the detailed implementation plan for the proposed Shared Service Centre.

Governments in NSW, Queensland and Western Australia have or are implementing shared corporate service arrangements and this should provide some opportunities to benchmark with like service providers.

Recommendation 58: the Governing Committee facilitate the formal benchmarking of the Shared Service Centre to assess its performance and drive continuous improvement.

6.5 IMPLICATIONS FOR INTACT, PROCUREMENT SOLUTIONS AND RECORDS MANAGEMENT

6.5.1 InTACT

InTACT appears to be developing a client focused culture and the next 12 months will be critical in terms of cementing this while delivering the required benefits to the Government. It has taken the approach of "re-badging" agency staff but leaving a number in place in agencies. This arrangement should continue and be the only exception to the general approach of a co-located shared service.

Currently savings of some $6 million per annum are factored into the forward estimates from 2007-08 (rising from $1 million in 2005-06 to $6 million in 2007-08 and forward years) as a result of the Governments decision in 2005 to create InTACT as the whole-of-government shared IT service provider. A component of that decision was to exclude the Education portfolio. In light of the progress with establishing InTACT to date, this decision should be revisited.

CIT's expenditure on IT is estimated to be $10 million with $5.8 million provided to InTACT and $4.2 million being CIT direct costs. These figures do not include the infrastructure costs of the student network. CIT has raised a number of concerns about being part of the IT Shared Service including:

- a student network with 20,000 clients and the need for support on a 24x7 basis;
- the ability for CIT to obtain educational discounts;
- the need for students to be able to use the latest software sometimes ahead of InTACT's preparedness to certify the software for use on the system;
- the diversity of CIT's IT environments;
- the specialist nature of some of CIT's business applications; and
- the fact that only 8 per cent of CIT's staff use the government network with the remainder using CIT's network.

These issues and concerns are not unique to CIT. Similar arguments could be raised by other agencies such as ACT Health. These issues are not sufficient to allow CIT to be exempt from whole-of-government initiatives.

Recommendation 59: the Canberra Institute of Technology be included in the InTACT component of the Shared Service Centre.

Similarly, the expenditure by the Department of Education (DET) on IT in 2004-05 was estimated to be $30.27 million, with some $13.8 million being expenditure by ACT Government schools on leasing and purchasing equipment and software, $8.8 million provided to InTACT with the remainder being DET staffing and other internal costs.

Apart from concerns about the lack of control over IT, DET's main concerns about rolling all its IT into InTACT revolve around the critical nature of IT in schools educational role. Given the transformational role of the Government's planned investment in IT in schools, there is concern that neither DET nor InTACT yet have the skills, knowledge and experience of educational IT that will be necessary to effect this change. Thus staff will need to be retrained or additional support brought in.

In this environment, it would ease the pressure on both the Department and schools if InTACT assumed responsibility for hardware, software and related support leaving DET and schools to focus on the educational transformation required. This would also mitigate risks associated with the current arrangements whereby the Department must maintain and develop skills and expertise in a relatively small unit. Skilled IT professionals are still in demand and highly mobile.

The best look for challenging work is an environment that is large enough to provide diversity and exposure to new technologies. Such an environment is most likely to be provided by InTACT.

Recommendation 60 and 61:

- **the Shared Service - InTACT be responsible for Department of Education and Training's (including schools) infrastructure, applications and applications support; and**
- **the Shared Service - InTACT work in partnership with Department of Education and Training and schools to deliver the proposed new investment in IT in Schools project.**

6.5.2 Procurement Solutions

Procurement arrangements are also in transition following the Government's decision in 2005 to centralise procurement staff for capital works and goods and services, within Procurement Solutions. Given how recent these changes some uncertainty and resistance from agencies is to be expected. However, this should not be used to slow down the change process but should be dealt with through increased communication at all levels using all available communication channels (eg. internet, presentations to agency staff etc).

The Government's decision in 2005 in relation to Procurement Solutions included a decision of exempt the Department of Education and Training (including the Canberra

Institute of Technology – CIT) from the new arrangements until 2007-08. However, both the Department and CIT would benefit from access to expertise and the efficiencies and savings that will be delivered through an expanded range of common use contracts. Conversely their buying power when aggregated with the rest of the government, will assist in leveraging lower prices which will be available to all agencies. In fact Procurement Solutions and the Department of Education and Training already work in partnership to deliver capital works and a range of goods and services contracts.

Recommendation 62: the Department of Education and Training, including the Canberra Institute of Technology, be included in the Procurement Solutions component of the Shared Services Centre.

Procurement Solutions has experienced difficulties in implementing the Government's decisions of last year and should benefit from the collegiate support of the broader Shared Service. A number of agencies and senior staff have reported to the Review dissatisfaction with the timeliness and the accountability arrangements associated with the current procurement arrangements. Comparisons with the time taken by the private sector for similar procurements are often used to the detriment of the government procurement agency. However governments are by their nature risk averse and the ACT, like all other Australian jurisdictions, has a set of policies and procedures designed to reduce the risks to government of procurements to as close to zero as possible. These policies add processes and checks and balances not commonly employed by the private sector.

Timeliness of response is also a product of a service delivery culture and the number and quality of the staff. The need for a strong focus on developing a service delivery culture for the proposed shared service has already been discussed. Procurement Solutions is currently suffering from a shortage of skilled and experienced staff. This results partly from lower than anticipated numbers of staff transferring from agencies and partly from the "back office" nature of the function that has traditionally resulted in lower levels of training and development opportunities.

Procurement particularly of high cost or high risk goods or services or capital works is very complex and the risks are increased if the accountabilities are not clear. It is important that all parties understand the principle of a shared service is that all decisions (whether they are about purchasing through open or selective tender, who the successful tenderer is, what contract variations are to be approved etc.) are the responsibility of the purchasing agency (and holder of the funds). The shared service provider (Procurement Solutions in this case) is responsible for undertaking the process steps and providing professional advice to the purchasing agency. This advice may include a recommendation but the ultimate decision must rest with the delegate within the fund holding agency.

The major benefits from the establishment of a procurement shared service are yet to be realised. These will stem from aggregating purchasing to leverage better prices, the establishment of more mandatory common use contracts (CUCs) with simplified buying processes for CUCs, and consolidating the supplier base.

Common use contracts are contractual arrangements entered into by the government to allow all public sector agencies to buy goods and services directly from selected suppliers without having to establish their own contracts. Usually these arrangements are for goods and services common to most departments/agencies such as cleaning products and services, stationery, and building maintenance services. Common use arrangements eliminate the duplication of effort associated with individual departments/agencies establishing their own similar contracts and they allow the Government to aggregate its spend and therefore use its purchasing power to reduce the cost of the goods and services it buys.

Further efficiencies can be gained from common use arrangements where the Government standardises common goods and streamlines the range of products/services available within a category (thus increasing the volume per product and leveraging lower prices). This should also lead to a reduction in the numbers of suppliers and a consolidation of the number of contracts with consequent opportunities for more effective supplier and contract management.

Increasingly governments are moving to 'pick and buy' arrangements within the common use contract area. These further streamline procurement processes for agencies and mean quotes do not need to be obtained from different firms.

Recommendations 63 and 64:

- **the number of common use contracts that are available to department/agencies be significantly increased. These contracts should be based on standard products/services, be "pick and buy" where possible and be mandatory for all budget-funded agencies; and**
- **responsibility for developing these arrangements and considering when best value for money would be obtained by leveraging off another jurisdictions contracts (in consultation with the appropriate contracts authority) be with the Shared Service Centre.**

The Review has not been able to assess the number of procurement transactions across the ACT Government and in fact the ACT Auditor-General noted in a report in November 2005, that "fifteen agencies surveyed (49 per cent) did not have readily available data for contract purchases under $50,000, or could only provide partial data"[5]. However, most other governments find that they have a high number of low value transactions[6]. In response, a number of jurisdictions[7] have, or are moving to purchasing cards to streamline the purchasing of high volume, low value goods.

[5] *Government Procurement. Report No.6/2005* Auditor-General, ACT

[6] A review in Western Australia of seven agencies found that there were over 1 million transactions for a spend between $0 to $500 and a further 100,000 transactions for a spend between $500 and $5,000. *Strategic Business Review of Procurement Reform with the Western Australian Government Sector,* Department of Treasure and Finance.

[7] For example, in Australia both NSW and WA are moving down this path as has the Department of Defence. In the UK, the introduction of Government Purchasing Cards is seen as a key tool in implementing the results of the Efficiency Review (ref: OGC Buying Solutions website).

Purchasing cards are credit cards with additional controls and value added reporting functionality. The use of purchasing cards eliminates the need to raise manual purchase orders, consolidates multiple payments to multiple suppliers into one payment and reduces the volume of accounts payable data that needs to be manually entered into the finance system. They also improve access to procurement data through the availability of transactions analysis reports that enable examination of the spending patterns and planning for better aggregation and reduction in the levels of maverick buying.

Recommendation 65: the Shared Service Centre investigate the introduction of purchasing cards and re-engineering the purchasing to payment process to achieve the inherent efficiencies. This should be undertaken with assistance from Treasury (e.g., the Territory banking arrangements could form the basis of the purchasing card contract).

6.5.3 Records Management

Of the 28.74 FTE staff identified by department and agencies as being involved in mail and records management, 28 are currently located in the central records management unit in the Department of Urban Services. These staff provide a transaction based service to the majority of the ACT Government and should be transferred to become part of the proposed Shared Service Centre.

Some departments store records on site or operate their own storage facilities. This multiplicity of arrangements is not only potentially inefficient but also creates a growing concern about the adequacy of record identification and tracking mechanisms.

As with all other services provided by the Shared Service Centre, all agencies will be required to use the services of the Records Management Unit which should be responsible for ensuring that the most efficient storage and retrieval services are available. As the market for document management services in the ACT is a mature one (used by the Australian Government, legal practices and accountancy firms) the Shared Service Centre should explore whether such arrangements would be of overall benefit to the Territory Government.

Recommendations 66 and 67:

- **the Records Management Unit from the Department of Urban Services be transferred to the Shared Service Centre; and**
- **the Shared Service Centre is to determine whether using private sector document management service would deliver overall benefits to the Territory Government.**

6.6 COSTS AND BENEFITS

6.6.1 Benefits

Significant non-quantified benefits will accrue to the ACT Government in moving to a shared service arrangement while leaving the policy roles with the Chief Minister's Department and the Department of Treasury. The benefits of shared corporate services include:

- departments/agencies are able to focus on their core business;
- greater transparency of the cost of corporate services and the ability to benchmark with other governments;
- corporate services become the 'core' business of the shared service agency with consequent improvements in internal practices, processes etc leading to continued productivity increases;
- professional, skilled and experienced staff across the range of corporate services are available to all agencies many of which are, individually, too small to be able to maintain access to such staff;
- the ability to provide a career structure and training and development opportunities for corporate services staff because the shared service has the required critical mass and a vested interest in developing its own core business. This in turn improves attraction and retention in the shared service;
- facilitation of structural (Administrative Arrangements Orders) changes within the government as a result of the implementation of common policies, procedures and technical platforms; and
- improved service delivery to most agencies (both faster and more accurate transaction processing and improved reporting and advice).

The extent to which these benefits will be realised will depend on the level of commitment and rigor focused on key elements of consolidation, standardisation and process re-engineering.

6.6.2 Human Resources and Finance Functions

Quantitative benefits accrue through efficiencies generated by consolidation, streamlining and automation. The Queensland Government Shared Service reports that savings of $10 million were realised in 2004-05, delivering $18 million in returns to Government since the commencement of the initiative in July 2003. These were in addition to the budget adjustments based on procurement improvements across Government that produced $6.2 million in saving in the 2004-05 year[8]. The NSW Government estimated that its agencies would deliver a 15 per cent benefit through the consolidation and standardisation (i.e. the move to a shared service environment) and an additional 15 per cent efficiency from the automation of basic transactions[9].

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[8] *Shared Service Initiative Achievement 2004-05: A Performance Report on the Queensland Government's transition to shared corporate services.* Queensland Government at www.qld.gov.au/sharedservices/pdf/Annual_Report_04_05.

[9] *Shared Corporate Services-Introduction* cited at www.gcio.nsw.gov.au

Early quantified benefits in the ACT will come from the consolidation of corporate services staff. To calculate these benefits details of the total number of corporate services staff broken down into defined sub-categories together with corporate services activity levels was obtained from each agency. These were then compared to provide some internal ACT Government efficiency benchmarks. For the Finance and Human Resources functions an assessment was made of the proportion of that service which should remain in the agency (e.g., the Shared Service Centre would be responsible for 100 per cent of payroll services but agencies retain 100 per cent of strategic HR staff).

Using these benchmarks and division of responsibilities, the savings are estimated to be $5.5 million per annum. These savings will only be fully realisable by the Shared Service Centre once it is fully operational. During the first year of operation the Shared Service Centre will need to devote considerable time and effort to standardising and streamlining processes. Not only will this work be resource intensive but until it is substantially completed the Centre will not be able to operate at the benchmarked efficiency levels. For this reason, during that first year, the Shared Service Centre should be able to access half of the anticipated savings for this work to supplement its operating costs. This will ensure that there is no loss of service to agencies.

A second round of efficiencies will be generated when the ACT moves to a more integrated, e-enabled environment. These technology related savings will result from the introduction of employee self service and e-procurement but have not been included in this analysis as there is an initial two to three year program in establishing the shared service arrangements, completing the roll out of the CHRIS 21 human resources system and ensuring that there are standard operating arrangements across government. A move to a fully e-enabled shared service will require some additional investment and a further study and detailed business case should be prepared during the next three years.

Recommendations 68, 69 and 70:

- **savings of $5.6 million be realised from agencies as a result of the establishment of the human resources and finance components of the Shared Service Centre with $2.75 million in 2006-07 being available to offset the additional costs of the Shared Service Centre in that year to ensure continuity of service delivery to agencies; and**
- **savings be apportioned to agencies on the basis of their current expenditure on these functions; and**
- **agencies' budgets be adjusted for long term savings.**

6.6.3 Information Technology

There are three sources of quantifiable benefits from moving IT to a fully shared service model. These arise from:

- the inclusion of CIT and DET in the Shared Service - InTACT;
- improved management of department/agency controlled IT projects; and

- rationalisation of business applications and redundant capacity.

Recommendations 71, 72, 73 and 74:

- **current savings required from Shared Service - InTACT be increased by $1 million in 2006-07 and $2 million in 2007-08 and the forward years;**
- **further savings of $2.3 million per annum (indexed) be achieved through the reduction of duplicated and/or redundant business applications and capacity in agencies; and**
- **agencies' budgets be adjusted for IT savings identified in the 2005-06 Budget and the additional savings identified above; and**
- **the budget adjustments be based on current agency expenditures and settled between Treasury and the respective agency.**

6.6.4 Procurement

In relation to procurement, efforts to date have focused on the establishment phase of Procurement Solutions and benefits have been restricted to FTE reductions resulting from consolidation of staff.

Literature suggests that procurement reform will result in savings on the procurement spend of between 5 per cent and 20 per cent. Given the relatively small size of the ACT Government and the diversity of services provided, benefits from implementing more comprehensive procurement reform should be in the order of $35 million over the four years 2006-07 to 2009-10 ($5 million in 2006-07 rising to $10 million in 2007-08 and the forward years). This represents 1 per cent of the adjusted goods and services spend in 2006-07 and 2 per cent in the forward years.

Recommendations 75 and 76:

- **Departments and agencies be required to achieve savings of 1 per cent of their 2004-05 goods and services spend in 2006-07 and 2 per cent in 2007-08 and the forward years; and**
- **agencies' budget be adjusted for savings identified in Tables 6.4 and 6.5.**

6.6.5 Costs

Costs of implementing a shared services approach for the ACT have been estimated across four main areas: technology; change management and process re-engineering; accommodation; and project implementation team.

Technology: Efficiency in the shared service will be enhanced by a move to a common instance of Oracle Government Financials and the full rollout of the new human resources system (CHRIS 21). Accompanying the move to a standard chart of accounts for the ACT Government. The cost of moving from the current ten instances of Oracle to one instance is estimated to be $2.4 million over the two years 2006-07 and 2007-08.

Change Management and Process Re-engineering: Significant effort will be required to map the corporate services business processes used by all agencies and to re-engineer to standardise and streamline them. While the role of the central agencies will be critical to achieve a whole-of-government policy perspective, some specialist consulting support should be available to them. Similarly there will need to be investment in communication and change management to create an environment conducive to the paradigm change being proposed. It is estimated that $1.5 million will be needed over the two years 2006-07 and 2007-08.

Accommodation: Staff of the Shared Service Centre will need to be co-located (with perhaps the exception of InTACT). Thus accommodation for some 400 staff will be required at a cost of $5.0 million for fit out (if no suitable space is available) and $2.25 million per annum for rent (which should be able to be offset by reduced space in agencies).

Voluntary Severance: While Departments/agencies should be encouraged to make every effort to redeploy surplus staff, it is appropriate to make some provision for redundancies as part of this assessment. Worst case cost would be in the order of $2 million.

Recommendation 77: investment of up to $5.75 million in 2006-07 and $7.4 million in 2007-08 be provided with the exact amounts to be agreed by Treasury following a business case by the Shared Service Centre.

6.7 BARRIERS, PRE-CONDITIONS TO MOVING FORWARD AND NEXT STEPS

6.7.1 Barriers to moving to a shared service model

Both InTACT and Procurement Solutions offer some insights into the challenges of moving to a shared service environment. In both cases their establishment has been a long emotive process that left a legacy of scepticism among agencies.

In their establishment phases both InTACT and Procurement Solutions have struggled with agencies' views that they are "unique". It has clearly been difficult to persuade departments/agencies that, although they deliver different products (services, advice etc) to the government and the community, the underlying corporate business processes are similar based on the shared identity of the ACT Public Service.

In discussions with some senior managers it is also clear that the role delineation between Procurement Solutions and departments/agencies has not been clarified. The concerns centre around the distinction between procurement expertise and technical or product specification particularly in relation to capital works programs. The development of service level agreements provides a process for clarifying these boundary issues. Departments/agencies need to be tied to the Shared Service Centre for all core corporate services regardless of whether any particular department/agency claims to have special skills in one or more of those services.

From these experiences and the literature it is possible to identify some of the barriers and challenges of moving to a true shared service. These include:

- perception that corporate services have been targeted again;
- lack of standardised policies and procedures;
- lack of a standardised IT platform;
- arrangements to ensure CEO accountabilities can be met;
- absence of a senior management champion[9];
- lack of awareness/skills in managing the change to a shared service[10];
- establishing a balanced performance measurement framework;
- staff concerns about personal and career impacts;
- need to be seen as independent of any one department/agency;
- employee terms and conditions; and
- lack of up-front investment.

6.7.2 Pre-conditions for the establishment of a Shared Service Centre

From the lessons learnt in the ACT and in other jurisdictions it is possible to identify some critical pre-conditions for the establishment of a true shared service for the ACT Government. These are:

- significant leadership at both political and senior management levels over a sustained period;
- commitment to standardisation and considerable process re-engineering;
- active support for communication and change management to support the new organisational culture (based on service delivery and a client focus);
- provision of investment funds to enable the change management and an improved technology platform (standardised and integrated); and
- engagement of external expertise to assist in planning and implementation phases.

While the move to a shared service environment will deliver substantial benefits in terms of quality of service, improved transparency, accountability and efficiencies, it will require a very significant shift in the culture of the public service overall and a major effort to re-engineer corporate processes. The benefits will therefore only be realised with a sustained effort as a result of strong, committed leadership.

6.7.3 Next Steps

This paper identifies that there will be significant benefits to the ACT Government in moving to a shared corporate service model. Experience in other jurisdictions and

[10] A recent review by Accenture, *Driving High Performance in Government: Maximizing the Value of Public-Sector shared Services"*, found that the executives interviewed rated these as the top two challenges facing governments using or implementing shared services.

organisations is that the realisation of these benefits takes careful planning, a sustained effort, strong leadership at a strategic level and some investment up front.

The investment required is as much in communication to effect cultural change as it is in infrastructure. Consultation will initially be required to achieve ownership by department/agency CEOs but sustained ongoing communication will be required for staff and middle managers.

Following acceptance of the approach, the next steps will be to develop a detailed implementation plan which maps and timetables all the activities for orchestration (communications, process re-engineering, technology, accommodation arrangements, processes to transfer staff, activity at an agency level including restructuring for changed roles etc). This planning exercise may take 2-3 months and may require input from experienced project managers. During this period decisions (such as whether it is preferable to progressively roll agencies into the Shared Service Centre or to commence full operations for all agencies on a given day) will be resolved.

The Shared Service Centre should be fully operational by mid 2007. By the end of 2007, it should be positioned to drive continued efficiencies and identify additional value adding services for ACT Government agencies. If at any point along this journey, the Government considers that this end point is at risk, consideration should be given to seeking a partnership approach with a private sector provider of shared services. This would be a practical acknowledgement that the combination of aggregation, standardisation and cultural change required to achieve the shared service vision will provide in a very significant challenge. The ability to leverage from the experience and skills of an existing private operator might assist if this challenge becomes overwhelming.

6.8 SUMMARY OF SAVINGS AND STAFFING IMPACTS

Table 6.2: Summary of Savings

	2006-07 $'m	2007-08 $'m	2008-09 $'m	2009-10 $'m	Total FTE Impacts
Consolidation of HR and Finance (1)	1.000	3.750	5.570	5.640	62.94
Information Technology	3.300	4.300	4.300	4.300	NA
Procurement – Tender Box Savings	5.000	10.250	10.500	10.760	NA
Technology Costs – Shared Services	(1.200)	(1.200)	0	0	NA
Change Management – Shared Services	(1.000)	(0.500)	0	0	NA
TOTAL SAVINGS	**7.100**	**16.600**	**20.370**	**20.700**	**62.94**
Capital Investment					
Fit-out costs	(5.0)				NA
Net Cash Savings	**2.10**	**16.60**	**20.37**	**20.70**	**62.94**

(1) 2006-07 is a pro rata figure – assumes the shared services centre will commence on 1 February 2007 and allows for $2.75 million to be available, to allow for progressive reduction of staff, during the first year of its operation.

Table 6.3: Consolidation of HR and Finance – Transfers from Agencies

	2006-07 $'m	2007-08 $'m	2008-09 $'m	2009-10 $'m	FTE Impacts
ACTION	0.533	1.295	1.312	1.329	14.09
ACT Planning and Land Authority	0.279	0.677	0.686	0.695	6.98
Cultural Facilities Corporation	0.178	0.433	0.438	0.444	4.72
Canberra Institute of Technology[11]	1.082	2.631	2.665	2.700	29.99
Chief Minister's Department[12]	1.110	2.700	2.735	2.770	28.28
Department of Education and Training	2.663	6.475	6.559	6.644	71.34
Disability, Housing and Community Services	1.417	3.444	3.489	3.534	38.11
EPIC	0.050	0.121	0.122	0.124	1.22
Gambling and Racing	0.016	0.040	0.040	0.041	0.37
InTACT	0.435	1.057	1.071	1.084	11.17
Justice and Community Safety	0.132	0.320	0.325	0.329	3.11
Australian Capital Tourism Corporation	0.134	0.326	0.331	0.335	3.61
ACT Workcover	0.075	0.183	0.186	0.188	2.52
ACT Health	4.260	10.357	10.492	10.628	117.85
Emergency Services Authority	0.737	1.791	1.814	1.838	19.92
Department of Urban Services	1.814	4.412	4.468	4.528	48.52
Total Transfer from Agencies	**14.915**	**36.262**	**36.733**	**37.211**	**401.8**
Savings	1.000	3.750	5.570	5.640	62.94
Net Transfer to Shared Services	**13.915**	**32.512**	**31.163**	**31.571**	**338.86**

The above table detail the transfers from each agency to establish the Shared Service Centre for HR and Finance functions.

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[11] Does not include student enrolments and associated process.

[12] Chief Minister's Department provides HR and finance services to Treasury. The transfer includes both Department's share.

Table 6.4: Allocation of Functional Review Procurement Savings (Tender Box)

	2006-07 $'m	2007-08 $'m	2008-09 $'m	2009-10 $'m	Total FTE Impacts
ACTION	0.187	0.384	0.394	0.403	NA
ACT Planning and Land Authority	0.059	0.121	0.124	0.127	NA
Cultural Facilities Corporation	0.023	0.048	0.050	0.051	NA
Canberra Institute of Technology	0.177	0.365	0.374	0.384	NA
Chief Minister's Department	0.240	0.491	0.503	0.516	NA
Disability, Housing and Community Services	0.593	1.216	1.246	1.277	NA
Department of Economic Development	0.030	0.060	0.061	0.063	NA
Department of Urban Services	1.316	2.698	2.765	2.835	NA
Department of Education and Training	0.143	0.292	0.299	0.306	NA
Emergency Services Authority	0.100	0.205	0.211	0.216	NA
ACT Health	1.318	2.702	2.770	2.840	NA
InTACT	0.378	0.775	0.795	0.814	NA
Justice and Community Safety	0.187	0.381	0.391	0.401	NA
Australian Capital Tourism Corporation	0.139	0.284	0.291	0.298	NA
Treasury	0.103	0.211	0.216	0.221	NA
ACT WorkCover	0.008	0.017	0.017	0.018	NA
Total	**5.001**	**10.250**	**10.507**	**10.770**	**NA**

The above table details where the procurement savings will be achieved.

* Tables may not add due to rounding

Table 6.5: Allocation of ERC Procurement Savings

	2006-07 $m	2007-08 $m	2008-09 $m	2009-10 $m	2006-07 Fees to Procurement Solutions
ACTION	0.111	0.166	0.166	0.166	0.102
ACT Planning and Land Authority	0.049	0.074	0.074	0.074	0.046
Cultural Facilities Corporation	0.000	0.000	0.000	0.000	0.050
Canberra Institute of Technology	0.327	0.491	0.491	0.491	0.304
Chief Minister's Department	0.563	0.844	0.844	0.844	0.522
Disability, Housing and Community Services	0.557	0.836	0.836	0.836	0.517
Department of Economic Development	0.119	0.178	0.178	0.178	0.110
Department of Urban Services	0.754	1.131	1.131	1.131	0.732
Department of Education and Training	0.309	0.463	0.463	0.463	0.286
Emergency Services Authority	0.171	0.257	0.257	0.257	0.159
ACT Health	0.398	0.597	0.597	0.597	0.369
Justice and Community Safety	0.177	0.266	0.266	0.266	0.165
Australian Capital Tourism Corporation	0.037	0.055	0.055	0.055	0.034
Treasury	0.364	0.546	0.546	0.546	0.338
ACT WorkCover	0.012	0.018	0.018	0.018	0.011
ICRC	0.010	0.015	0.015	0.015	0.009
Stadiums Authority	0.027	0.041	0.041	0.041	0.066
Auditor-General's Office	0.015	0.022	0.022	0.022	0.014
Total Procurement ERC Savings	**4.000**	**6.000**	**6.000**	**6.000**	**3.834**

Table 6.6: Allocation of Functional Review IT Savings + ERC IT Savings[13]

	2006-07 $'m	2007-08 $'m	2008-09 $'m	2009-10 $'m	Total FTE Impacts
ACTION	0.112	0.158	0.158	0.158	
ACT Planning and Land Authority	0.376	0.530	0.530	0.530	
Cultural Facilities Corporation	0.057	0.081	0.081	0.081	
Chief Minister's Department	0.454	0.640	0.640	0.640	
Disability, Housing and Community Services	0.967	1.365	1.365	1.365	
Department of Economic Development	0.111	0.157	0.157	0.157	
Department of Urban Services	0.942	1.329	1.329	1.329	
Department of Education and Training + CIT	0.494	0.697	0.697	0.697	
Emergency Services Authority	0.254	0.359	0.359	0.359	
ACT Health	2.417	3.411	3.411	3.411	
Justice and Community Safety	0.548	0.773	0.773	0.773	
Land Development Agency	0.068	0.096	0.096	0.096	
Treasury	0.238	0.336	0.336	0.336	
ACT WorkCover	0.058	0.082	0.082	0.082	
ICRC	0.009	0.013	0.013	0.013	
ACT Insurance Authority	0.010	0.014	0.014	0.014	
ACT Gambling and Racing Commission	0.030	0.042	0.042	0.042	
ACT Legislative Assembly	0.091	0.128	0.128	0.128	
ACT Executive	0.037	0.052	0.052	0.052	
Auditor-General's Office	0.027	0.037	0.037	0.037	
Total IT Savings	**7.300**	**10.300**	**10.300**	**10.300**	

The above table details where the procurement saving will be achieved.

[13] ERC IT Savings total $6 million per annum.

ATTACHMENT 6.1

Agencies to be supported by the Shared Service

ACTION
ACT Planning and Land Authority
ACT Public Cemeteries Board
Chief Minister's Department
Department of Treasury
Central Financing Unit
ACT Superannuation Unit
Home Loan Portfolio
InTACT
Legal Aid Commission (ACT)
ACT Health
Department of Urban Services
Department of Justice and Community Safety
ACT Emergency Services Authority
Department of Education and Training
Canberra Institute of Technology
ACT WorkCover
Department of Disability, Housing and Community Services (including the Office for Children, Youth and Family Support)
Department of Economic Development
Exhibition Park in Canberra
Public Trustee for the ACT
Cultural Facilities Corporation
Canberra Cemeteries Trust
CIT Solutions
ACT Gambling and Racing Commission
ACT Insurance Authority
Independent Competition and Regulatory Commission
Workers Compensation Fund
Land Development Agency

Further consideration may be required for these agencies, given their Independent and Statutory nature

Legislative Assembly Executive
ACT Executive
Auditor General

Part

7

PORTFOLIO ANALYSIS

CHAPTER 7.1 OVERVIEW OF ANALYSIS PROCESS

7.1.1 GENERAL APPROACH

An overview of the information collected from agencies and other sources has been provided in Chapter 1. This information has formed the basis of portfolio analysis.

The Review's strategic direction is enunciated in Chapter 3. Portfolio analysis has been approached within the context of that direction.

As a general approach, the Review's focus has been to improve the cost effectiveness of the public sector. It has sought to preserve outcomes, and particularly in priority areas of health and education to enhance outcomes.

The philosophy underpinning the Review's proposals in relation to Machinery of Government changes is equally applicable to individual portfolio analysis. The Review has sought to identify opportunities for expanding the policy reach within each portfolio, and more coordinated services to the community.

7.1.2 ASSESSMENT OF PRIORITIES

The Review has remained mindful of Government priorities, and the Ministerial priorities (as advised) in assessing departmental functions, services and activities.

Specific assessment of each activity, however, is not included in this chapter – it is prepared on an exception basis, and deals with issues where a specific recommendation is made.

7.1.3 ANALYTICAL TECHNIQUES

The Review has relied considerably on benchmarking the services and agencies. This has taken one or more of the following forms:

- **internal and local benchmarks:** where evidence is available that some parts of the service area, agency, or other agencies within the public service are operating more efficiently or effectively, it is not unreasonable to expect that the same benchmarks should be achieved;

- **inter-jurisdictional comparisons:** the ACT exists within a national context of financial and service arrangements. The Review has in general referred to national average as the benchmark. This is reasonable as the Commonwealth-State financial arrangements (that underpin a large proportion of budget revenue) provide capacity to deliver an average level of service at an average level of efficiency; and
- **comparisons over time (time-series analysis):** if an agency or service area had a higher level of efficiency in the past, it is reasonable to expect that the same level could be achieved in the future.

CHAPTER 7.2 CHIEF MINISTER'S AND TREASURY

OVERVIEW

The Chief Minister's Department provides a whole-of-government focus on policy and strategic advice on a range of specified issues and advice and support for the Chief Minister and Cabinet. The Department's total expenditure in 2005-06 is estimated to be $78.4 million with some 370 FTE staff. A significant proportion of these funds are attributable to the operational functions of Arts, Heritage and Environment. In addition, approximately 44 FTE staff undertake corporate management and finance functions across a range of departments.

Treasury provides strategic financial and economic advice to the ACT Government, revenue management, procurement support services and houses the Government's IT shared service provider, InTACT. Treasury's total expenditure in 2005-06 is estimated to be $33.4 million (excluding InTACT as they report their finances separately) with approximately 213 FTE staff.

KEY RECOMMENDATIONS AND CONCLUSIONS

- The policy, organisational and fiscal challenges facing the Territory require a strengthening of central departments' leadership and policy and financial control.
- Policy focus and change management capability be enhanced in central agencies to support the Minister. This will require staff of high calibre with a diversity of experience and skill across policy, economic and fiscal matters.
- Current central agency structures include a number of operational activities that would be better located in other departments. Their relocation will enable both central agencies to focus on whole-of-government policy advice and coordination and driving public sector reforms.
- The Review is working on the assumption that the Chief Minister will also assume the role of Treasurer. However, the two departments should remain as separate entities reflecting their very different responsibilities and the leadership required (See Chapter 4.2).

Summary Machinery of Government (See Chapter 4.2)

- Economic Development and Business ACT to transfer to the Chief Minister's Department on abolition of the Department of Economic Development;
- Community Affairs transferring from Chief Minister's to the Department of Community Services;
- Strategic Projects to transfer back to respective agencies, namely the Department of City and Territory, unless the project is whole-of-government in nature.
- Environment, Conservation and Land Management to transfer to the Department of City and Territory. Heritage to transfer to ACTPLA.
- The Office of Sustainability to transfer to the Department of City and Territory, following rationalisation (see below), energy and water policy to remain in CMD.
- Gambling and Racing Commission to transfer to the Treasury portfolio.

7.2.1 CHIEF MINISTER'S

Focussing and strengthening the core roles of the Department.

The primary roles of the Chief Minister's Department are:

- strategic policy advice and support to the Chief Minister and Cabinet;
- management of (a small number of) issues/projects of significance to the Territory; and
- direction and leadership across the ACT Public Sector, to ensure quality and consistent approach to policy development and cost effective service provision.

The Department should also coordinate, monitor and report to Government on the change process proposed under the Review. The discussion in the following sections deals with the existing functions and roles of the Department.

Cabinet and Policy Function

The Cabinet and Policy Group provide a central link between the broader Public Sector and the Executive, but their respective roles should be clarified, to avoid any unnecessary overlaps.

The Group has critical functions in briefing the Chief Minister on submissions. Cabinet will also have a "gatekeeper" role to ensure that all submissions comply with the Cabinet Handbook (see chapter 4.1 for Review's approach on this function).

Split into a number of distinct policy branches, the current focus of the Policy Group is broad. However, a significant proportion of activity is operational, rather than strategic. At times, the group undertakes work that duplicates work in other agencies.

It is proposed that the Policy Group focus on whole-of-government, cross function policy and progression of the Government's priorities. The proposed strategic economic area within the Department would undertake analysis and policy development in relation to economic and regional issues.

Where issues require the strong engagement of the Chief Minister for a limited time, the preferred model of engagement is to establish a strategic inter-departmental task force under the chair of the Chief Minister's Department rather than duplicate agencies or organisational units.

Staff in the Cabinet and Policy Group must be highly skilled, flexible and able to move quickly into different areas as needs change. They should not see their role as being to "shadow" departments but to add value through taking a broader perspective and being an independent mediator between competing departmental/agency objectives. A further role of the Policy Group is to maintain a strong capacity for the Territory in its dealings with other Governments and in fora such as COAG.

Consistent with the role outlined above, some of the project work currently undertaken in Cabinet and Policy Group should be transferred to the appropriate line agency (For example, Community Affairs into the Department of Health and Community Service).

Recommendation 78: strategic policy capacity be strengthened in the Chief Minister's Department by refocussing the existing and transferred resources and effort.

Communications and Signature Events

The Department should retain responsibility for communications support for the Chief Minister's Office and also provide whole-of-government coordination of media. It is also anticipated that the Chief Minister will lead the formulation and delivery of 'signature' events in Canberra such as the Centenary of Canberra. These events have a scale and nature that will usually require the assembly of a dedicated team. Most other events, of a regular and ongoing nature, will be the responsibility of the proposed Department of City and Territory, which is also responsible for tourism.

Recommendation 79: the Chief Minister's Department continue to be responsible for Chief Minister's communication support, and provide whole-of-government coordination of media. The Department should also lead the formulation and delivery of 'signature' events, with responsibility for all other ongoing and regular events with the Department of City and Territory (i.e., Tourism).

Public Sector Management and Industrial Relations

The Public Sector and Industrial Relations Management Group has the central agency policy and advisory role for ACT Public Service employment, as well as broader responsibility for industrial relations policy. The role performed by the Group is critical to the future of the ACT Public Service, and greater effort should be directed, within existing resources, to strategic workforce planning, reform of the public sector employment arrangements, to modernise the public service, and remove unnecessary bureaucratic or redundant policies and procedures and promoting a culture of a single, highly professional ACT Public Service. The Group should also undertake enhanced monitoring of public sector human resources and trends and provide clear direction to agencies on industrial relations policies and approaches. Savings are not proposed in relation to these functions.

CMD also provides support for the part-time statutory role of the Commissioner for Public Administration, the ACT Remuneration Tribunal and the Occupational Health and Safety Council. Savings can be achieved in rationalising the support to the Commissioner of Public Administration, because that position is now combined with that of the Deputy Chief Executive, Governance and through the transfer of responsibility for occupational health and safety data collection to ACT Workcover.

Recommendation 80: savings of $0.439 million be realised from combining the position of Commissioner of Public Administration with the Deputy Chief Executive, Governance, within the CMD.

Streamlining the Department to Enhance Focus on Core Functions

Currently the Chief Minister's Department has accumulated responsibility for a range of key projects such as in the areas of planning and urban services and ageing. Many of these projects overlap with work being done in delivery departments. Responsibility for these have moved beyond the concept stage and now these projects should be transferred to the Department of City and Territory.

Responsibilities for programs in a number of areas including family violence and ageing should be integrated within the Department(s) of Health and Community Services.

Recommendation 81: key projects be transferred from the Chief Minister's Department to portfolio departments as appropriate.

Office of Sustainability

The Office of Sustainability provides both policy advising and program management functions. Some of these are very closely linked to functions in other agencies, such as Environment ACT and the sustainable transport and building design elements of ACTPLA, which are proposed to be merged into the Department of City and Territory.

The current function of energy and water policy should be retained within the Chief Minister's Department within the strategic economic and business development group recognising the strong links between them, and the substantial inter-jurisdictional issues which arise in these areas.

Responsibility for broader sustainability policy and the water and energy conservation programs should be transferred to the Department of City and Territory.

Recommendations 82, 83 and 84:

- **the Office of Sustainability be abolished;**
- **the policy role in relation to energy and water be retained in the Chief Minister's Department and aligned with the Economic Development Unit; and**
- **the remainder of the sustainability function merge into the Environment function in the Department of City and Territory, to achieve a saving of $1.5 million per annum.**

Environment Management and Regulation, Conservation and Land Management and Heritage

As outlined in the Machinery of Government Chapter, Environment Management and Regulation, Conservation and Land Management will be transferred to the Department of City and Territory. Efficiencies should be actively sought from this transfer and used to support the Department of City and Territory's land and maintenance functions, as these have inadequate funding support at present.

The Review has proposed (Chapter 7.10) that Heritage functions be transferred to ACTPLA. In relation to both Environment and Heritage, the underpinning legislation warrant further review, with a view to simplification and the delivery of a more cohesive and streamlined planning and protection system across the ACT. This should be undertaken as part of the Planning System Reform Project.

ArtsACT and the Cultural Facilities Corporation

ArtsACT be retained within Chief Minister's Department together with the Cultural Facilities Corporation (CFC). The Cultural Facilities Corporation, as now, should take responsibility for only those heritage assets which are able to be opened for full community use.

Of its revenue of $10.9 million in 2004-05, the Cultural Facilities Corporation received $7.13 million (or 65 per cent) from the ACT Government. The next most significant revenue item was $2.3 million from business activities (venue hire, ticket sales etc).

There is capacity for the Corporation to increase its revenue from sponsorship/donations or otherwise improve its financial performance by $0.5 million and thus reduce the Government appropriation by an offsetting amount.

CFC's 2005-06 business plan identifies a range of opportunities where it could improve commercial outcomes, including:

- further developing links with the corporate community and philanthropic donor programs;
- identification and promotion of commercial opportunities, including venue hire, across the range of facilities and sites managed; and
- greater use of electronic ticketing services.

Recommendation 85: savings of $0.5 million from the Cultural Facilities Corporation be achieved in 2006-07 and the forward years.

Public Art Scheme - 2 per cent Contribution

The Chief Minister commissioned a new public art program in 2005 that introduced a new 2 per cent for public art scheme for ACT Government capital works projects.

The scheme imposes a 2 per cent commitment for public art for all capital works over $5 million. For projects over $20 million, the 2 per cent will apply up to $20 million only.

There are several capital works projects for which this scheme does not apply, these include land sub-divisions and underground works, and refurbishments, repairs/maintenance and fitouts to existing buildings and roads.

It is essential that the public arts scheme meet not only the costs of new art but also ongoing maintenance and replacement costs. An appropriate part of the 2 per cent funds should be placed in a sinking investment fund to maintain and preserve the art for each works' entire life-cycle. No additional monies should be called on from the Budget for the purpose of maintenance and preservation of artworks created under this scheme.

Recommendation 86: artsACT ensure that the 2 per cent for public art scheme monies, allocated as part of the capital works program, include a sinking investment fund for future maintenance and preservation of all art works created or administered through the scheme.

7.2.2 TREASURY

Treasury's primary aim is to coordinate ACT Government resource management to support both a strong Territory economy and to enable a coordinated approach to the delivery of the Territory's programs and services.

To achieve this aim, its roles include:

- providing advice on the Territory's fiscal strategy (including the setting of targets for the level of net debt as a percentage of Gross Territory Product, and the level of operating surplus);
- the financial management framework (including monitoring the budget, identifying emerging issues and developing strategic options/solutions); and
- administering the Territory's revenue laws and a number of grants and subsidy schemes.

Under proposals elsewhere in this Report, Treasury will also take responsibility for all 'back office' services and the gaming and racing portfolio.

Strengthening the Department's Leadership and Change Management Capacity

A key theme of this Report is the need for greater fiscal responsibility at all levels within the ACT Public Sector. This will require strong leadership from Treasury and an acceptance on the part of all agencies that achieving a budget surplus is now a major Government priority.

The fiscal position and outlook of the Territory requires commitment within the public sector to achieving efficiencies and assisting the Government to prioritise expenditure. The measures proposed by the Review require considerable effort from central agencies.

The Department of Treasury will need a modest increase in resources to obtain the high quality personnel that it needs for these tasks - $1 million is proposed.

Recommendation 87: Treasury resourcing be strengthened by $1 million to enhance central agency capacity to lead directional change and provide high quality economic and financial policy advice.

Independent Competition and Regulatory Commission (ICRC)

The Independent Competition and Regulatory Commission (ICRC) is a statutory body set up to regulate prices, access to infrastructure services and other matters in relation to regulated industries, and to investigate competitive neutrality complaints and government-regulated activities. The Commission also has responsibility for licensing utility services and ensuring compliance with licence conditions.

In 2004-05, the Commission's fee revenue base fell due to its primary focus being moved away from utility price regulation, as a result of electricity and gas regulation moving to national markets. The Commission's renewed focus has been redirected toward a wider set of utilities' compliance, licensing and regulation issues.

Essentially the core functions of the Commission have been reduced, without a corresponding change in the structure or composition of the organisation.

In line with the Review's recommendation on the creation of a central Regulatory Office, and the transfer of functions from the Commission to that office, the Independent Competition and Regulatory Commission (ICRC) should be restructured to recognise the shift in functions and responsibilities. Appropriation savings of $0.100 million be achieved through this process, and staff reductions in the order of 3-4 FTE pubic service staff and non-renewal of the two Commissioner positions (upon completion of their current appointments at 26 June 2006).

The Commission should retain its ability to appoint any number of temporary Associate Commissioners to meet the needs of a specific enquiry.

Recommendation 88 and 89:

- **appropriation savings of $0.1 million per annum from the Independent Competition and Regulatory Commission be achieved in 2006-07 and the forward years, through a reduction of up to four support staff; and**
- **the appointments of the two ICRC Commissioner positions are not renewed upon expiration on 26 June 2006.**

7.2.3 SUMMARY OF SAVINGS AND STAFFING IMPACTS – CHIEF MINISTER'S

	2006-07 $'m	2007-08 $'m	2008-09 $'m	2009-10 $'m	Total FTE Impacts
Strategic Implementation and Projects (funded for 2005-06 only)	0	0	0	0	-
Sustainability	1.500	1.538	1.576	1.615	13.5
Public Sector Management & Industrial Relations	0.439	0.445	0.450	0.456	2.8
Asbestos (funded for 2005-06 only)	0	0	0	0	-
ACT Cultural Facilities Corporation	0.500	0.512	0.525	0.538	-
TOTAL SAVINGS	**2.439**	**2.495**	**2.551**	**2.609**	**16.3**
Procurement (Tender Box) Savings					
- Chief Minister's Department	0.240	0.491	0.503	0.516	-
- Cultural Facilities Corporation	0.023	0.048	0.050	0.051	-
- ACT WorkCover	0.008	0.017	0.017	0.018	-
Procurement (ERC) Savings					
- Chief Minister's Department	0.563	0.844	0.844	0.844	-
- ACT WorkCover	0.012	0.018	0.018	0.018	-
IT (Review and ERC) Savings					
- Chief Minister's Department	0.454	0.640	0.640	0.640	-
- Cultural Facilities Corporation	0.057	0.081	0.081	0.081	-
- ACT WorkCover	0.058	0.082	0.082	0.082	-
Transfer to Shared Services					
- Chief Minister's Department	1.110	2.700	2.735	2.770	28.28
- Cultural Facilities Corporation	0.178	0.433	0.438	0.444	4.72
- ACT WorkCover	0.075	0.183	0.186	0.188	2.52

7.2.4 SUMMARY OF SAVINGS AND STAFFING IMPACTS - TREASURY

	2006-07 $'m	2007-08 $'m	2008-09 $'m	2009-10 $'m	Total FTE Impacts
Investment into enhanced Treasury central economic and financial policy role	-1.000	-1.025	-1.051	-1.077	TBC
Independent Competition and Regulatory Commission (ICRC)	0.100	0.103	0.105	0.108	3
TOTAL SAVINGS	**-0.900**	**-0.922**	**-0.946**	**-0.969**	**3**
Procurement (Tender Box) Savings					
- Treasury	0.103	0.211	0.216	0.221	-
- InTACT	0.378	0.775	0.795	0.814	-
Procurement (ERC) Savings					
- Treasury	0.364	0.546	0.546	0.546	
- ICRC	0.010	0.015	0.015	0.015	
IT (Review and ERC) Savings					
- Treasury	0.238	0.336	0.336	0.336	
- ICRC	0.009	0.013	0.013	0.013	
- ACT Insurance Authority	0.010	0.014	0.014	0.014	
Transfer to Shared Services					
- InTACT	0.435	1.057	1.071	1.084	11.17
- EPIC	0.050	0.121	0.122	0.124	1.22

CHAPTER 7.3 ACT HEALTH

OVERVIEW

ACT Health directly controls the following service delivery arms: The Canberra Hospital (TCH), Community Health, Mental Health ACT, the Capital Region Cancer Service and the Aged Care and Rehabilitation Service.

The Population Health Division provides a range of public and environmental health services as well as health promotion services. In addition, under an agreement between ACT Health and the Little Company of Mary, Calvary Public Hospital is run by Calvary Health Care Limited for the Little Company of Mary Health Care.

In 2004-05, total expenditure of ACT Health was $636.2 million, representing around 24 per cent of General Government Sector expenditure in that year. This expenditure was across four major outputs, Acute Services ($448.7 million), Mental Health Services ($45.6 million), Community Health Services ($117.6 million) and Public Health Services ($23.1 million).

The remaining $1.2 million related to the Community and Health Services Complaints Commissioner. This function was transferred to the Human Rights Commission in 2005-06.

ACT Health expenditure has increased from $415 million (adjusted) in 2000-01 to $636 million in 2004-05. This an increase of $220 million over four years, with annual increases of 13 per cent, 8.8 per cent, 9.9 per cent and 13 per cent, representing an average annual increase of 11.2 per cent. The published 2005-06 budget and forward years' expenditure for health show an average annual growth of 4 per cent, slightly over one third the recent actual growth rate.

KEY CONCLUSIONS AND RECOMMENDATIONS

- The task in health is the biggest single challenge the Government will face over the next four years. If the current patterns of utilisation and spending were to continue, an additional $168 million over the current forward estimate would be required in the last forward year (2009-10). Some planning scenarios, indeed, envisaged an increase of $225 million.
- The growth in health spending in recent times has been at an unsustainable level, such that if this recent trend continued, health expenditure would represent more than 50 per cent of the total General Government expenditure by around 2020.
- At the same time, the published budget forward estimates for health presently understate expenditure needs under existing or announced policy, and adjustments are required to adequately take into account various provisions and revenue offsets.

KEY CONCLUSIONS AND RECOMMENDATIONS (Contd.)

- The actual health expenditure in the ACT is above the standardised level assessed by the Commonwealth Grants Commission, particularly in the areas of non-inpatient and community health services and population and preventive health. Notwithstanding the ACT's expenditure effort, the efficiency of health services in the ACT is below the national average. For example, the ACT cost per casemix-adjusted separation was 22 per cent higher than the national average in 2003-04.
- There is considerable scope for efficiencies. This will require a new strategic approach that will focus on providing clients of the ACT health system with the appropriate care in the appropriate place, and providing high quality services at a price affordable for the ACT.
- The new strategic approach should incorporate:
  1. role delineation between The Canberra Hospital (emphasis on tertiary and quaternary services) and Calvary (general hospital services) through:
     - clarifying the management arrangements at Calvary by vesting management control in the Little Company of Mary;
     - ACT Government then purchasing general hospital services from Calvary, for example day surgery and rehabilitation; and
     - establishment of a sub-acute facility (already included in the forward estimates) to take these cases out of the acute hospital.
  2. Refocusing and re-orientating community health services to target services to at risk and low-income groups.
  3. Recognising growth in the areas of mental health, cancer services and aged care.
- This approach will result in a growth rate averaging 6.1 per cent per annum across the forward years (7.3 per cent in 2006-07, to 5.6 per cent in 2009-10). This growth is above the current forward estimates, and therefore, additional funding will need to be provided to ACT Health. However, it represents a significant 'saving' of a total of $390 million over the forward estimates period, on projected expenditure if no action is taken and the recent growth rates are maintained.
- The Review is proposing a more integrated and broader scope of policy advising and service delivery in areas of health and community services through either merging the two Departments, or by establishing systems and protocols (for example, shared administration of service purchasing and grants administration). Improved linkages between hospital care and community programs should also be pursued to support the objective of providing care in the right setting.
- The strategy will require strong Government commitment to improving the effectiveness of the health system, and the efficiency of its operations. It is based on maintaining wage growth at 3 per cent per annum, and productivity offsets above this level. It also requires improvement in staff allocations and work practices across the health system.

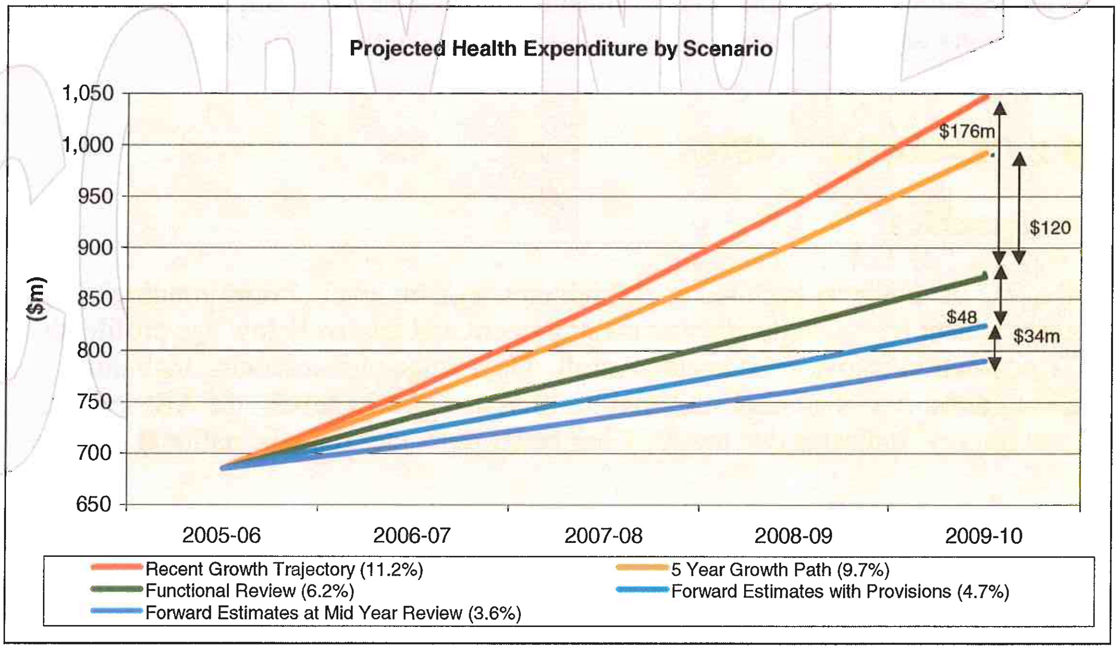
7.3.1 HEALTH: EXPENDITURE GROWTH AND BUDGET

ACT Health expenditure has increased from $415 million (adjusted) in 2000-01 to $636 million in 2004-05, with an average annual increase of 11.2 per cent. On the other hand, the published forward estimates show an average annual growth in health expenditure of 4 per cent across the forward years, slightly over one third the recent actual growth rate[1]. The Review has identified a situation where:

- continuing the trend growth of the past five years is not sustainable. For example, if this growth in health expenditure continued and with total budget expenditure growing in line with the growth in the economy[2], then health expenditure would represent more than 50 per cent of the total general government expenditure by around the end of next decade. In the absence of major structural change, this historic growth would continue; and
- the published forward estimates for health expenditure are not realistic. Realistic growth rates need to be identified and reflected in the forward estimates, and the health system needs to ensure that the forward estimates are not exceeded.

In conjunction with ACT Health, the Review has sought to establish a reasonable level of growth which would enable the health system to provide the right level of care at the right time at a cost that is affordable.

The Review is proposing a strategy and a range of specific measures to improve the effectiveness of the health system and efficiency of its operations.



[1] Provisions held centrally relating to wage increase and insurance premiums increase the growth rate across the forward years to an average of 4.7 per cent.

[2] Assumed at 2.5 per cent per annum in real terms, that is, at around half the rate of health expenditure growth.

The ACT spends more than the national average on health, particularly on community and population health - and its needs are relatively lower. What is required is to refocus the current expenditure to programs and measures that:

- reduce avoidable hospital admissions;
- focus on at risk and low-income groups rather than providing universally accessible services; and
- keep the hospital stay to a minimum, with appropriate care provided at home or in a community setting.

Besides providing the right care in the right setting, enhancing people's engagement in maintaining their own health would reduce the growth in demand for hospital services.

Considerable efficiencies are implicit in any level of growth that is lower than the trend growth of the past. The Review has also identified potential efficiencies and strategies to achieve those efficiencies.

The potential effects of ageing (together with technology costs) on demand for hospital services have been well recognised[3]. The impacts of ageing on the economy and in particular on health costs are projected to eventuate during the next decade. The strategic approach proposed by the Review will place the Territory in a position to deal with those challenges as part of any national solutions.

The strategy will require strong Government commitment. Any wage increase above 3 per cent per annum will need to be funded from productivity offsets.

7.3.2 DEMAND DRIVERS

Demographics

Reflecting its relatively high incomes, high employment levels, correspondingly low unemployment levels, high educational attainment and relatively low age profile, the ACT population enjoys good health overall. On a range of risk factors, including smoking rates, risk of alcoholism, exercise rates and obesity levels, the ABS National Health Survey[4] indicates that the ACT has better outcomes than the national average.

For example, the ACT has:

- the lowest proportion of daily smokers of all jurisdictions (18.7 per cent compared to the national average of 22.4 per cent);
- the highest proportion of population at low alcoholism risk of all jurisdictions (56.4 per cent compared to the national average of 50.8 per cent);
- the lowest proportion of population performing no exercise of all jurisdictions (23.5 per cent compared to the national average of 30.4 per cent);

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[3] Intergenerational Report; State and Territory Intergenerational reports.

[4] ABS, *National Health Survey, Summary of Results, 2001*, Cat. No. 4364.0

- the highest proportion of population performing high levels of exercise of all jurisdictions (8.1 per cent compared to the national average of 6.4 per cent); and
- the lowest proportion of obese population of all jurisdictions (11.8 per cent compared to the national average 15.1 per cent).

As discussed in Chapter 2, this demographic profile suggests a lower level of need for health care than the national average. Notwithstanding this, it is recognised that health care needs in the 21st Century will be different to those of the 20th Century, particularly as chronic disease and mental illness replace communicable diseases as the main drivers of demand for the health services. The health system will be required to be sufficiently flexible to respond to changing areas of need as they occur, and to focus increasingly on assisting people to maintain good health rather than responding to acute episodes of illness.

NSW Resident Use of the ACT Health System

It is worth noting in discussions of population in relation to health, that the catchment for ACT hospitals for tertiary services effectively includes the population of the former Southern Area Health Service, located in NSW[5].

The population of the Southern Area Region is around 180,000. Around 23 per cent of inpatient separations in ACT public hospitals are from NSW residents, with the vast majority of these being residents of the former Southern Area Health Service. NSW residents represent significantly less activity in the community health and population and preventive health services. Expenditures in the ACT are driven overwhelmingly by the characteristics of the ACT population.

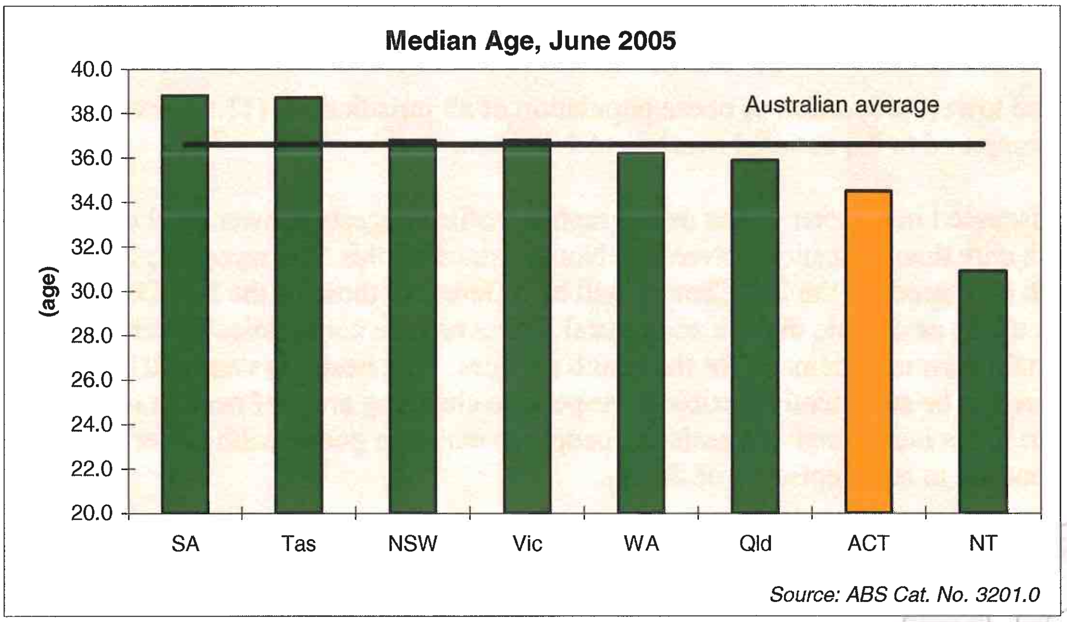
On an age-weighted basis, the region's population is projected to grow at slightly under two per cent per annum. Cost weighted inpatient separations from southern area residents increased by an average of 6.4 per cent per annum over the three years to 2004-05. However, it should be noted that expenditure on NSW patients is at least partially offset by revenue received from NSW under the NSW/ACT Cross-Border Health Agreement.

The Ageing Population

The ACT currently has the youngest population (expressed by median age) of all jurisdictions (with the exception of the Northern Territory). As at June 2005, the median age in the ACT was 34.5, below the national average of 36.6[6].

[5] Under the Australian Health Care Agreements (AHCAs), the main Commonwealth/State funding agreements for health, the ACT is required to provide public hospital care to all Australian residents, irrespective of their place of residence. Charging or refusing to treat NSW residents in ACT public hospitals would constitute a breach of the AHCAs, and put in jeopardy over $100 million per annum in Commonwealth funding. Accordingly, it is likely that ACT hospitals will continue to perform their tertiary role for the surrounding region of NSW for the foreseeable future.

[6] ABS, *Population by Age and Sex, Australian States and Territories* , Cat. No. 3201.0 – June 2005.



Following from its low median age, the ACT has a significantly lower proportion of its population aged 65 or over, at 9.6 per cent in June 2005, compared to the national average of 13.1 per cent.

Whilst the ACT population is ageing more quickly than the national average, by June 2010, the proportion of population aged 65 and over in the ACT, projected to be 11.2 per cent, will continue to be lower than that for the national average, projected to be 14.3 per cent.

This data indicates that the age of the population is less significant for the ACT than nationally. Its expenditure needs relating to aged people are also relatively lower than the national average.

The growth in demand for health services, however, depends on the rate of growth of aged population. Strategies exist, and need to be adopted, that reduce pressures on hospital system and provide health care in more appropriate settings.

Box 1: Meeting the Pressures on Hospital System

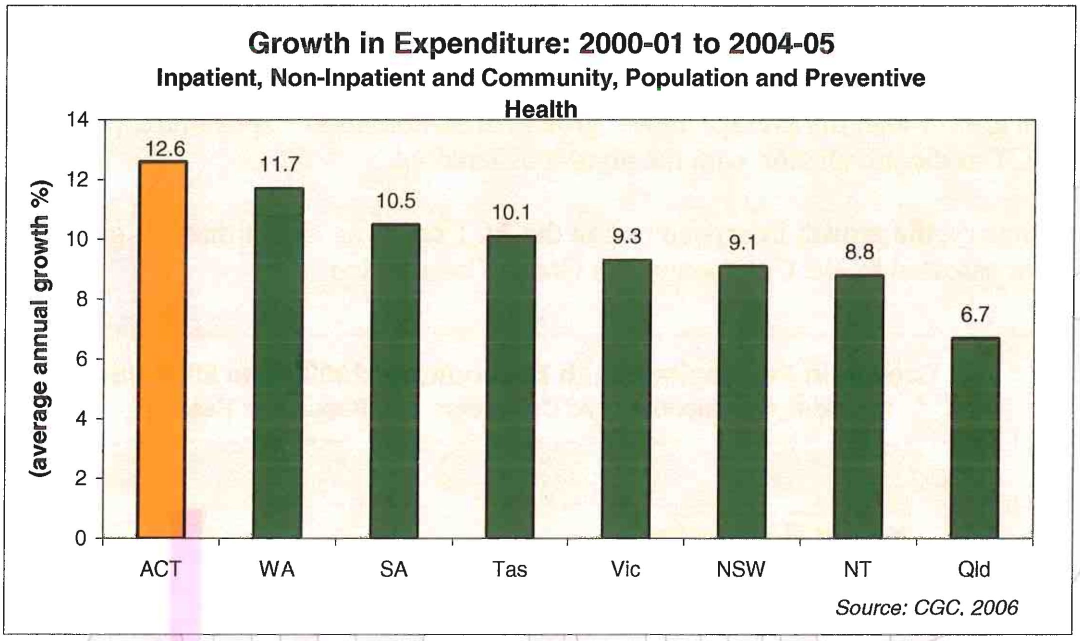
The geographic distribution and service availability would support non-hospital care pathways and that a range of innovative approaches to disease management could be considered particularly for this age group.

Given the increasing size of the population aged 65+ some further examination of admission trends and practices for this age group would be warranted before locking separation trends into the activity model. There may be no change in the resources required to provide health services to this population group, however there may well be change to the model and setting of health care provided.

Review of ACT Acute Care Activity and Growth; Bansemer, Alan (advice to the Review)

7.3.3 EXPENDITURE EFFORT

Expenditure across individual jurisdictions can be best compared using the Commonwealth Grants Commission (CGC) analysis of health expenditure. This indicates that the ACT had the highest growth in expenditure on inpatient, non-inpatient, community health and population and preventive health services of all jurisdictions, with an average annual growth of 12.6 per cent from 1999-2000 to 2003-04[7].



The second highest expenditure over the same period occurred in WA, with an annual average growth of 11.7 per cent. Since this time, the WA Government has imposed growth targets on health expenditure, with the aim to restrict growth to 5.5 per cent per annum.

Commonwealth Grants Commission Assessments

In its 2004 Review, the Commonwealth Grants Commission (CGC or Commission) assessed the ACT's costs of providing services as being below average because it has:

(i) low proportions of its population in groups that make extensive use of some State services or who cost more to service, including Indigenous people, people aged 65 or over, and people with low incomes; and

(ii) a compact geographical area, with no people living in remote areas, a low length of arterial roads per capita, and relatively low use of those roads by heavy vehicles[8].

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[7] Note that the CGC categories of inpatient services, non-inpatient and community health services and population and preventive health services do not represent the entire budget of ACT Health. For example, aged care services are not included in these CGC categories.

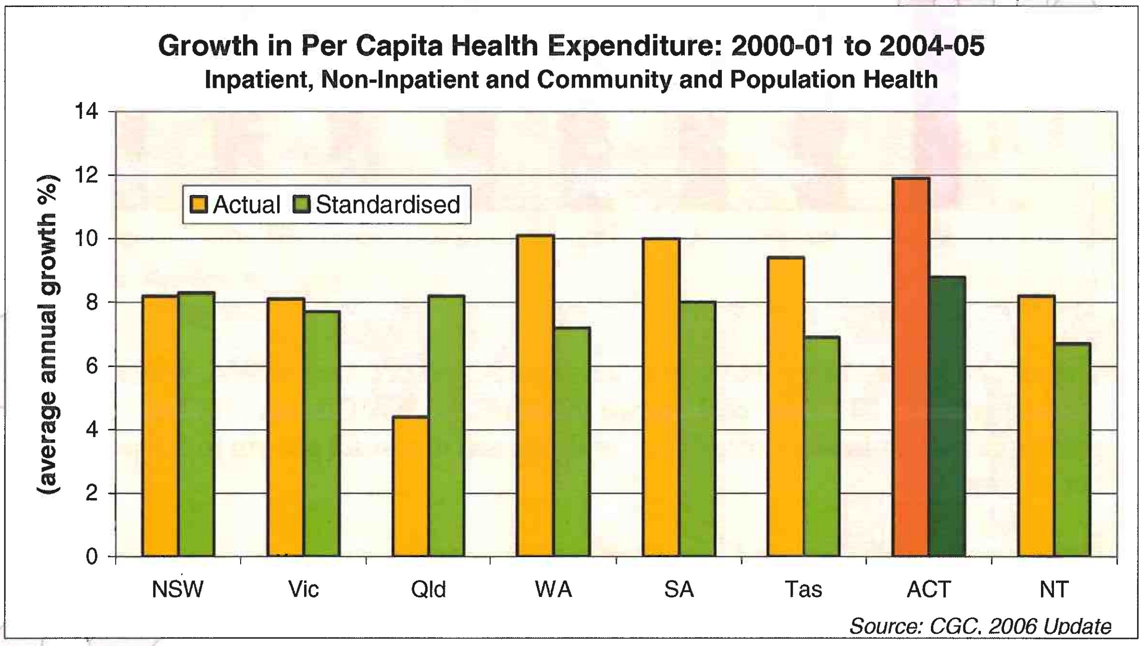
[8] Commonwealth Grants Commission, *Report on State Revenue Sharing Relativities, 2004 Review*, Page 35.

The Commission assesses the provision of health services in three categories. These are inpatient services, non-inpatient and community health services and population and preventive health.

The Commission's assessment of Standardised Expenditure provides an indication of the cost of providing an average level of service at an average level of efficiency. The assessment takes into account the circumstances and any unique characteristics pertaining to each State and Territory.

It is to be expected that, particularly in health, the Standardised Expenditure (or expenditure need) would increase over time. However, for the ACT, the actual average annual growth in expenditure per capita has been around 3.1 per cent per annum greater than the average annual growth in Standardised Expenditure, placing the ACT as the jurisdiction with the highest differential.

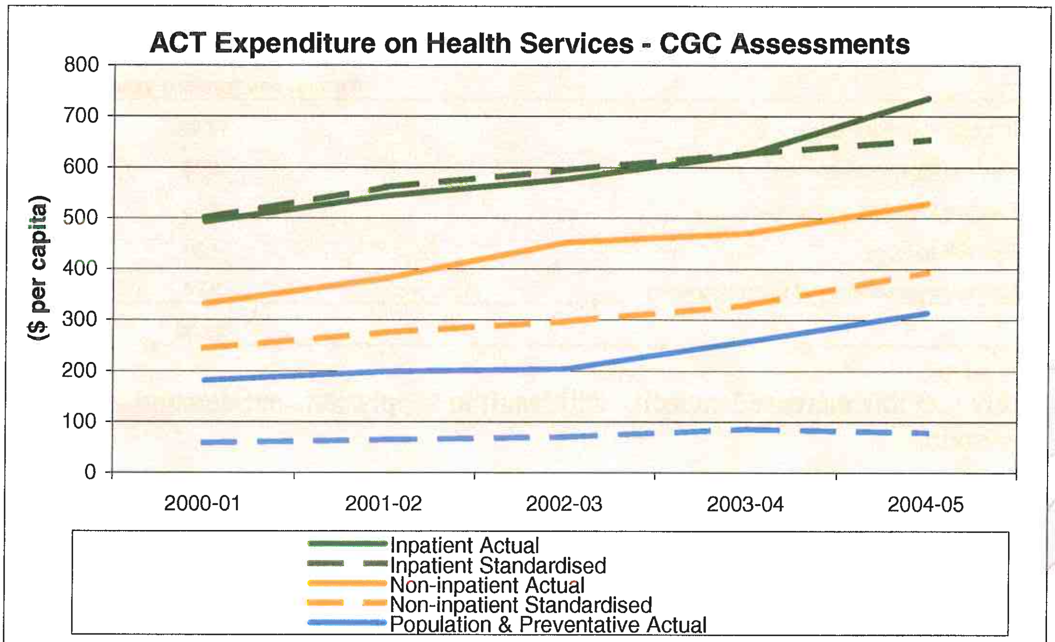
In summary, the growth in expenditure in the ACT has been higher than the growth in need as assessed by the Commonwealth Grants Commission.



WA is second (with actual average annual expenditure growth around 2.9 per cent per annum above assessed growth). In contrast, NSW and Queensland have exhibited lower actual average annual expenditure growth per capita than their assessed expenditure growth.

Looking at the components of health expenditure individually, for the ACT, whilst overall expenditure on inpatient services in recent years has been around the Standardised Expenditure, actual expenditure in 2004-05 increased sharply, so that it is now above the Standardised Expenditure as assessed by the CGC. This sudden divergence can be considered as an early warning of the need to control acute care costs in the health system.

In contrast, expenditure on non-inpatient and community health services and in particular, population and preventive health services, has been consistently above that assessed by the CGC.



Source: CGC, 2006 Update

Pressures on Inpatient Service Expenditure

It should be noted that 2004-05 was the first year that actual expenditure significantly diverged from parity with assessed expenditure for the ACT. It is likely that this divergence will continue.

For example, the last two budgets have significantly increased bed capacity in ACT hospitals, which will have consequent impacts on the growth in inpatient health services expenditure.

The 2004-05 budget provided for three additional intensive care beds at TCH ($11.4 million across the budget and forward years) along with an unspecified number of additional beds to meet seasonal demand for inpatient care for medical conditions which peak during the winter period ($1.3 million across the budget and forward years). This budget also included funding for the operation of the new sub-acute facility to be commissioned in 2005-06 (yet to be opened). This facility is a 60-bed facility to be constructed on the Calvary Hospital site, with annual operating costs once fully established of around $10 million. As patients are moved from existing beds to beds in this facility, there will effectively be an additional 60 acute beds generated within the system once the facility is operational.

The 2005-06 budget provided explicitly for an additional 20 acute beds, 12 at Calvary Hospital to increase the capacity of the hospital to meet increased demand for services arising from population growth on the north side of Canberra and 8 additional beds at TCH for increased acute medical admissions in winter (again) and elective services in Summer.

The budget provided $11.6 million across the forward years for this increase in capacity. In addition to increased bed capacity, other initiatives over the past two budgets have aimed at increasing inpatient capacity. These initiatives are summarised in the table below:

Table 7.3.1: Inpatient Capacity Initiatives

	Budget and forward years ($'m)
2004-05 Increased general surgeons	17.03
2004-05 Medical inpatient services	4.15
2004-05 Elective joint and eye surgery	4.15
2005-06 Elective surgery	8.31
2005-06 Calvary maintenance of surgery activity	3.74
TOTAL	**37.38**

It is likely that this increased capacity will result in supply-induced demand in the health system.

These initiatives are as yet only partially reflected in the CGC assessments of inpatient services.

Expenditure and Throughput

Growth in expenditure has increased at a significantly higher level than throughput. The following table provides a comparison between expenditure increase and throughput increase across the major health outputs (note that administrative arrangement orders and changes to performance reporting restrict comparability).

In a number of throughput areas there has actually been a decline over the four year period.

Table 7.3.2: Expenditure and Throughput Growth for Health Outputs

	2000-01	2004-05	% Change	Avg annual growth (%)
Acute Services Expenditure ($000)	261,589	448,685	71.5	17.9
Number of inpatient cws	56,645	69,240	22.2	5.6
Number of outpatient cws	199,798	242,891	21.6	5.4
Mental Health Expenditure ($000)	24,366	45,594	87.1	21.8
Inpatient separations	2,947 (cws)	1,243 (raw seps)		
Community occasions of service	134,609	184,331	36.9	9.2
Community Health Services Expenditure ($000)	n/a	117,636		
Aged care assessments	3,092	2,926	-5.4	-1.3
Dental adult units of service	16,488	23,098	40.1	10.0
Dental child and youth units of service	47,420	24,830	-47.6	-11.9
Breast screening clients	11,774	10,667	-9.4	-2.4
Public Health Services Expenditure ($000)	14,999	23,080	53.9	13.5
HPS samples analysed	8,309	6,965	-16.2	-4.0
HPS inspection of premises	2,961	4,374	47.7	11.9
HPS licensing & registrations	4,240	4,448	4.9	1.2

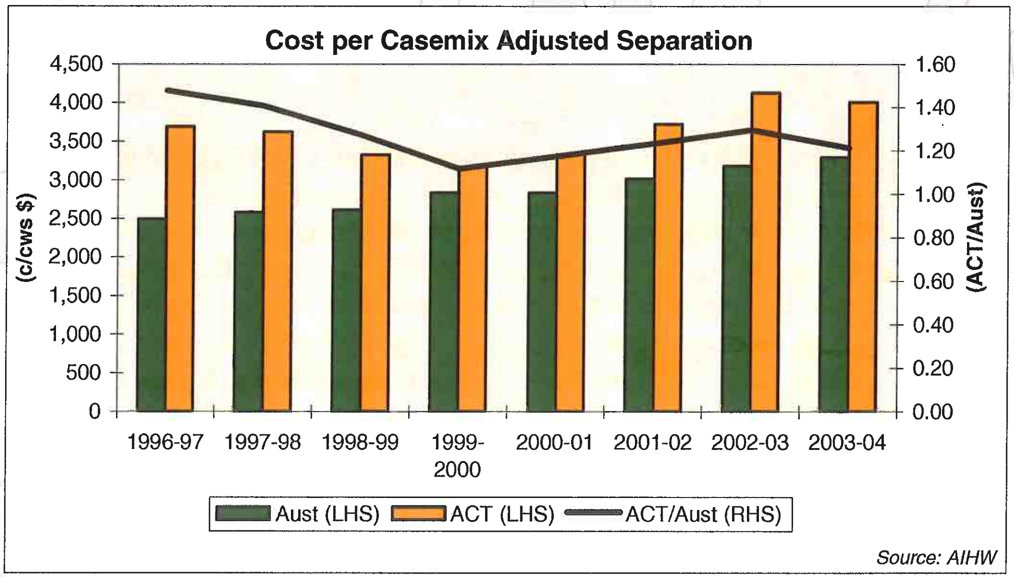
7.3.4 EFFICIENCY OF EFFORT

Efficiency of Inpatient Effort

Whilst the CGC assessments provide an indication of the level of effort undertaken by a jurisdiction, the methodology is not designed to provide an indication of the efficiency of effort – actual expenditure being higher than the Standardised Expenditure could be due to a higher level of service provision (as a policy choice by the jurisdiction) or inefficiency in service provision (or a combination of both).

For inpatient services, an indication of the efficiency of effort is provided by an analysis of the ACT costs per casemix adjusted separation[9]. The chart following highlights that the ACT cost per casemix adjusted separation has consistently been above the Australian average over the past decade.

During the period 1996-97 to 1999-2000, the gap between the ACT cost and the national average cost declined, however from 2000-01 to 2002-03 the gap began to widen again. In 2003-04, the ACT cost per casemix adjusted separation was $4,002. This is $709 (or 22 per cent) above the national average cost of $3,293. This represents a decrease from 2002-03 result where the ACT was 30 per cent above national average.



The slight decline in ACT's unit cost in 2003-04 is largely attributable to the significant growth in inpatient activity[10] between 2002-03 and 2003-04. Raw separations grew by 8 per cent between the two years (from 62,426 to 67,312) while casemix adjusted separations grew by 9 per cent (from 59,627 to 65,203).

It should be noted however, that whilst the ACT hospitals were able to treat patients more efficiently during 2003-04, the CGC assessments discussed earlier indicate that

[9] The number of casemix-adjusted separations is the number of inpatient separations, or episodes, adjusted for acuity. The higher the acuity of an episode, the higher its value in casemix-adjusted terms.

[10] National Hospital Cost Data Collection (NHCDC) Round 8 Report for 2003-04.

overall costs are rising. The additional capacity introduced into the system in the 2004-05 and 2005-06 Budgets would suggest that overall activity, and consequently costs, will rise accordingly.

The gap between the ACT cost and the national average cost represents a relative inefficiency of effort in the ACT. There are three main drivers of the additional cost of ACT hospitals. These are superannuation entitlements, patient overstay and nursing productivity. Superannuation entitlements are beyond the management control of ACT Health and are addressed elsewhere in this Report[11]. It is noteworthy, however, that the higher superannuation entitlements are not recognised in wage settlements, thereby increasing the overall cost of services.

Patient overstay and nursing efficiency are addressed in the following sections.

Patient Overstay

Patient overstay is a significant contributor to higher ACT costs. The impact of patient overstay can be ascertained by benchmarking the lengths of stay for patients in ACT hospitals against the benchmark length of stay for similar procedures or interventions.

In the case of ACT hospitals, the ACT system benchmark can be considered the NHCDC Teaching peer group (although TCH and Calvary as independent entities are members of separate peer groups). Data is available to compare patients on a DRG by DRG basis[12].

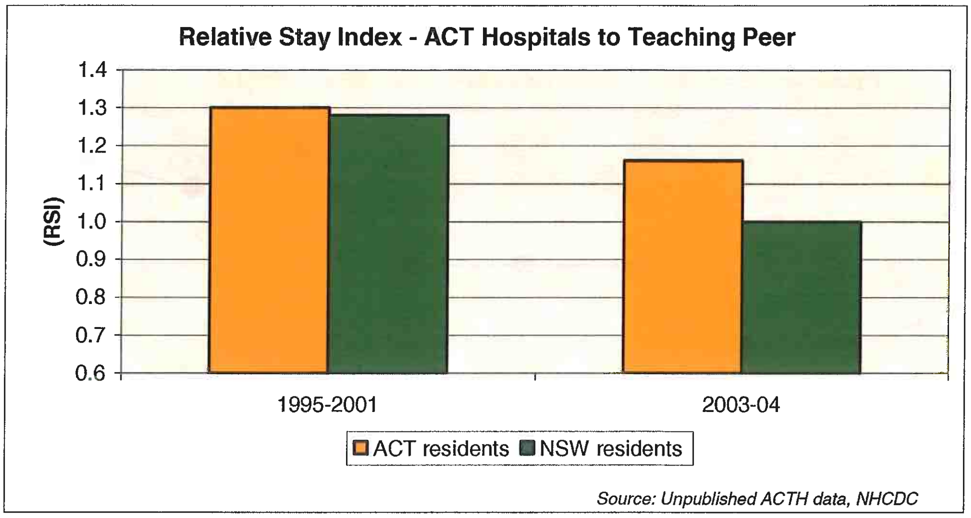
An analysis of ACT and NSW resident patients' length of stay in TCH during the period 1995-96 to 2000-01 indicates that both groups exhibited overstay characteristics. While NSW residents tended to have higher acuity levels, and therefore be expected to stay longer than the ACT residents, they still remained in hospital for longer than the benchmark for their procedure or intervention. Averaged over the six year period, ACT residents on average stayed 30 per cent longer than the benchmark, whilst NSW residents stayed 28 per cent longer than the benchmark. This ratio of actual length or stay to benchmark length of stay is referred to as the Relative Stay Index (RSI)[13].

In contrast to the result over the six years to 2000-01, for the 2003-04 year ACT resident overstay had reduced to around 16 per cent longer than benchmark. However, in the same year, NSW resident patients' length of stay matched the benchmark.

[11] The Review has recommended in Chapter 5.1 to adopt employer contribution rates as in other States.

[12] Diagnostic Related Group, or DRG – a category of similar procedures or interventions. The services in TCH cover over 600 DRGs.

[13] Relative Stay Index higher than '1' indicates an average length of stay which is more than the benchmark, while RSI less than '1' indicates an average length of stay which is less than the benchmark.



The 2003-04 result implies that discharge practices for NSW resident patients are now similar to those in peer hospitals, and that the discharge practices differ for ACT residents.

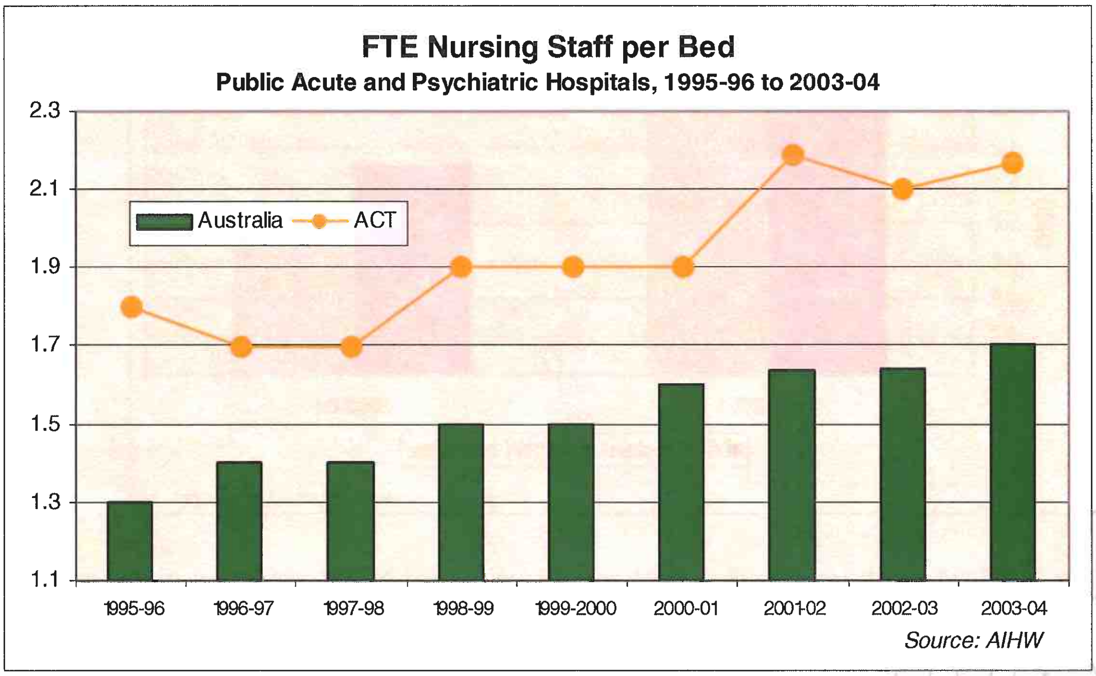
A further consequence of this result is that NSW resident patients, despite having higher acuity levels (with an average cost weight of 1.07 compared to 0.84 for ACT resident patients) have a lower average length of stay, at 3.15 days compared to 3.45 days for ACT resident patients.

The relatively longer length of stay for ACT patients can be attributed to a combination of the lack of downstream facilities in the ACT, lack of medical and nursing support in existing aged care facilities leading to aged patients being admitted to hospital and a lack of residential options for those requiring long term care, for example Acquired Brain Injury sufferers.

Efficiency of Nursing Resources

Throughput indicators for nursing suggest that the ACT has a higher level of nursing resources than the national average.

For example, FTE Nurses per Bed were 27 per cent higher than the national average in 2003-04 and have been consistently higher historically as shown in the graph below.



A more direct indicator of nursing effort is FTE Nurses per 1,000 Patient Days[14]. FTE Nurses per 1,000 Patient Days have also been consistently higher than the national average, standing at around 14 per cent higher for 2003-04.

An analysis of information on costs per casemix adjusted separation indicates similar variance in nursing costs. Nursing cost per casemix adjusted separation in 2003-04 were around 15 per cent higher than the national average.

It is important to note that nursing resources include all nurses associated with health services in the ACT, not merely ward nurses, and therefore includes community nursing resources.

Notwithstanding the nursing cost per casemix adjusted separation result, the significant variance between actual and standardised expenditure identified in the CGC assessments for expenditure on non-inpatient and community health services and in particular, population and preventive health services, suggests that in the first instance, excess nursing resources should be identified within these sectors before ward nursing numbers are addressed.

7.3.5 A NEW STRATEGIC APPROACH

General Philosophy

As discussed in Chapter 4.2, the Review is proposing a greater integration of policy and services across health and community services Departments by either merging them or establishing closer working relationships. The philosophy behind this approach is in recognition of the continuum of care, enabling improved coordination

[14] This would take into account a comparatively higher level of same day episodes in the ACT.

of care for those with high and complex needs. The aim should be to prevent avoidable hospital admissions - keeping people out of the hospital system who do not need to be there. This will be achieved through:

- engaging people in their health, through health awareness and self management programs for people with chronic disease (e.g., diabetes and congestive heart failure);
- preventing unnecessary admissions;
- discharging patients from acute care settings as quickly as possible; and
- ensuring that the appropriate supports are available in the community setting upon discharge.

Box 2: Chronic Disease Case Management

A number of programs, developed in the US, but being trialled in some Australian states and territories are using a case management approach to identify and respond to people at risk of frequent unnecessary (potentially) acute and subacute health episodes.

These programs use a combination of interventions including condition screening, monitoring, coaching, prompting, service referrals, improving self-management skills, rehabilitation and health promotion. Coupled with call-centre technology and web-based encrypted e-health records a large cohort of people can be intensively managed by a relatively small workforce.

Detailed algorithms incorporating evidence-based interventions assist in the development of detailed individual management plans with resources/interventions being scaled up based on risk of unplanned service contacts.

Review of ACT Acute Care Activity and Growth; Alan Bansemer (advice to the Review)

Managing Costs

Apart from managing demand on acute care, the cost and quality of hospital services need to be managed actively.

Box 3: Service Schedules-Quality, Price and Volume

Demand management of a population which is informed by a clear investment schedule reflecting disease surveillance and control, health promotion, best-practice treatment and targeted sub-acute services must be articulated into an agreement with suppliers, public and private, about what services are being purchased and how this relates to the strategic agenda.

To effectively understand and control costs in the inpatient system and ensure the delivery of the volume of services….the ACT should consider a case mix framework which utilises microeconomic levers at the cost-centre level to achieve the system reforms required. Fundamentally the price of each cost-weighted separation needs to be reduced in the ACT, but without some form of casemix and accountability system which explicitly defines the total price, costing elements and volumes ACT service managers are impaired in their ability to fulfil future service agreements.

Review of ACT Acute Care Activity and Growth; Alan Bansemer (advice to the Review)

In order to achieve the desired financial outcomes from the new strategic approach, it is critical that wages growth is restrained across the entire ACT Health salaries and wages portfolio to 3 per cent per annum. Further productivity improvements will be necessary to meet the financial targets being set.

Recommendation 90: salary and wage growth in the health sector be restricted to a maximum of 3 per cent per annum, with increases above this rate only being allowed if offsetting productivity savings are identified to cover the increase in excess of 3 per cent per annum.

Private Patient and Third Party Revenue

Higher levels of third party revenues for cross-border activity and private patient related revenues should also be pursued.

Over the last few years perceptions about the impact of private revenue on base funding and medical indemnity cover have also resulted in health service managers adopting different administrative procedures in relation to how insurance status was determined at the time of admission in some jurisdictions.

Clear guidelines should be determined about how Medicare eligibility, insurance status and chargeable status are elicited and exercised during an episode of care.

Hospital Services - Role Delineation

The high level of acute care costs compared with national averages indicates that, within the ACT health system, care is being provided in inappropriate, often high cost, settings. An effective hospital system will ensure that:

- people needing to access to high cost intervention can do so;
- people needing general hospital care can do so in an appropriate setting; and
- people not needing hospitalisation receive the appropriate care in the community setting.

The ACT, with a population of around 320,000 can only support a maximum of one high technology, teaching facility type hospital, without potentially compromising on issues of safety and quality, which best practice demands have minimum throughput volumes. The hospital that is best placed to be the high level facility in the ACT is clearly TCH. Calvary Hospital then becomes a support hospital providing a range of general hospital services, for example rehabilitation.

Calvary Hospital

The situation at Calvary Public Hospital is a complex one, with the Little Company of Mary having effective management control over the public hospital, although encumbered by public service wages and conditions. This has led to unit costs at Calvary being around 29 per cent higher than its peer group average[15], making it one of the most expensive hospitals in its peer group.

The Review has considered two options with regard to achieving efficiencies at Calvary.

Advice from the ACT Government Solicitor is that the ACT Government does not 'own' Calvary Hospital. However, under the existing contractual arrangements with Calvary Public Hospital, it has the ability to alter the scope of public hospital services provided by Calvary and the pricing for those services.

Therefore, one option is to strengthen and enforce the current contractual arrangements. However, as the ACT does not own Calvary Public Hospital, it is unlikely that this approach would provide better outcomes. With public servants remaining in Calvary Hospital, there is limited capacity for flexibility, for example in achieving staff allocation changes, and increased likelihood that Calvary would be unable to deliver on efficiency improvements.

The alternative, recognising the effective ownership that the Little Company of Mary (LCM) has over Calvary, is to hand over the public hospital to the LCM.

The second option is that preferred by the Review. Following this approach, the Review recommends a two-stage strategy with Calvary:

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[15] NHCDC Round 8, 2003-04. Calvary cost per separation $3,735 compared to the B1 peer group average of $2,906.

Stage One: Clarifying the Ownership Arrangement

This would involve the Little Company of Mary assuming full management of health services at the Calvary site, with the ACT Government then purchasing health services on a fee-for-service basis.

Management at Calvary has indicated that under this model, considered the 'private model', it could introduce industrial relations reforms that would lower costs compared to the current arrangement where the Calvary workforce is covered by public sector EBAs. For example, Calvary has indicated that improved staff allocation management could reduce nursing costs by 10 per cent.

Under this approach, the expectation would be that after a transition period, of say two years, services would be purchased from Calvary by the ACT at the benchmark rate.

A consequence of returning Calvary to the full management of the Little Company of Mary would be improved integration with Calvary Private Hospital, thus encouraging and enabling increased development of the private hospital sector, leading to increasing usage of private hospital services. This is an appropriate outcome given the high rates of private health insurance coverage in the ACT[16] and would have the added benefit of reducing pressure on the public system.

Stage Two: Benchmark Price and Role delineation

Once the transition process is completed, the ACT can then develop a contract with Calvary to purchase the health services necessary to maintain optimal health services for the ACT, on a fee-for-service basis, at the benchmark rate.

The ACT would specify services that complement, not duplicate, services offered elsewhere in the health system.

Recommendation 91: ownership and control arrangements for Calvary Hospital be clarified, subject to successful negotiation with the Little Company of Mary, by:

- **allowing the Little Company of Mary to assume full management of health services at the Calvary site, with movement to a more efficient price structure over a one to two year transition period as the LCM introduces industrial reforms;**
- **prior to agreeing the new arrangements, negotiating a more effective contract (favourable to the Territory) with LCM for the purchase of public hospital services; and**
- **after the transition period, ACT Health can more specifically identify the public hospital services to be purchased from Calvary on a fee-for-service basis, with payment at the benchmark rate.**

[16] Data published by PHIAC indicates that in 2005, the ACT had 52.5 per cent of its population covered by private health insurance, compared to the national average of 43.1 per cent. The ACT result was the highest of all jurisdictions.

Community Health

In conjunction with achieving greater clarity in the relationship with Calvary and in the role delineation within the hospital system, there is scope within the community and population and preventive health sectors for an aggressive reprioritisation of effort. This reprioritisation should have two goals:

- to prevent unnecessary admissions to the hospital system, in particular through having appropriate support systems in place targeting those people at risk of multiple hospital admissions; and
- to have support systems in place upon discharge from the hospital system. This will be necessary in order to be able to tackle a reduction in in-patient overstay being experienced by ACT residents. Patient overstay will also be reduced as technology improvements allow for more same day surgery and through more drug and other treatments regimes being provided in a community setting.

Nationally, health systems are aiming to provide care in the right place at the right time and at the right cost. For many jurisdictions, for example WA, this has resulted in the need to make a significant investment in their community health sectors. The ACT is well placed in this regard, as it already has a well-resourced community health sector. What is required in the ACT is a refocusing of the community health sector to concentrate on the two goals outlined above.

One of the reasons that ACT expenditure on community health services is higher than the standard is that the ACT continues to provide free universal access to a range of community health programs that in other States are either means tested or have fee regimes in place. Key strategies that will enable community health resources to be refocused on reducing demand in the hospital system is to restrict access to some services through means testing, and by increasing revenue by introducing fees to services that are currently free of charge. In both instances, it will be necessary to ensure that low-income and at risk people are still able to access services.

Improving support for people on discharge from hospital will also need to include focusing and streamlining resources currently provided to the non-government sector for support of older people. There are currently many small organisations providing services with no centralised intake, and this results in delays as discharge planners attempt to identify available services. More effective coordination and efficient delivery of these services would enable more people to be discharged early from hospital.

In addition, demand for community services could be reduced through better use of GPs. For example, currently in the ACT 37 per cent of children under 7 years of age are immunised by GPs, compared to a national average of 70 per cent[17].

The Commonwealth has over recent years introduced a number of incentives to encourage increased GP immunisation, and these incentives should be leveraged as much as possible.

[17] *Report on Government Services 2006*, page 10.41

Use of GPs would increase through policy changes that allow for the introduction of co-payments (or means testing) for non-Health Care Card holders into service lines such as women's health, HACC services, continuing care services and diabetes services, and by the introduction of Health Care Card only restricted access in immunisation clinics.

Recommendation 92:

- **community health services be reprioritised to increase focus on programs with substantive capacity to reduce acute care demand; and**
- **means-testing or charging options be developed for access to community health services.**

Mental Health and Cancer Services

Mental health and cancer services are recognised pressure areas. In recognition of this, additional growth funding should be provided to these two areas. The details of the package under the COAG reforms are as yet not available, however, States and Territories would be expected to make some matching contributions to the Commonwealth's expenditure commitments. The Review has separately made a provision of $2m per annum (Table 2.1, Chapter 2).

7.3.6 OUTCOMES

By realigning the health system to follow the new strategic approach described above, clients of the ACT health system will be provided with the appropriate care in the appropriate place, ensuring high quality care at a price affordable for the ACT.

A practical consequence of the new approach will be the ability for the ACT to achieve costs per cost-weighted separations within 10 per cent of the peer group averages over the next five years (by 2010-11), thereby facilitating overall growth in health services of around 6 per cent per annum over the forward years.

It should be noted that a growth rate of 6 per cent still represents health expenditure growing at a faster rate than revenues, which are growing in line with the economy, at a rate of around 5 per cent per annum. A consequence of this is that health expenditure, as a proportion of total government expenditure, will increase.

Projected Health Expenditure

Agreed Revised Forward Projections

As a first step, the Review determined, in conjunction with ACT Health, an agreed common set of growth rates across the various health outputs. In establishing these growth rates, the Review has referred to average price growth across Australia, and patterns of increase in demand in the ACT and the surrounding region.

The Review also engaged experts to test the modelling of demand and to seek general advice. The agreed underlying growth rates are as follows:

Table 7.3.3: Growth Rates for ACT Health Outputs

Output	Service	Growth Rate
Output 1.1	Acute Services	8.0%
Output 1.2	Mental Health	6.0%
Output 1.3	Community Health / HACC	2.5% / 9.0%
Output 1.4	Public Health	3.0%
Output 1.5	Cancer Services	8.0%
Output 1.6	Aged Care and Rehabilitation	3.0%
Output 1.7	Early Intervention	3.0%
OVERALL		**6.7%**

The principal determinants underlying these growth rates are described below.

From 1996-97 to 2003-04, the Australian average cost per cost-weighted separation increased at an average annual rate of 4.1 per cent. The expected demand growth for acute care services is 3.7 per cent per annum. Combining these cost and demand growth factors leads to a projected growth in acute care expenditure of around 8 per cent per annum[18].

Mental Health has been identified as a priority area. Based upon recent announcements from COAG, an allowance for an estimated increase of 6 per cent per annum has been assumed for Mental Health, allowing for any matching requirements from the ACT for Commonwealth funding. It should be noted that it is planned that expenditure on the high security adult facility should be counted as the 'new money' for matching purposes.

Commonwealth Grants Commission data indicates that the ACT's expenditure for community health, and population and preventive health services is significantly above the standardised level[19], at 134 per cent and 402 per cent respectively in 2004-05. For this reason, no additional expenditure need be committed in these areas, and growth can be projected at a base indexation rate (with the exception of HACC services).

The slightly lower rate for Community Health services reflects the high level of expenditure currently in community health, with the expectation that the refocusing exercise will identify efficiencies that can be redirected to other outputs. As aged care in the home is a growth sector, with matching requirements being imposed by the Commonwealth for receipt of additional Home and Community Care (HACC) funding. For this reason a growth rate of 9 per cent (reflecting past years' increases) has been applied to HACC expenditure, within the community services output.

[18] The ACTH Acute Services Output consists of both inpatient and outpatient services. For the purposes of this paper, inpatient services cost and demand growth factors have been assumed to apply to the entire Acute Services Output expenditure. This may overstate projected expenditure. For example, ED admissions are estimated to grow at 2.8 per cent pa, less than the 3.7 per cent pa estimated growth in cost weighted separations.

[19] Standardised Expenditure – is the expenditure required to provide an average (of all States and Territories) level of service at average of efficiency.

Increased demand for Cancer Services is assumed to lead to a growth of 8 per cent per annum for Cancer Services.

Aged care and rehabilitation is assumed to grow at the rate of indexation.

These growth rates were applied to the estimated output expenditures for 2005-06, less items such as depreciation (not expected to grow at the same rate as the projected growth rates), high cost drugs (fully reimbursed by the Commonwealth) and business activities (expenditure matched by revenues). Depreciation costs have not been indexed (in recognition of a separate capital replacement program), whilst high cost drugs and business activities have been indexed at the price growth rate of 4 per cent.

In addition, items already included in the Budget, for example $5.8 million in additional insurance expenses and the sub-acute facility, were allocated to the acute and aged care outputs respectively. The impact of the sub-acute facility explains the high growth rate for aged care.

Finally, the impact of the commitment to benchmark costs for cost per cost-weighted separation, with the exception of superannuation, was applied. The practical outcome of this is for ACT Health to reach within 10 per cent of the peer group average over the next five years for cost per casemix-adjusted separation.

To achieve this, the ACT cost per casemix-adjusted separation will need to grow more slowly than that for the Australian average. Modelling suggests that the cost growth for the ACT will be 2.9 per cent down from 4.1 per cent for the national average. When combined with the demand growth of 3.7 per cent, this results in an overall growth rate of 6.7 per cent per annum. This growth rate was applied to Acute Services expenditure.

The projected health expenditure across the forward years, by output, is shown in the table below. The impact of the transfer of resources to the Shared Services entity is shown separately.

Table 7.3.4: Health Expenditure Projections

Total Expenses	2005-06 $'000	2006-07 $'000	2007-08 $'000	2008-09 $'000	2009-10 $'000	Average annual growth
Acute Services	457,588	492,881	524,336	557,883	593,662	6.7%
Mental Health	48,336	51,214	54,263	57,495	60,921	6.0%
Community Health	99,674	103,493	107,530	111,800	116,322	3.9%
Public Health	22,277	22,939	23,620	24,322	25,045	3.0%
Cancer Services	18,578	19,986	21,506	23,148	24,922	7.6%
Aged Care	21,800	27,919	30,334	31,245	32,184	10.7%
Early Intervention	16,747	17,252	17,772	18,307	18,859	3.0%
TOTAL	**685,000**	**735,683**	**779,361**	**824,201**	**871,915**	**6.2%**
Annual growth		*7.4%*	*5.9%*	*5.8%*	*5.8%*	
Less transfer to Shared Services		(4,260)	(10,357)	(10,492)	(10,628)	
Net TOTAL	**685,000**	**731,423**	**769,004**	**813,709**	**861,287**	**5.9%**
Plant and Equipment	4,599	4,783	4,974	5,173	5,380	4.0%

A staged transition of gradually declining growth until arrival at the desired level allows sufficient capacity whilst the new approaches are bedded down.

New policy initiatives, such as a third linear accelerator, have not been included in the expenditure projections. The aim of the expenditure projections is to identify the quantum of funds available for health expenditure over the forward years. The expectation is that for any new initiatives identified, offsetting savings will be identified within the overall quantum of funding to allow for their implementation. Consistent with this, the growth rates across the outputs are a guide only, and health expenditure will not be held rigorously to the levels identified for each output. In this way, the health system will be sufficiently flexible to quickly allocate resources to areas of need as they are identified.

A capital program allowing replacement of plant and equipment has also been included, with a growth rate reflecting the cost growth rate of 4 per cent per annum.

Recommendation 93: the Government agree to ACT Health total expenses being constrained to an annual average of 6.2 per cent (excluding the transfer to shared services) over the forward years, representing the application of the growth rates identified for each of the ACT Health outputs, and incorporating the target to achieve benchmark rates for cost per cost-weighted separation, excluding superannuation costs.

A comparison of these projected health expenditures, with the currently published forward estimates and with the full impact of an 8 per cent growth rate for Acute Services is shown below.

Table 7.3.5: Comparison of Health Expenditure Estimates

$'000	2005-06	2006-07	2007-08	2008-09	2009-10
Current Growth Path (10% per annum) – (a)	685,000	751,445	824,335	904,296	992,012
Review's Baseline (Acute Care at 8%) – (b)	685,000	741,301	791,422	843,623	899,714
Review Projections for Health Expenditure - (c)	**685,000**	**735,683**	**779,361**	**824,201**	**871,915**
Forward Estimates at Mid Year Review -(d)	685,000	707,913	734,747	760,559	789,940
Efficiency Savings – Benchmark Cost for Acute (c-b)	*(0)*	*(5,618)*	*(12,061)*	*(19,422)*	*(27,799)*
Total Efficiencies Against Growth Path (c-a)	*(0)*	*(15,762)*	*(44,974)*	*(80,094)*	*(120,098)*
Difference – Review to Budget (c-d)	*0*	*27,770*	*44,614*	*63,642*	*81,975*

The above table highlights the extent of 'real' efficiencies required to achieve the estimates proposed by the Review. In the absence of any strategies in place, health expenditure is likely to follow the trajectory of the past five years (at an average growth rate of 10 per cent). To meet the targets proposed by the Review, efficiencies in the order of $120 million in 2009-10 will be required.

The difference between the Review projections and the published forward estimates does not reflect the overall impact on the General Government Sector operating result. This is because some movements have already been accounted for in the Mid Year Review. Provisions currently exist centrally for EBA outcomes and insurance, and some of the variance will be met through offsetting revenues or Commonwealth payments. The table below describes the impact on the General Government Sector operating result. Savings relating to Health from changes to government procurement practices are shown separately.

Table 7.3.6: Impact on General Government Sector Operating Result

	2005-06 $'000	2006-07 $'000	2007-08 $'000	2008-09 $'000	2009-10 $'000	FTE Impacts
Review Projections	685,000	735,683	779,361	824,201	871,915	
Forward Estimates at Mid Year Review	685,000	707,913	734,747	760,559	789,940	
Difference		*27,770*	*44,614*	*63,642*	*81,975*	
Less						
EBA Central Provisions		6,665	13,831	20,318	27,004	
Insurance Central Provisions		6,800	6,970	7,150	7,330	
Cost of Goods Sold (Revenue)		361	737	1,128	1,534	
High Cost Drugs (from Commonwealth)		300	612	936	1,274	
HACC growth (from Commonwealth)		912	1,907	2,990	4,171	
Sub-total		20,763	30,002	38,467	76,639	
Net Impact on GGS Operating Result		***12,732***	***20,557***	***31,120***	***40,662***	
Other Health Portfolio Adjustments						
Machinery of Government (Health**pact**)		592	607	610	620	5.8
Procurement (Tender Box) Savings		1,318	2,702	2,770	2,840	-
Procurement (ERC) Savings		398	597	597	597	-
IT (Review and ERC) Savings		2,417	3,411	3,411	3,411	-
Transfer to Shared Services		4,260	10,357	10,492	10,628	117.85

7.3.7 HEALTH AND COMMUNITY SERVICES FINANCIAL STRATEGY

The Review has sought to define a sustainable growth path for health expenditure underpinned by a strategy that should maintain (in fact improve) the quality of care.

The growth parameters proposed by the Review are premised on any wage increases above 3 per cent being funded from productivity offsets. In some particular area, demand pressures may emerge that are in excess of the forward estimates parameters.

In order to ensure that health expenditure remains sustainable, the Review proposes that the financial strategy is updated on a rolling basis.

Recommendation 94: ACT Health, in consultation with the central agencies, bring forward in the Budget process each year a four-year rolling forward program of savings (or revenue) strategies and options sufficient to fully offset across the Department:

- **any wage increases in excess of the forward estimates provision;**
- **any new policy proposals in the health and community services area; and**
- **any demand pressures arising in any area in excess of forward estimates parameters.**

Part

7.4

EDUCATION AND TRAINING

CHAPTER 7.4.1 GOVERNMENT SCHOOLS

OVERVIEW

Government schools and preschools in the ACT provide quality education with a strong focus on catering for the varying needs of all students to assist each to reach their potential. Within the ACT system, most schools deliver a consistently sound standard of education at, in most respects, creditable levels of efficiency and cost effectiveness.

At the same time, the government school system in the ACT continues to operate under considerable pressure from changing circumstances and community expectations. In particular, it is losing students to the non-government sector much more rapidly than in other States, making it ever increasingly difficult to maintain in every school the highest standards of educational facilities and services. In current circumstances and with current approaches, the sound performance benchmark reached in many ACT schools is not able to be delivered by all.

Across Australia, there has been a shift of students from the public school system to non-government schools over the past decade. In the ACT, the shift has been at a faster rate than the national average[1]. Although reasons for parents choosing non-government schools over a public school are quite complex, it is clear that if this trend continues, the public system will cater for less than half of students within the next decade. The government school system in the ACT is rapidly approaching a cross-road which demands a much more substantive response than has been taken to date.

Demographic shifts and an overall decline in government school enrolments have already led to increasing surplus capacity. The total surplus capacity across the preschool, primary and high schools and colleges sectors of ACT government schools is 31 per cent (17,811 surplus places)[2].

Maintaining surplus capacity at such levels is costly, and the quality of school infrastructure has eroded. At the same time, schools which have declined to small student numbers can deliver only limited curriculum options which can compromise student achievement. Greater student choice and peer support are potential gains from any changes put in place. None of the Review's recommendations for government schools need lower student outcomes. Measures are aimed at maintaining the Territory's high standing against other jurisdictions, and this will be achieved through well managed structural and infrastructure changes.

The ACT has relatively high costs when compared with other jurisdictions. Recurrent expenditure per student in the ACT is the second highest in the country at around

[1] Over the past five years alone, the number of students in ACT Government schools has declined by 7 per cent while the number of students in non-government schools has increased by 9 per cent.

[2] DET unpublished data 2005.

17.4 per cent[3] higher than the national average. Out of school government expenditure per FTE student is 57 per cent above the national average and second highest in Australia[4].

Prima facie, learning outcomes for ACT students are relatively very good. Higher attainments of the ACT students, however, must take into account their generally higher socio-economic backgrounds, which can have significant positive effects on measures of average student performance. Indeed, leading researchers have indicated that ACT results for the literacy and numeracy assessment program are unremarkable once account is taken of socio-economic factors, and do not provide evidence that the high levels of expenditure in the ACT are, overall, generating higher educational outcomes.

In an environment of decreasing enrolments, both costs and teacher numbers have been increasing significantly. Between 2000-01 and 2004-05, teacher numbers increased by 6 per cent when student numbers declined by 7 per cent[5]. The total cost of all government school education in the ACT increased by 27 per cent[6].

Teachers in the ACT have the lowest contact hours with students, while remuneration levels are the highest in the country across all sectors.

In summary, the ACT public school system overall can be described as suffering declining support and not delivering adequate value for money. Higher expenditures overall seem more likely to be supporting areas of inefficiency than higher educational outcomes. These inefficiencies include the maintenance of heavy excess capacity in many schools and underutilisation of potential teaching time across the system. At the same time, these costs have come partly at the expense of new investment in school facilities and technologies.

Together, these are among the most important factors that will need to be addressed if public confidence in the government school system is to be fully restored (along with the equally vital efforts of teachers and school communities that will be needed to build excellence in government education).

Responding to them, with new investment, restructuring of schools and more effective utilisation of high quality teaching resources, is the opportunity that the Review recommends now be vigorously pursued.

[3] Report on Government Services 2006.

[4] Report on Government Services 2006.

[5] DET unpublished data and ABS Catalogue No 4221.0, Schools Australia 2004.

[6] DET Annual Reports.

KEY CONCLUSIONS AND RECOMMENDATIONS

- This is the only area of government expenditure where demand has declined while costs have increased significantly.
- Total recurrent expenditure has increased by 23 per cent from $334.2 million in 2001-02 to $411.7 million 2004-05 – an average of 7 per cent per year.
- Teacher numbers have increased by 6 per cent, from 2,765 in 2000-01 to 2,919 in 2004-05.
- Administrative staff in schools have increased by 18 per cent, from 623 in 2000-01 to 735 in 2004-05.
- Central office expenditure has increased by 9 per cent, from $63 million in 2002-03 to $68.8 million in 2004-05.
- Out of school expenditure per student has moved from being on the national average in 2000-01 to being 57 per cent above the national average in 2003-04.

However:

- Student numbers have fallen by 7 per cent, from 38,401 in 2000-01 to 35,821 in 2004-05 - and continue to fall by around 1 per cent per annum.
- Surplus infrastructure capacity is 31 per cent in 2005-06 and based on the Department's projections, will continue to rise.
- With full implementation of the Review's education package, recurrent expenditure per student in Government schools would still remain around 9 per cent per student above the national average.

In Summary:

- Recognising the high priority that the ACT Government affords to education as a foundation for the intellectual, physical and social development of young Canberrans, the Review proposes to further strengthen and revitalise the Government school and preschool systems to:
  - achieve at least the same or better educational outcomes for students;
  - improve confidence in the public school system and make it a more attractive choice for parents and students;
  - deliver government schooling in more efficient and cost effective ways; and
  - meet Government's commitments to education policy.

The Proposed Response

Box 1: The proposed response seeks to ensure:

- public schools are able to provide a breadth and diversity of programs for students;
- the learning environment (in the school and in the classroom) is improved;
- teachers' time on teaching is increased; and
- the overall cost effectiveness of the education system is increased.

The Government has previously made investments in education to improve learning outcomes, for example, in reducing class sizes in early years. However, there is need for structural change and improvement.

Learning environments in which education is delivered – in the school, and in the classroom – make a significant difference in students' achievements. Quality infrastructure, however, is an essential but by no means the only element of a good school (Box 2).

Box 2: What Makes a Good School?

- Quality teachers, and support for teachers in their profession;
- Critical mass of staff, encouraging mentoring, peer learning and support;
- Social diversity and scale to get the right balance of peer interaction;
- Program breadth to give students choice, increasing their engagement in learning;
- Professional development focused on assessed school needs;
- Professional appraisal;
- Ability to adapt curriculum to student needs and apply flexible approaches; and
- School improvement plans.

Professor Richard Teese; Reader in Education; Director, Centre for Post Compulsory Education and Life Long Learning, University of Melbourne.

Educational Outcomes

At the *prima facie* level, learning outcomes for ACT students are relatively good which could be viewed as some justification for the higher cost of the public education system. It is important, however, to understand the reasons for differences in educational achievements between various systems.

There are difficulties in comparing outcomes between States[7]. Educational outcomes and qualitative inputs such as curriculum offerings, staff quality and school

[7] For example, due to differing proportion of Indigenous and rural populations, the different ages at which a child may start school in various States, the presence of a preparatory year in some States etc.

environment are difficult to define and strength of relationships between them difficult to measure.

Some researchers suggest that variation in educational outcomes is largely dependent on qualitative factors such as standard of teaching in schools, and quality of teachers, with socio-demographic composition of the school population having a minor impact (around 10 per cent)[8]. Other studies conclude that while there is no single factor that explains why some schools gain better results than others, social intake is an important element[9].

Irrespective of the relative contribution of various factors, what is important to note is that the relatively higher educational outcomes in the ACT compared to other States are likely attributed to the higher socio-economic background of the students. This conclusion is based on the research under the OECD Programme for International Student Assessment (Box 3).

Box 3: Differences in Student Achievements

In the context of a move towards greater uniformity in the delivery of education services across Australia, State differences in achievements are non trivial especially when socio-demographic and educational differences between the States are taken into account.....It appears that the higher attainment of ACT students can be attributed to their generally higher socio-economic backgrounds....When taking into account grade levels, New South Wales students show significantly higher average scores than five other States and Territories in reading and mathematics and three other States and Territories in science.

Source: *State differences in achievement among secondary school students in Australia*; Marks G N and Cresswell J; Australian Journal of Education, Vol. 49, No. 2 (2005).

In relation to the outcomes measured through the ACT Assessment Program, the benchmarks are set at minimum standards and again given the socio-demographic backgrounds of many of ACT students and the education and development resources they bring from home, the benchmarks do not indicate a great deal about the value added by schools. This point is acknowledged by education researchers. The Review was advised by leading researchers that ACT results for the literacy and numeracy assessment program are unremarkable and do not provide evidence to suggest that the high level of expenditure in the ACT is adding value above the intake characteristics of ACT students[10].

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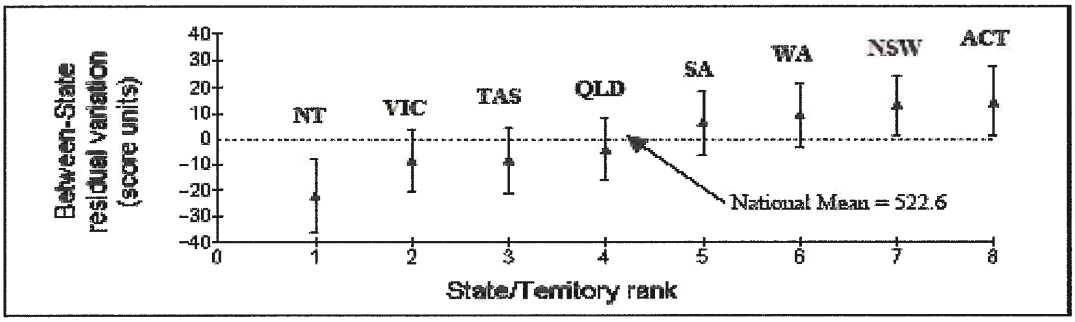
[8] *What Matters Most: Evidence-Based Findings of key Factors Affecting the Educational Experience and Outcomes for Girls and Boys Throughout their Primary and Secondary Schooling*, Kenneth Rowe and Katherine Row; Supplementary Submission to House of Representatives Standing Committee on Education and Training: *Inquiry into Education of Boys*. May 2002. Also see research related to the *Victorian Quality Schools Project*.

[9] *School Performance in Australia: results from analyses of school effectiveness*; S Lamb, R Rumberger, D Jesson, and R Teese; Centre for Post Compulsory Education and Life Learning, The University of Melbourne; August 2004.

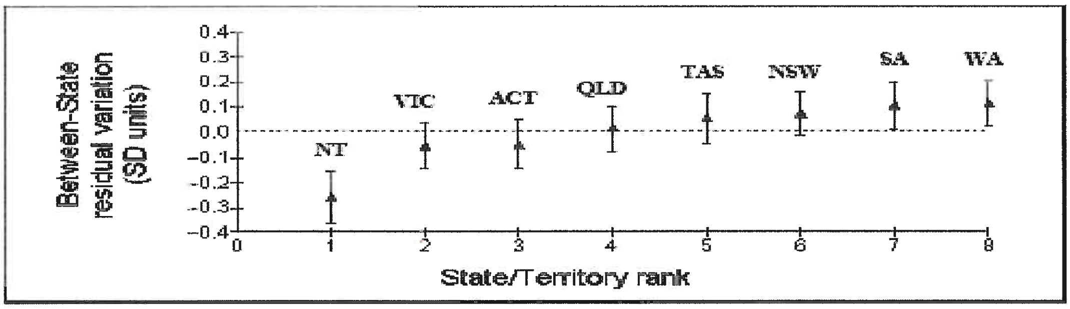
[10] *Analysing and Reporting Performance Indicator Data: 'Caress' the data and beware!*; Ken Rowe, Australian Council for Educational Research; Invited address at the 2004 Public Sector Performance and Reporting Conference; Sydney 2004. The Review was advised that data for PISA was provided under a protocol that did not allow disaggregation between public and private and schools systems.

Figure 7.4.1: Comparisons of Literacy Scores: Before and After Socio-Demographic Adjustments

Plot of ranked, raw residuals at the State-level, showing mean-point Reading Literacy score estimates bounded by 95% 'uncertainty' intervals



Plot of ranked residuals at the State-level, showing adjusted mean-point Reading Literacy score estimates bounded by 95% 'uncertainty' intervals



Source: Analysing Education Performance, ACER 2005

These results suggest that it can not be shown, from the evidence available, whether or not the public and the Government is getting value for money for the high level of expenditure on ACT Government schools.

The focus of the proposed package is on establishing good schools on a cost effective basis. This requires a smaller number of more viable schools in the ACT system.

Government's Commitment to Education

The proposed package maintains Government's commitment to education. Goal student to teacher ratios are not adversely impacted. Funding to education will be maintained in aggregate terms (Box 4).

Box 4: Government's Commitment to Education

- Over the next four years, the proposed measures will result in savings of $98 million. At the same time, an investment of $110 million in the public education is being made.
- The student to teacher ratio in 2001 was 13.6[11]. Following the full implementation of the package, the ratio is projected to remain the same.
- The Government's commitment to smaller class sizes for K-3 will be maintained.
- Funding for public education will be maintained in real terms from the time the Government came to office.
- Funding per student will still be higher compared with that in 2001.

KEY ISSUES FOR PUBLIC EDUCATION

The total expenditure on all ACT Government schools in 2004-05 was $411.8 million, with a Government Payment for Outputs (recurrent appropriation) of $358 million[12]. A summary of expenditure by sector is provided below.

Table 7.4.1: Composition of Government School Expenditure

	Direct Expenditure[13] $'m	Indirect Expenditure[14] $'m	Overhead Expenditure[15] $'m	Externally Funded[16] $'m
Primary Schools	140.3	16.0	22.4	5.3
High Schools	83.8	13.1	12.3	2.3
Colleges	52.1	7.5	8.3	3.6
Preschools*	12.1	1.4	2.7	0.8
Special Schools	12.8	5.6	4.3	2.0
Total Expenditure	301.1	43.6	50.0	14.0
% of Total	74%	11%	12%	3%

* The Early Intervention Unit is included in preschool totals.
Source: Department of Education and Training ERC Information 2004-05

The following table provides the number of students and cost per student in each sector.

Table 7.4.2: Number of Students and Cost per Student by Sector

	Number of Students	Total Costs $'m	Funding $'m	Cost per Student ($)
Primary Schools	18,354	170.2	148.2	9,272
High Schools	9,919	108.1	95.7	10,899
Colleges	5,781	73.6	62.4	12,732
Preschools	3,622	15.3	13.7	4,223
Students with Disabilities		44.6	38.0	
- Special Schools	340			45,364
- Mainstream	1,327			20,784

Source: DET Annual Report 2004-05

Escalating Costs

The ACT has relatively high costs of government school education compared with other jurisdictions. In 2003-04, recurrent expenditure per student in the ACT was the second highest in the country at $11,748 per student and around 17 per cent higher than the national average[17].

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[11] Treasury calculations based on DET ERC information 2005.

[12] 2004-05 Annual Report, Department of Education and Training.

[13] Direct expenditure in mainstream ACT Government schools includes salaries, superannuation, School Based Management payments and expenditure from own sourced revenue.

[14] Includes school education support administered by the Central Office and depreciation.

[15] Includes costs associated with managing human resources and corporate expenses.

[16] Includes funding received from external bodies such as international education payments, Commonwealth Government departments for particular programs and revenue from other agencies external to the ACT Government.

[17] Report on Government Services; 2006.

In school primary government expenditure per FTE student was 3 per cent above the national average and the third highest in Australia. In school secondary government expenditure per FTE student was 11 per cent higher than the national average and second highest in Australia. Out of school government expenditure per FTE student was 57 per cent above the national average and second highest in Australia. Overall, between 2000-01 and 2004-05, the total cost of all government school education in the ACT increased by 27 per cent[18].

Declining Student Enrolments

The share of public school education in the Territory has been decreasing over time, with a shift to non-government school systems. The decline is evident in all the sectors of the public education system (Box 4).

Box 4: Change in enrolments by sector over the past five years

- The number of students in government primary schools decreased by 8 per cent. The number of students in non-government primary schools increased by 8 per cent.
- The number of students in government high schools decreased by 1 per cent. The number of students in non-government high schools increased by 9 per cent.
- The number of students in government colleges decreased by 11 per cent. The number of students in non-government senior secondary classes increased by 18 per cent[19].

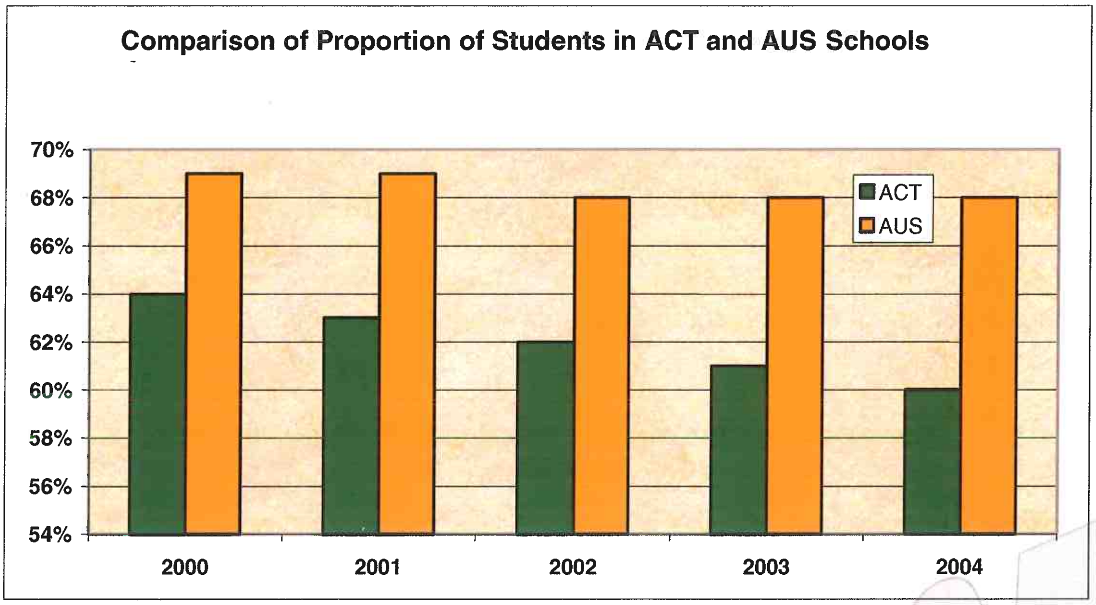
There has indeed been a trend shift in the relative shares of the public and private education systems across Australia, but, in the ACT the rate of decline in the public school enrolments is around double the national rate.

The proportion of students in ACT government schools has decreased from 64 per cent to 59 per cent from February 2000 to February 2006. The proportion of students in ACT non-government schools has increased from 36 per cent to 41 per cent from February 2000 to February 2004. If this trend continues, the public school system will cater for less than half of the total school education in the Territory within the next decade.

Across Australia on the other hand, the proportion of students in government schools decreased from 69 per cent to 67 per cent from February 2000 to August 2005. The proportion of students in non-government schools has increased from 31 per cent to 33 per cent from February 2000 to August 2005.

[18] DET Annual Reports.

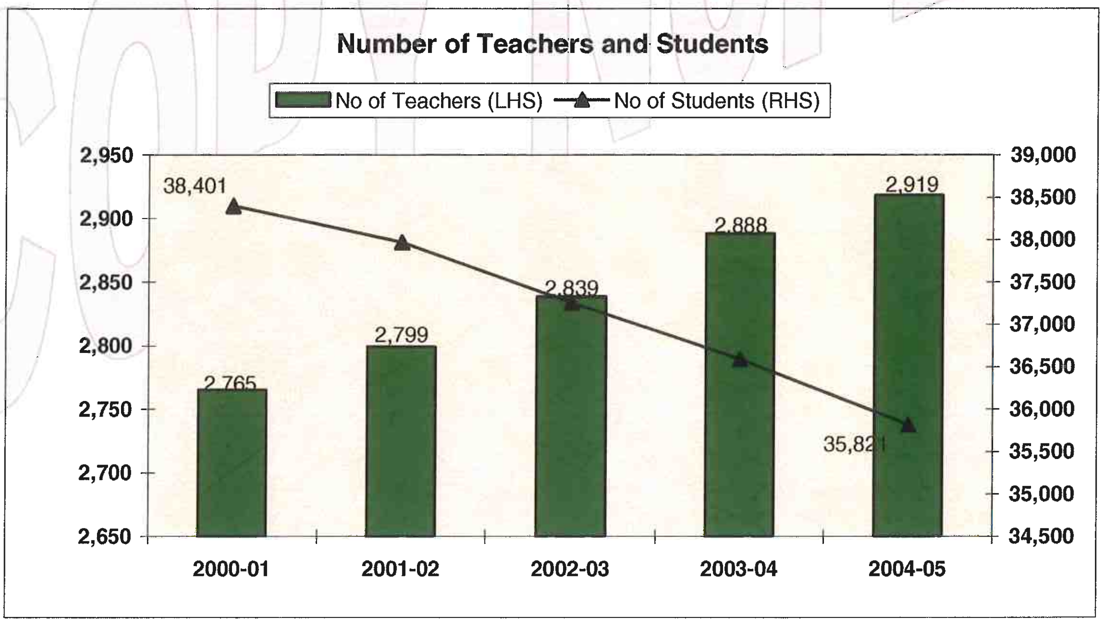
[19] ABS Catalogue No 4221.0, Schools Australia 2004.



Source: ABS Catalogue No 4221.0, Schools Australia 2004

Increasing Staff Numbers

The number of schools in the ACT has remained relatively unchanged from 95 to 96 between 2000-01 and 2004-05[20]. Over this period, while the number of full-time students decreased by 7 per cent, teachers in government schools increased by 154 FTEs or 6 per cent[21].



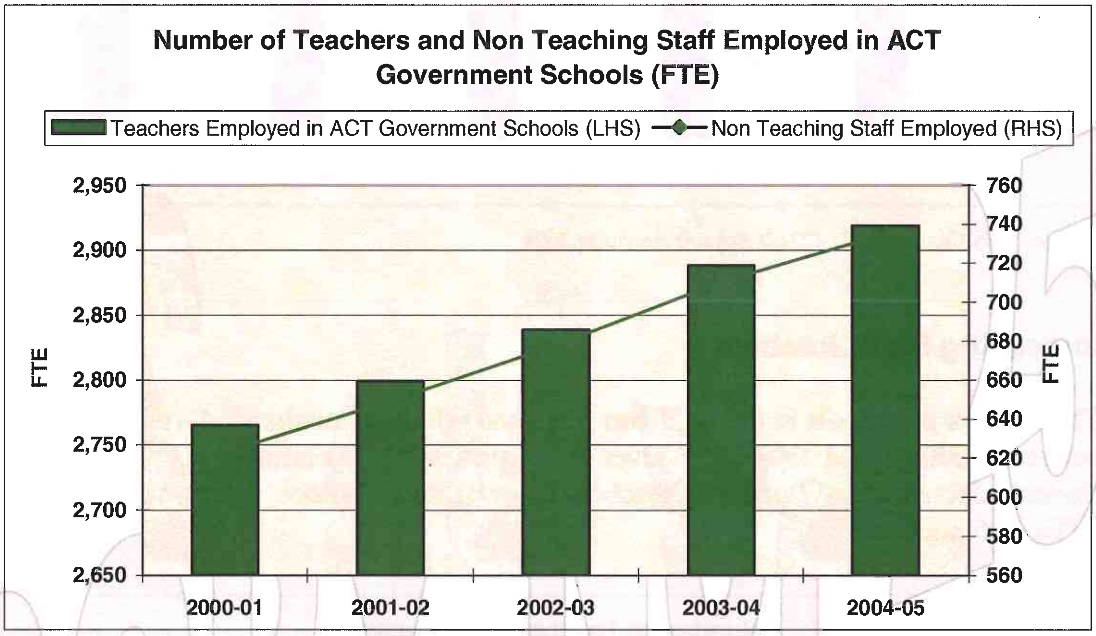
Source: ACT Department of Education and Training unpublished data

[20] ABS Catalogue No. 4221.0, Schools Australia 2004.

[21] DET unpublished data.

If the overall student/teacher ratio was maintained in 2004-05, teacher numbers should have decreased by 186 teachers over the period. The real increase in teacher numbers is therefore, taking into account the decrease in enrolments of 340 FTEs.

Similar to teaching staff, non-teaching staff in schools increased from 622 FTE in 2000-01 to 735 FTE in 2004-05, which is an increase of 18 per cent[22]. This increase should have, in part, provided additional support for both non-teaching activities and additional teaching capacity within schools. Additionally, there are 348 non-teaching positions in Central Office that provide some support to schools.



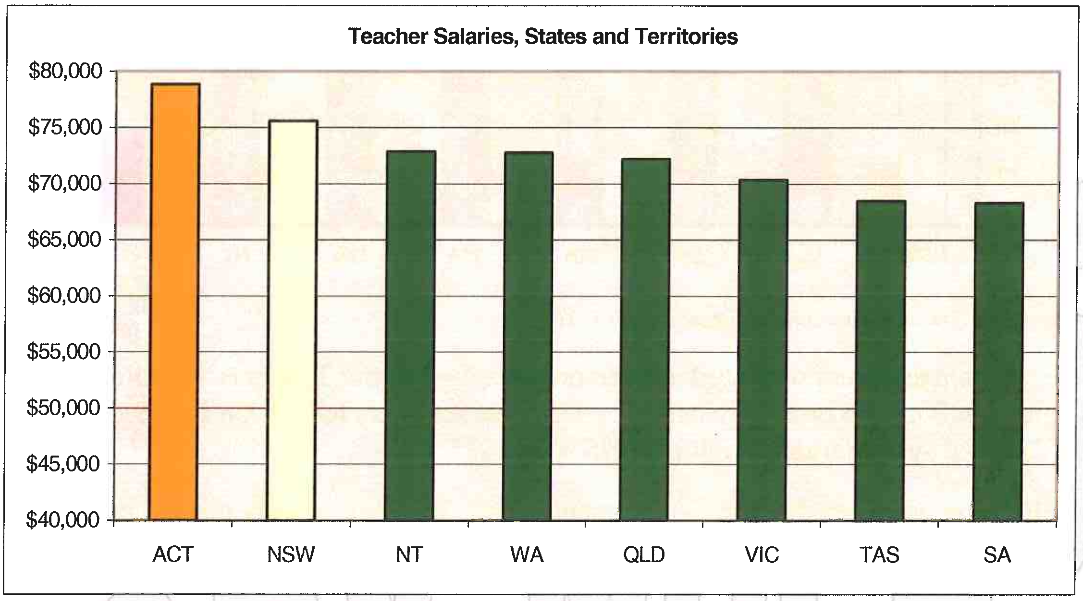
Source: ACT Department of Education and Training unpublished data

[22] DET unpublished data

THE PROPOSED MEASURES

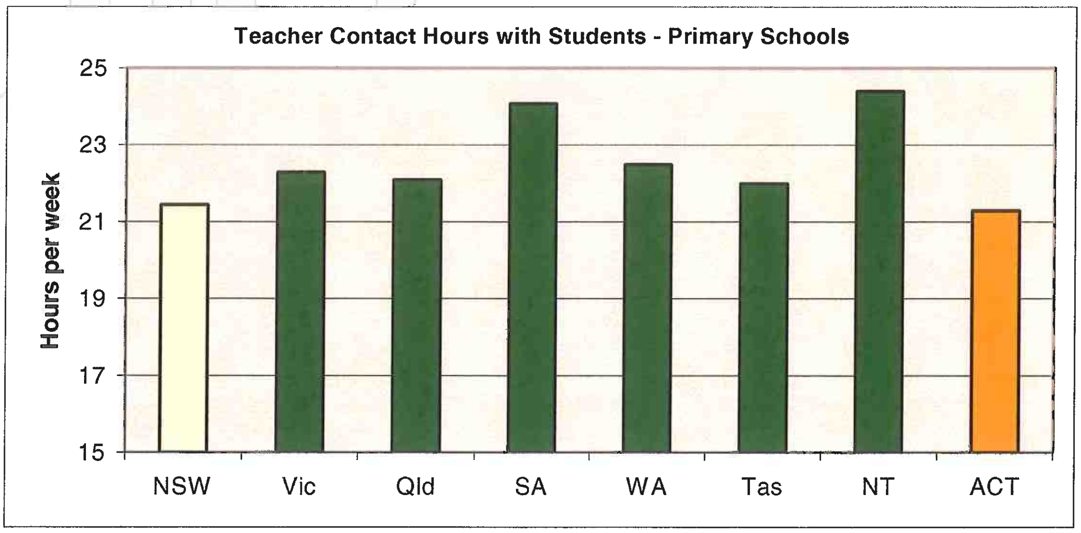
Increasing Contact Hours

Including superannuation, ACT teachers are the highest paid in the country. However, they have the lowest contact hours of any jurisdiction across all public school sectors, as highlighted in the charts below.



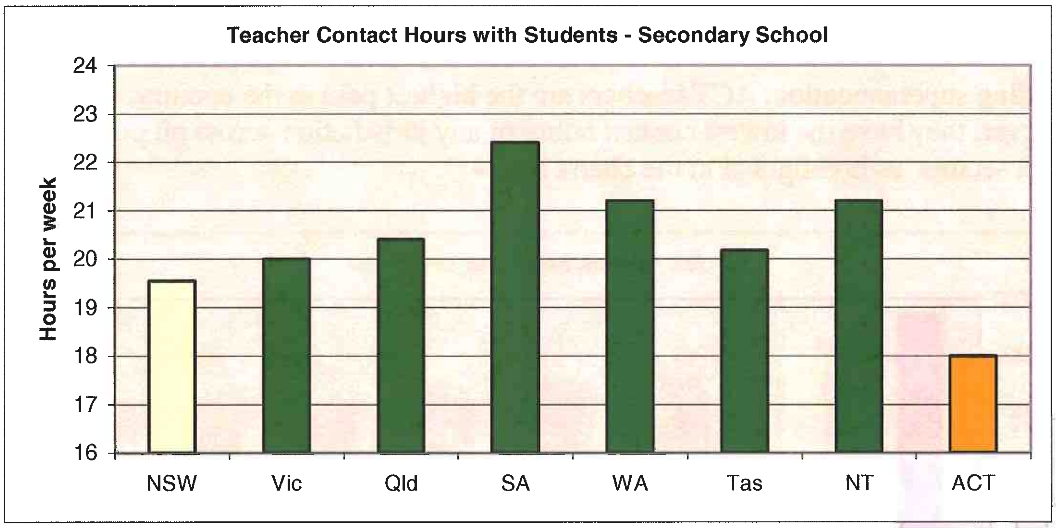
Source: ACT Department of Education and Training data

Teacher contact hours with students includes face to face time in class or in other programmed teaching sessions on the timetable. Teacher contact hours with students in ACT primary schools are the lowest in Australia at 21 hours 30 minutes. The Northern Territory has the highest teacher contact hours at 24 hours 40 minutes.



Source: ACT Treasury data collected from jurisdictions

The ACT also has the lowest teacher contact hours with students for high schools and colleges, at 18 hours. South Australia has the highest at 22 hours and 40 minutes[23].



Source: ACT Treasury data collected from jurisdictions

Teacher contact hours with students are not specified in the Teachers' Certified Agreement 2004-06 or in legislation. These contact hours have been in place since the ACT school system transferred from NSW in 1973.

The Review proposes that the Government seek to increase weekly teacher contact with students. Savings from increased contact are significant and could provide capacity for wage increases above the level of provision in the budget (3 per cent). This would ensure that teachers in the ACT remain well paid, and that the public school system is able to attract quality teachers.

Two benchmarks are available in this regard – contact hours of the best jurisdiction, and the average contact hours across all jurisdictions. The following table provides a summary of the financial impact of the two options.

[23] South Australian Staff Award 2000

Table 7.4.3: Options on EBA and Teacher Contact Hours

	2006-07 $'m	2007-08 $'m	2008-09 $'m
Savings from Increased Contact Hours			
NSW Contact Hours	3.8	7.8	8.0
SA Contact Hours	12.3	25.0	25.6
Aust. Average Contact Hours	6.3	12.9	13.3
EBA Costs – 4 per cent per annum increase			
Gross EBA Costs	6.9	14.0	20.8
EBA Costs Net of Budget Provisions	1.7	3.5	5.3
Net Budget Savings - Wages			
NSW Contact Hours	2.1	4.2	2.7
SA Contact Hours	10.5	21.4	20.3
Aust. Average Contact Hours	4.6	9.4	8.0
Net Budget Savings – Wages and Oncosts			
NSW Contact Hours	3.3	6.7	4.3
SA Contact Hours	16.7	34.3	32.5
Aust. Average Contact Hours	7.3	15.0	12.8

The savings from increased contact hours essentially relate to a decrease in teacher numbers across the public school system. In estimating the above savings, a half-year effect has been assumed for 2006-07. The following table provides estimates of impact on teacher numbers under each option.

Table 7.4.4: Impact on Teacher Staffing

	Primary FTEs	High Schools FTEs	Colleges FTEs	Total FTEs	% of Current Staffing
NSW Contact Hours	15.0	71.0	43.0	129.0	4.4%
SA Contact Hours	132.0	156.0	128.0	416.0	14.0%
Aust. Average Contact Hours	67.0	79.0	65.0	211.0	7.2%

The impact on full-time staffing is likely to be less than the estimates included in the table above. In principle, with the increase in contact hours, there should be some decrease in relief teaching costs.

The volume of relief teaching in public schools equates to around 140 FTEs per annum, as highlighted in the table below.

Table 7.4.5: Relief Teaching Across Public Schools

	2002-03	2003-04	2004-05
Relief Days (Number)	28,438	26,900	27,514
Teacher Equivalent (FTEs)	142	135	138
Relief Teacher Costs ($'m)	7.8	8.8	12.1

Source: DET ERC information 2005

It is difficult to estimate the extent to which decreased relief teaching could absorb the decrease in staffing required (under any option). Assuming a 50 per cent reduction in relief teaching, a reduction of around 140 full time employed teachers will be required if the option of Australian average contact hours is adopted.

The annual turnover rate for teachers is around 5 per cent, and the savings could be achieved without a significant redundancy program.

Recommendation 95: pay increase of 4 per cent for teachers should be agreed subject to weekly contact hours being increased to at least the Australian average.

Curriculum Development

The ACT develops its own curriculum with direct costs of curriculum development in the ACT are estimated at $2.9 million per annum in the Central Office.

In the ACT, all schools are also required to have their own curriculum documents. This has been provided as a 'rationale' for lower teacher contact hours compared to NSW.

However, Australia increasingly is one community with one labour market. People have high levels of mobility between States and Territories. It is vital that we equip our children in ways that do not disadvantage them in the national economy and community. There are advantages in ensuring that curriculum is aligned with national developments, particularly at more senior levels, provided this produces high quality outcomes at least equal to those now provided by the separate ACT approach.

The Review therefore considers that curriculum development should increasingly call upon nationally available models and materials where this produces good outcomes. Given the ACT's geographic position, this will often mean that NSW could provide a suitable base of curriculum materials.

The Review has been advised by the Australian Council for Educational Research[24] that the NSW curriculum is rated as the only curriculum in Australia that specifies content in a systematic way. This is reflected in relatively higher student outcomes in NSW, when adjusted for socio-economic characteristics of its student population[25].

The Review was advised that the Department is currently developing a curriculum framework. This could provide guidelines under which all or some of content of the NSW curriculum (or if applicable, other best practice curriculum that may be developed in other states) could be used under licence.

In proposing this approach, the Review is not suggesting that the ACT cease to develop its own approach to curriculum where this produces clear and substantial benefits for education relative to available alternatives. Nor is it suggested that teachers cease tailoring their teaching material to specific classroom or student needs. Indeed such 'adjustments' are part of the repertoire of a good teacher.

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[24] Dr Ken Rowe; Australian Council for Educational Research; Monash University.

[25] *State differences in achievement among secondary school students in Australia*; Marks G N and Cresswell J; Australian Journal of Education, Vol. 49, No. 2 (2005).

Over time, as curriculum renewal opportunities arise, this approach should produce better results for ACT students as well as allow some reduction in the high central office costs of the current curriculum development system.

The NSW curriculum could provide a platform in this regard, and will allow teachers to concentrate more on face-to-face contact with students.

The cost of purchasing curriculum documents and licence fees is estimated at $0.5 million per annum. In addition, capacity in the Central Office will need to be retained for coordination, licence management and support to schools, and for continuing curriculum development where this proves essential to maintain educational outcomes. This is estimated at $1.5 million per annum, providing net savings of around $0.9 million per annum.

Recommendation 96: the Government source best practice curriculum content under licence, and that this be adjusted to ACT needs consistent with the curriculum framework being developed by the Department.

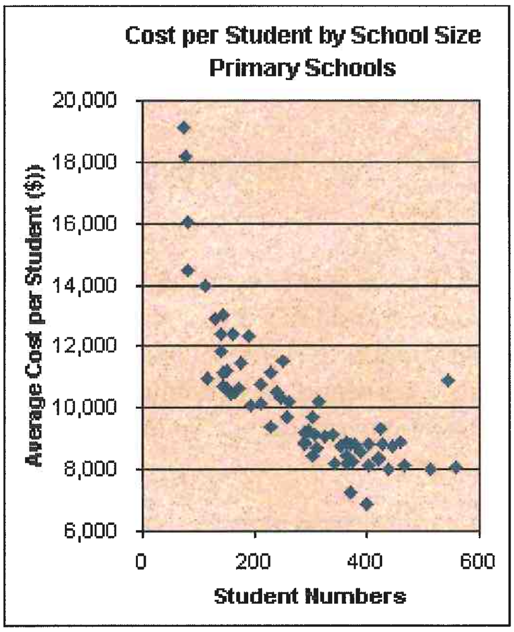
Unviable Schools and Surplus Capacity

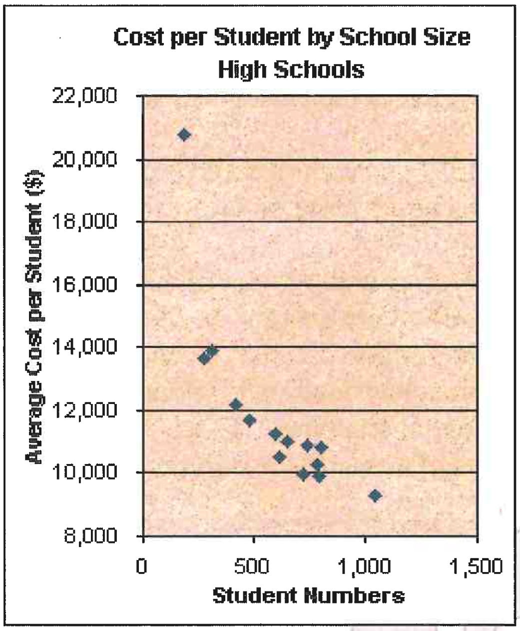
Demographic shifts and an overall decline in government school enrolments have led to the need to maintain increasing proportions of surplus capacity across the sectors. There are 37 preschools that are part-time, with very low enrolments; three high schools and 19 primary schools with enrolments below half capacity; and one college with half student capacity[26].

It is quite reasonable to expect that as the size of a school (as measured by number of students) increases, the benefits from economies of scale also increase as resources are utilised at their optimum level. In the ACT context, in most cases this means that schools operate closer to their originally intended size.

For the ACT, this indeed is the case and cost per student decreases with the school student population in all sectors.

[26] DET ERC information 2005.





Source: Treasury graph based on DET ERC information 2004-05.

Surplus infrastructure capacity across government schools currently equates to 17,811 places.

Table 7.4.6: Surplus Capacity in Public Schools (2005)

Sector[27]	Capacity Student No	Enrolment Student No	Surplus Places	Surplus %
Primary Schools[28]	27,192	19,241	7,951	29%
High Schools	15,225	10,237	4,988	33%
Colleges	7,400	5,903	1,497	20%
Preschools[29]	6,875	3,529	3,346	49%
Total	**56,692**	**38,910**	**17,782**	**31%**

Source: Department of Education and Training data

While demographic changes appear to have precipitated considerations of school amalgamation recently, it is noteworthy that moves towards larger schools began many years ago. The number of smaller schools had started to decrease in 1940s when school bus services started to operate in remote areas of Australia and other western countries[30, 31].

[27] IEC, AEP programs and Co-operative Schools are not included. Amaroo has been excluded from Primary, High and Preschools sector as it is a new school and a high surplus capacity is expected.

[28] The capacity for Turner only includes the main building; the building for special students has been excluded.

[29] Includes Indigenous Preschool Program enrolments. Jervis Bay has been excluded.

[30] See for example, *Do Schools Facilities Really Impact A Child's Education*, J Lyons; US Department of Education, 2001. The number of schools in US has decreased from 262,000 in 1930 to 91,000 in 2002. Meanwhile student population has grown from 25 million in 1950 to more than 47 million.

[31] The number of government schools in Australia has decreased from 7,544 in 1984 to 6,938 (about 8 per cent) in 2004. The number of government schools in the ACT has increased slightly (from 95 to 96) over the same period, despite the number of students in the government schools decreasing in the last few years (*Schools Australia*; ABS Catalogue 4221, Table 1).

A number of questions, however, arise with any suggestion to consolidate schools to achieve the economies of scale originally intended by the existing school capacity. Those questions essentially centre on the convenience of neighbourhood schools and socio-demographic factors. The overriding consideration, however, should be the educational outcomes and the extent to which they are impacted by school student numbers. The key questions here are: (i) what is the optimum size of a school, and (ii) what is the relationship between school size and educational outcomes. The Review's approach is, by consolidating resources and infrastructure, to move lower achieving schools to the same standing as higher achieving schools (as measured by the Territory's own internal school benchmarks). In all cases, the Review is proposing only that schools reach their design capacity – not that larger schools be built.

Although there is a considerable body of research to address these questions, every study on the schooling system is conducted with a different emphasis, and produces results which may not be comparable with earlier studies[32]. There is, however, consensus that students in substandard buildings have lower scores compared to students learning in better buildings[33].

In an environment of finite budget resources, in order to maintain small student number schools:

- either increasing proportions of the school education budget will need to be devoted to maintaining infrastructure to minimum condition standards; or
- the quality of school buildings will be eroded to such a point that those students who are able will seek education in the non-government sector. This drift is already apparent; or
- they could only deliver minimum curriculum options which compromise student achievement.

On the other hand, larger schools are likely to have the capacity to provide wider curriculum choices. In addition, economies of scale provide the ability, within the overall resource envelope, to enhance teacher quality and school infrastructure, both of which would have a positive impact on educational outcomes.

Increasing Infrastructure Utilisation

Excess capacity and the infrastructure mismatch have reached a stage where urgent action is necessary to maintain the viability of the whole public school system. Projections by the Department of Education and Training indicate that within the next decade, public school enrolments will constitute less than half of the total enrolments.

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[32] See for example, *School Cost Function: a Meta-Regression Analysis*; A Colegrave and M Giles; Working Paper, Centre for Labour Market Research; The University of Western Australia, 2004.

[33] *The Impact of School Building Condition and Student Achievement and Behaviour*, G Earthman, OECD International Conference Luxembourg (1998); *Where Children Learn: Facilities Condition and Student Test Performance in Milwaukee Public Schools*, L Morgan, Council of Educational Facility Planners International (2000).

A major school rationalisation program should commence over the forward estimates period – on current trends is could well continue beyond this period.

There is no universal optimal school size[34], and the Review has not sought to determine and impose a universal size. The Review's approach in this regard has been to better utilise the existing capacity, while having general regard to travel distance, specific circumstances of a school and demographic projections.

There is a lack of forward planning for education infrastructure, particularly as trends on infrastructure utilisation are clearly unsustainable. The Department assisted the Review in developing a program of improvement. This work, however, is preliminary and should be taken as a guide for each district. Within each district, detailed planning is required to confirm the appropriate school option. This will cover (apart from capital investment) enrolment policy review, appropriateness of individual schools, locational 'best fit', school design, asset condition, and transitional arrangements and timings. A summary of the program over the forward estimates period by district is shown below.

Table 7.4.7: Proposed Improvement in Capacity Utilisation by District

Sector/District	Rationalisation	Capacity Utilisation (%)	
		Current	Future
Colleges			
Belconnen North	1 to close	68.7	100
High Schools*			
Belconnen	1 to close	55.7	92.1
Tuggeranong	1 to close	62.9	78.0
Primary Schools*			
Belconnen North	2 to close	57.4	73.0
Woden Valley	2 to close	79.2	87.9
Weston Creek	2 to close	65.9	97.5
Tuggeranong North	3 to close	52.0	76.9
Tuggeranong South	2 to close	73.4	95.4
Rural	2 to close	-	-
Total	**16 to close**		

* Ginninderra High School has already been closed as part of the Ginninderra District P-10 School project. As well, Holt and Higgins primary schools have been identified for closure in 2009 under the Project.

In addition, there is significant under utilisation of preschools, with the sector operating at below half capacity. The Review proposes that, over the forward estimates period, 22 preschools be closed.

The Review proposes that a rolling program of school closures be developed over the coming years, which take into account the changes in demographics and enrolments. Consolidation will involve capital works upgrades at the schools remaining open, and investment to improve learning environments in all public schools. This should be integrated into the overall revitalisation planning.

[34] For example, in the US, high school enrolments over 2,000 students are common with some schools exceeding 5,000 students. Some States, for example Florida, have recently moved to limit the maximum number of students in new high schools to 900.

Savings of $16.8 million per annum are estimated once the program outlined above is implemented. These comprise savings in depreciation ($3.1 million), decrease in teacher and administrative staff ($12.4 million), and School Based Management payments ($1.3 million).

Recommendation 97 and 98:

- **the Government agree to a program of increasing infrastructure utilisation including closure of one college, two high schools, 13 primary schools and 22 preschools by 2008-09; and**
- **a rolling program of further school closures be adopted, to be updated on an annual basis.**

Improving the Quality of Learning Environment

The tools, techniques, and general teaching methods today are different from those of thirty years ago, and may not have been conceived at that time. As mentioned earlier in this chapter, maintenance expenditure since self-government across public schools has been inadequate. Increasing excess capacity over time has further exacerbated this by spreading the expenditure across unutilised infrastructure.

The schools infrastructure in the Territory is generally in poor condition due to the age of the schools and sub optimal levels of maintenance since self-government. Increases under the real term guarantee of funding had mostly gone towards wages and new initiatives, with only a marginal increase in maintenance expenditure[35].

In 2004-05, $11.2 million was expended on school maintenance, of which $6.1 million was for major maintenance. This expenditure represents around 1.9 per cent of the written down asset value of $579 million for government schools. This is insufficient particularly given that some schools date back to 1920s.

The Review proposes significant capital investment well beyond that required to accommodate the students transferring from the closed schools. Over the forward estimates period, an initial investment of $90 million for school upgrades is proposed.

The estimates provided above are broad, and are based on some preliminary work undertaken by the Department. Specific plan of works for each school will need to be developed through the development of an asset management plan that centres on the strategy of enhancing infrastructure utilisation and improving the condition of learning environments for students.

Once the capital upgrades are complete, it is proposed that maintenance funding to schools be increased by $3 million per annum (around 25 per cent).

The Review considered, but did not further pursue, options for also building further P-10 schools or other new schools. It is noted that further P-10 schools would require even more closures of existing schools. The balance of considerations suggest that

[35] *Report on the State of the Territory's Finances as at 31 October 2001*; Commission of Audit (2002).

the scale of change required by the rationalisation of existing schools should not be further added to at this stage.

The Review has sought expert advice on options for strategic investment in information technology in schools. The investment of $20 million over four years is proposed to provide a major boost to teaching and learning aids in all the schools.

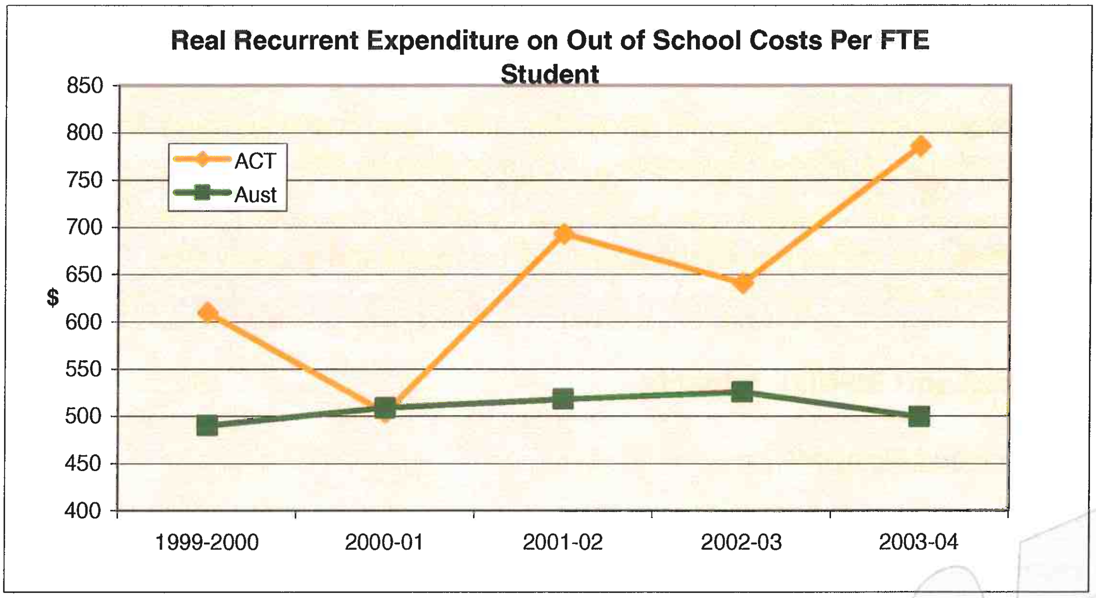
Recommendation 99, 100, 101 and 102:

- **a program of capital upgrades in schools totalling $90 million be undertaken over the forward estimates period to prepare schools for relocation of students and to upgrade learning environments;**
- **maintenance funding for schools be increased by $3 million per annum from 2008-09;**
- **investments in schools infrastructure be based on a strategic asset management plan to be prepared by the Department within three months of the Government's agreement to the proposed package of investment; and**
- **an additional $20 million over four years be provided for increased information technology investment for teaching purposes in ACT Government classrooms.**

No allowance has been made for the offsetting impact of future land sales associated with vacant school properties. The revenue from this source is likely to be considerable. In the medium term, the revenue will offset the cost of additional capital investment to upgrade school facilities. Consequently, the additional interest costs in the short term will be offset in the medium term by additional revenue from the sale of land and savings from school closures.

Out of School Expenditure

Out of school costs in the ACT are considerably higher than the national average. According to the *Report on Government Services 2006*, out of school expenditure in the ACT was $786 per student in 2003-04, compared with the national figure of $500 per student, as highlighted in the chart below. This represents a difference of $287 per student.



Source: Report on Government Services 2006

To bring the ACT into line with 2003-04 national average cost structures, savings are estimated at $10.3 million per annum. These should be adjusted for central office savings already incorporated in the 2005-06 Budget, and other saving measures proposed by the Review.

There are three main areas of expenditure within the department that could be classified as administrative expenditure:

- traditional central office costs such as payroll processing, school policy, ministerial support and governance;
- centrally managed programs which are delivered in or to schools. Examples of this type of program include the centrally funded repairs and maintenance program, transport for students with a disability, IT support to schools and student support such as counsellors and youth workers; and
- School Based Management payments to schools. These payments include allowances for minor repairs and maintenance, utilities (energy and water), cleaning, and administration.

The Review proposes that all three administrative expense areas above should be assessed for efficiencies. This will enable the proposed savings to be spread over a larger base. The only exclusions to this should be the disabled student transport, and school repairs and maintenance budget.

Separately, the Review has proposed savings of $1.5 million in central office from restructuring vocational education and training.

Recommendations 103 and 104:

- **savings in out of school costs (including school based management funding) of $3.2 million in 2006-07 increasing to $7.4 million in 2007-08; and**
- **savings in out of school costs be drawn from to all the central office expenditure excluding disabled student transport and repairs and maintenance.**

Financial and Staffing Impacts

Approach and Methodology

The methodology for estimating savings relating to increased contact hours has been described above.

Savings from increased infrastructure utilisation are estimated by using the benchmarks from within the current public school system, rather than referring to any external benchmark.

The benchmark used, however, does not relate to the minimum cost per student in the school system. Rather a variable benchmark is used, that refers to the costs of a similar sized school. In other words, it is assumed that as a school's enrolment increases due to the transfer of students from a closed school, it should be able to achieve the same costs per student as a similar sized school in the ACT.

The methodology adopted excludes special education costs across the school system, with the assumption that these would be added to a school's funding based on the characteristics of its intake.

SUMMARY OF SAVINGS

Table 7.4.8: Summary of Financial Impacts

Measure – Savings / (Costs)	2006-07 $'m	2007-08 $'m	2008-09 $'m	2009-10 $'m
Contact Hours				
Net Savings - Australian Average Contact Hours with 4% EBA	7.3	15.0	12.8	12.8
Employee entitlements (excluding super)	(0.4)	(0.4)	(0.4)	(0.4)
Curriculum Development				
Purchase NSW Documentation and Licence	(0.5)	(0.5)	(0.5)	(0.5)
Central Office Coordination	(1.5)	(1.5)	(1.5)	(1.5)
Savings in Curriculum Development	2.9	3.0	3.0	3.1
Increasing Use of Infrastructure				
In-School Savings in Student Costs*	1.6	6.4	11.8	14.2
Decrease in Depreciation (Closed Schools)	0.3	1.6	2.9	3.4
Benchmarking Central Office Costs	3.2	7.4	7.7	7.9
Increase in Depreciation (Capital Investments)	(0.4)	(1.0)	(1.6)	(2.1)
Strategic Investments - Recurrent				
Increased Maintenance Funding	0	0	(3.0)	(3.0)
Schools IT (Depreciation)	(1.3)	(2.5)	(3.8)	(5.0)
Transitional Assistance	(0.5)	(0.5)	(0.5)	(0.5)
Total Recurrent Savings	**10.7**	**27.0**	**26.9**	**28.4**
Capital Investments				
Capital Upgrades**				
- school infrastructure rationalisation	(10.0)	(10.0)	(5.0)	0
- system infrastructure refurbishment	(5.0)	(15.0)	(20.0)	(25.0)
Schools IT*	(5.0)	(5.0)	(5.0)	(5.0)
Memorandum Items				
Procurement (Tender Box) Savings	0.143	0.292	0.299	0.306
Procurement (ERC) Savings	0.309	0.463	0.463	0.463
IT (Review and ERC) Savings[36]	0.494	0.697	0.697	0.697
Transfer of Services to Shared Services Centre	2.663	6.475	6.559	6.644
Interest Costs of Capital Investment*	(1.1)	(2.7)	(4.4)	(5.2)

* Efficiency savings in respect of Holt and Higgins primary schools and Ginninderra High School closures (as part of the Ginninderra District P-10 School Project) have been included in these savings.

**No allowance has been made for the offsetting impact of future land sales associated with vacant school properties. The revenue from this source is likely to be considerable. In the medium term, the revenue will offset the cost of additional capital investment to upgrade school facilities. Consequently, the additional interest costs in the short term will be offset in the medium term by additional revenue from the sale of land and savings from school closures.

[36] IT savings figure includes CIT. InTACT does not have full visibility of ICT spend for CIT and Government Schools at this time to allow for separate allocation.

STAFFING IMPACTS

The final impact on staffing from increased contact hours, school closures and benchmarking Central Office expenditure is summarised below.

Table 7.4.9: Impact on Staffing

Measure	Teachers FTEs	Administrative FTEs
Increased Contact Hours to Australian Average	211	-
School Closures	130	50
Benchmarking Central Office		80
Transfer to Shared Services (HR and Finance)		71

Impact of increased contact hours is expected to be spread over two years. The estimated decrease in staffing from school closures is over four years.

The decrease in full-time teaching staff is likely to be less than that identified in the above table, as there should be decrease in relief teaching effort. The net impact is likely to be a decrease of around 220-250 teachers.

Transitional Assistance

The Review recognises the impacts that may be felt by parents and students due to the changes proposed under the education package. To assist in adjusting to the changing school environments, and associated relocation impacts, it is proposed that transitional assistance of $2 million be provided to parents and students to cover additional costs that may occur. This assistance should be provided on a pro-rata basis for the 2007, 2008, 2009 and 2010 school years.

Recommendation 105: transitional assistance of $0.5 million per annum over four-years be provided to parents and students to assist with the financial impacts associated with changes under the education package.

CHAPTER 7.4.2 NON-GOVERNMENT SCHOOLS

OVERVIEW

- Annual funding to non-government schools in the Territory totals approximately $146.7 million, comprising Commonwealth payments of $109.4 million (75 per cent of public funds), and ACT Government funding of $37.3 million.
- Commonwealth payments to non-government schools are paid to the ACT Government, and on-passed to individual schools through the ACT Budget.

KEY CONCLUSIONS AND RECOMMENDATIONS

- There is a growing shift in student numbers from the government to the non-government education sector in the Territory. Forty-one per cent of ACT full time primary and secondary students attend non-government schools, the highest of all jurisdictions. Continuation of current trends will see up to half of ACT students attending non-government schools within 10 years.
- ACT expenditure on non-government students is approximately 17 per cent of per student costs in government schools. Funding to non-government schools should be maintained, and not affected by the efficiencies achieved in government schools proposed in this Review. Annual adjustments for cost increases should be based on the same parameters applying to government schools.

There are 44 registered non-government schools in the ACT, catering for 41 per cent of ACT school students. These schools are owned and operated by non-government providers and cater for a range of communities of interest, largely but not all religiously based, within the Territory.

The Department of Education and Training's role and responsibilities in relation to non-government schools, and home education, cover compliance and registration, accreditation and certification of senior secondary courses, support and liaison with the non-government sector, and administration and payment of Commonwealth and the ACT Government grants.

STUDENT NUMBERS

The number of students in non-government schools increased by 12 per cent between 2000 and 2006, from 22,051 to 24,689 (government primary and secondary student numbers fell 3,251 or 8 per cent in this period).

The proportion of ACT students attending non-government schools has been increasing faster than the national average. For the ACT, this proportion has increased from 36 per cent in February 2000 to 41 per cent in February 2006. Across

Australia, the proportion of students in non-government schools increased only from 31 per cent to 32 per cent over the same period.

FUNDING

Funding for non-government schools in 2005-06 is estimated at $146.7 million. The following table provides details of the funding to the non-government schools in the ACT.

Table 1: Non-Government School Funding in the ACT

Funding Source	2005-06 $'000
Commonwealth	
Per Capita Grants	102,563
Capital Grants	4,020
Other School Payments	2,817
Total Commonwealth Funding	*109,400*
ACT Government Funding	37,347
Total Funding	**146,747**

Funding for non-government school students varies across Australia. In some jurisdictions, per capita grants to non-government schools are provided as a percentage of the per capita cost of educating children at government schools. In some instances, this is prescribed in legislation[1].

The following table provides a comparison of the State/Territory and Commonwealth funding.

Table 2: Expenditure per Student in Non Government Schools ($ per student)[2]

Calendar year 2003	NSW	VIC	QLD	SA	WA	TAS	NT	ACT	Aust.
State Government	1,535	1,048	1,521	1,276	1,625	1,546	2,154	1,314	1,393
Commonwealth	3,668	3,657	3,826	3,728	3,610	3,756	5,043	3,466	3,699
Total	5,203	4,705	5,347	5,004	5,235	5,302	7,197	4,780	5,092
State %	30%	22%	28%	25%	31%	29%	30%	27%	27%

Current ACT Government expenditure per non-government student is approximately 17 per cent of per student funding in government schools.

The Review is proposing a package of measures to achieve recurrent efficiencies within the government schooling, and an investment in capital infrastructure. If the government were to continue to provide funding to non-government schools at around the 17 per cent currently provided, these efficiencies would result in a reduction in funding to the non-government sector.

[1] For example, the legislation in NSW prescribes a rate of 25 per cent.
[2] National Report on Schooling in Australia, 2003; Table 23.

The Review proposes that government continue to maintain funding to non-government schools at the current rates, plus CPI adjustments.

Funding per non-government student should not reduce as a result of efficiencies within the government school sector, given that ACT funding per student is already comparable with the national average, and is heavily weighted to lower socio-economic status schools.

Annual increases for costs impacts should be based on the same parameters applied to government education.

Recommendation 106: ACT Government funding for non-government schools be retained at currently projected levels (and not reduced as a result of the reduction in recurrent funding to government schools).

CHAPTER 7.4.3 VOCATIONAL EDUCATION AND TRAINING

OVERVIEW

- The ACT is an atypical jurisdiction in providing vocational education and training (VET) services, due to its industry and demographic profile. Government administration, defence and a large number of small companies in construction, retail, property and business services form the largest industries in the Territory. There is an absence of primary and heavy industry.

- Forty three percent of people employed in the ACT are in the public sector, compared with 16 per cent nationally[1]. Knowledge workers, defined as managers, administrators, professionals and associate professionals comprised around 52 per cent of all employed persons, compared with 38 per cent nationally[2].

- VET services in the Territory also reflect this differing employment profile. A higher proportion of students are in diploma or advance diploma courses, with 44 per cent of the total hours at this level, compared with 21 per cent for Australia.

- While there has been a growth in VET student numbers, this is significantly less than growth recorded nationally. The ACT provides vocational education and training services for a below average number of students. Those students, however, receive an above average number of hours of training.

- The Commonwealth Grants Commission assesses the factors affecting the relative cost of service provision for all States and Territories. For the ACT, this is assessed at 1.149, i.e., around 15 per cent higher than the national average. Around two thirds of this higher than average factor relates to cross-border students.

- In 2003-04, expenditure on VET services in the Territory was $348.95 per capita, 50 per cent above the average across all jurisdictions[3]. Allowing for socio-demographic and other factors, the level of services was 30 per cent above the national average. This above average level trend has existed over the past 5 years.

- Cost per unit hour of training in 2004 was $15.20, compared to the national average of $14.10[4].

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[1] ABS Wage and Salary Earners, Public Sector, Australia (Cat no 6248.0).
[2] ABS Labour Force, Australia (Cat no 6291.0.55.001)
[3] Commonwealth Grants Commission - Report of State Revenue Sharing Relativities 2005 Update Supporting Information.
[4] The Grants Commission assessment of need does not apply to cost per hour – this is a measure of efficiency.

KEY CONCLUSIONS AND RECOMMEDATIONS

- Current structures for delivering Vocational Education and Training are based on national models established on user choice principles, and involving purchaser-provider arrangements. Such arrangements are unsuitable for a small Territory.
- There is significant overlap and duplication of responsibilities between the Canberra Institute of Technology (CIT) (the government provider) and the Department (the purchaser). CIT is the single largest provider, and delivers 85 per cent of total VET services in the Territory.
- The balance of training is provided by over 100 Registered Training Organisations, at a cost of $10 million (through user choice arrangements). 80 per cent of these providers receive less than $2 million of the total funding 'pool' available. Internal government costs associated with purchaser-provider arrangements are difficult to justify.
- Roles and responsibilities for all aspects of VET including policy, intergovernmental/national frameworks, service delivery, industry input, accreditation and registration should be streamlined to eliminate overlaps and duplication. A re-engineering of the system is proposed, with industry recognised as a major player under the reforms.
- The Review proposes that the ACT Budget commitment to VET be reduced by $3.5 million per annum as part of the overall reduction in Government expenditures necessary to reach fiscal targets. This can be made up of higher fee revenue ($1 million), savings from removing unnecessary complex governance and decision-making structures in the Department of Education and Training (DET) ($1.5 million), and CIT efficiencies of $1.5 million. This level of savings will still leave ACT expenditures on VET significantly higher than national averages.

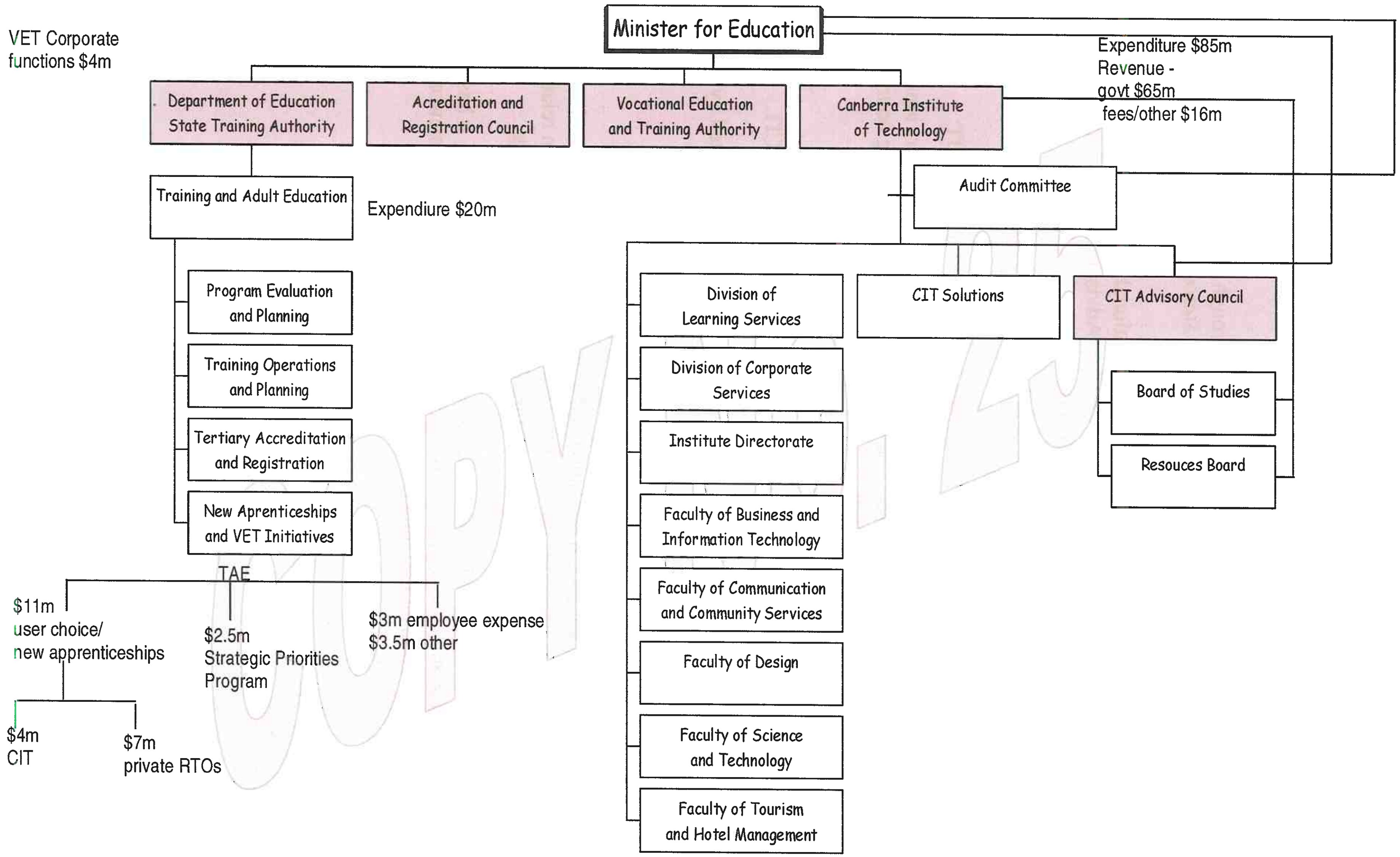
GOVERNANCE

Current Arrangements

The governance arrangements for VET services are structurally similar to those of a 'large' state administration, with large number of public and private providers competing for funding. This model is unsuitable for the Territory as, unlike other jurisdictions, CIT is the single main provider of training in the ACT.

The current structures, and funding levels, are shown in Figure 1.

Figure 1 Vocational Education and Training Reporting Structure



There is considerable overlap and duplication in key areas across DET and CIT, with little benefit or purpose. Significant resources are allocated for small output/outcome value. Basic accountability and reporting lines are confusing, for example:

- multiple accountability, reporting and advisory arrangements exist between the Minister, DET, CIT and industry;
- service accountabilities for CIT are reflected through both a *Planning and Funding Agreement* with the Department and a *Statement of Intent* signed with the Treasurer;
- industry advice is provided by DET, CIT, Vocational Education and Training Authority (VETA) and ACT Industry Training Advisory Association (ACTITAA) Registered Training Organisations (RTOs);
- market analysis and industry contact and liaison comes through DET, CIT and Department of Economic Development;
- planning and service audits are undertaken both within DET and CIT;
- the *Planning and Funding Agreement* is based on CIT (the provider) input, rather than set by DET (the purchaser). Negotiations on courses, teaching hours and rates are, at best, at the margin;
- statutory accountabilities are spread across DET and CIT; and
- statutory monitoring and reporting are duplicated across DET and CIT.

Overall, the effectiveness of strategic planning and operations are limited by the structures in place.

Proposed Changes to Governance

The governance of vocational education and training sector across Australia is characterised by its focus on conformance rather than performance[5]. In relation to compliance, the focus is on the process rather than outcomes of training[6].

In proposing changes, the Review has adopted a number of principles. It has also been cognisant of the Government's obligations under the national framework for vocational education and training (Box 1).

[5] Professor Richard Teese; Reader in Education; Director, Centre for Post Compulsory Education and Life Long Learning, University of Melbourne, in discussions with the Review.

[6] This issue is further discussed in later sections.

Box 1: Underlying Principles for Changes to Governance

- Recognising scale: the uniqueness of the Territory, with the predominance of a single public provider.
- Involving industry as a leading player: besides input and advice, industry should have greater involvement in planning, design and delivery of vocational education.
- Ensuring quality: accreditation and regulation of training providers to continue.
- Meeting national framework requirements: under the national VET arrangements, each State and Territory must maintain a state training authority, prepare an annual VET plan and provide advice to the Minister on user choice funding.
- Providing incentives for entrepreneurial activities: the Commonwealth legislation also supports increased authority for directors of TAFE[7]s, to pursue entrepreneurial activities.
- Removing unproductive management practices and overheads.

The governance strategy for ACT VET proposed by the Review is based on two lines of accountability:

- CIT, as the principle provider, will report directly to the Minister. The advisory council will be strengthened to include industry and other stakeholder representation;
- DET will (a) monitor the VET sector as a whole and advise the Minister on VET policy (b) administer VET provided by non-CIT RTO providers.

Under this simplified structure, VETA will be abolished (with legislation repealed). DET will provide administrative support for the Accreditation and Registration Council, which would be retained. CIT will receive all government funding through a single appropriation (including a share of existing user choice funds).

The functional and advisory responsibilities should be streamlined within DET. Cost structures should be more appropriate for a small, predominantly single provider system.

The makeup of the CIT Advisory Council should be strengthened, with industry input as a leader in VET. The current legislation should be amended to give additional industry representation on the Council.

Industry advice should be available to both the Minister and CIT as required. Industry advice through ACTITAA (representing all RTOs) currently costs in the order of $0.5 million per year, at public expense and support. The restructuring should include reducing this overhead.

[7] Technical and Further Education Institute.

The previously described structures allow for significant efficiencies across the sector, and provide a further strengthening of industry involvement. Current duplication and overlaps between CIT and DET are inefficient and counter productive. Savings in the order of $1.5 million are estimated from the rationalisation of administration and contract management.

A broad summary of structural changes is set out in Table 1 below.

Table 1: Summary of Changes to Governance and Administration of VET

Responsibility/Function	Existing Structure	Proposed Structure
State Training Authority	DET	DET
VET policy, planning and operations	DET	DET
Accreditation and Registration	DET supported A&R Council	DET supported A&R Council
CIT	Statutory Authority, subject to ministerial direction and control	Statutory Authority, subject to Ministerial direction and control
CIT CEO	Appointed by Minister	Appointed by Minister
CIT Council	Advisory Council	Advisory Council strengthened to include enhanced industry support and input
VETA	Statutory Authority	Abolish, with responsibilities incorporated within DET/CIT
Industry advice	VETA/ACTITAA	DET/ACTITAA/CIT
Purchaser/provider	DET/CIT	Abolish (other than for RTO's)
Planning and Funding Agreement	Between DET and CIT	Abolish, and subsume accountabilities *within Statement of Intent (co-signed by Treasurer, Minister for Education and Training and Director CIT)*
CIT Funding	On-passed through DET	Direct appropriation
User choice/new apprenticeship and strategic priority projects	DET	DET

Recommendations 107, 108 and 109:

- **the CIT Advisory Council be strengthened with industry support and input (the legislation should be amended to give effect to this);**
- **the Vocational Education and Training Authority be abolished, its legislation repealed and functions incorporated into the Department of Education and Training as an advisory council; and**
- **efficiencies from rationalising training and adult education functions within DET, estimated at $1.5 million, be realised.**

FINANCIAL ARRANGEMENTS

Appropriations

Public funding on vocational education and training in the Territory amounts to $82 million, comprising $59 million directly to CIT and $23 million to DET (with some flowing to CIT).

Annual funding to CIT is presently appropriated to DET, and then on-passed to the Institute under agreed terms and conditions within the *Purchasing and Funding Agreement (PAFA)*. Included in annual payments to CIT is an amount relating to user choice/new apprenticeship, which is allocated by TAE under a form of competitive process. This latter arrangement is required to continue under the national VET framework.

The *Financial Management Act 1996* has been amended to allow direct appropriations to CIT, with the Institute required to prepare a *Statement of Intent* as part of its accountability obligations. The Review proposes that the PAFA targets and reporting requirements be subsumed into the *Statement of Intent*, and for the Statement to be co-signed by the Treasurer, Minister for Education and Training and The Director CIT.

DET should continue to manage the contracts for allocation of user choice/new apprenticeship funds, and strategic priority programs.

Recommendations 110, 111 and 112:

- **the *Planning and Funding Agreement (PAFA)* between the Department of Education and Training and the Canberra Institute of Technology be abolished;**
- **funding to CIT be through direct appropriation, with performance targets and accountabilities previously included in the *PAFA* subsumed within a *Statement of Intent* co-signed between the Treasurer, the Minister for Education and Training, and the Director CIT;**
- **funding for new apprenticeship/user choice and strategic priority programs be appropriated to the Department of Education and Training, with CIT seeking access to these funds on the same basis as other VET providers.**

Commonwealth/ACT Negotiations

Commonwealth/ACT negotiations have been primarily undertaken by DET, with little input and consultation with CIT, or central agencies. For example, CIT (the major VET player) has not been involved in the negotiation and monitoring of the training agreement with the Commonwealth.

The approach carries significant risks and budget threats. Future negotiations should have initial in-principle agreement from Cabinet, including decisions on specific negotiation points. Financial obligations in agreements should be clarified and incorporated as part of the budget process, and confirmed in Budget Cabinet.

Central agencies should be advised of all negotiations with the Commonwealth, and have the opportunity to bring a whole of government policy focus and influence to the outcome.

Recommendation 113: Commonwealth/ACT negotiations be based on parameters approved by Cabinet in-principle. Negotiations with the Commonwealth should be managed co-operatively between DET and CIT, with close consultation with central agencies.

EFFICIENCIES/EFFECTIVENESS IN VET

VET services in the Territory rate average or above average on most efficiency/effectiveness measures[8]. For example:

- public funding per hour of training has fluctuated and was above the national average in 2004, but lower than four other jurisdictions;
- on measures of equity outcomes, the ACT is close to the average;
- on measures of student destinations, the ACT is above average;
- measures of student satisfaction and perception of benefits, the ACT is above average;
- national data on employer satisfaction shows the ACT as ranking well; and
- fees and charges should be examined in the light of the socio-economic status of students in the ACT relative to the rest of Australia.

However, opportunities for further efficiencies exist, including within CIT. These are discussed below.

Operating Expense per Person

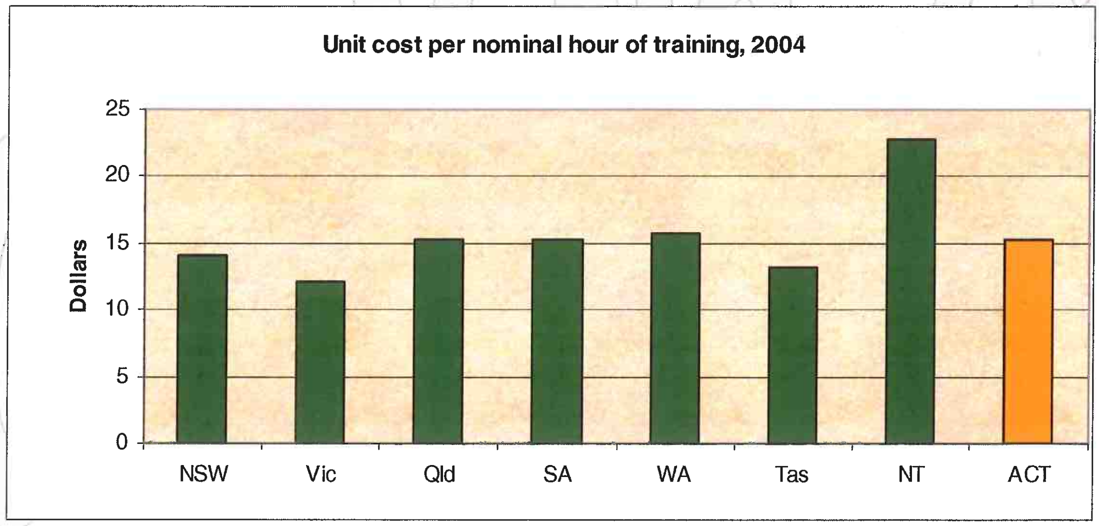
The ACT had the second highest VET operating expenses in the country in 2004, at $429 per person aged 15-64 years. This was 6 per cent higher than the national average. The lowest operating expense per person was in Queensland, at $287.

[8] Review of efficiency and effectiveness of VET in the ACT. Gerald Burke, Monash University – ACER Centre for the Economics and Education and Training.

Source: Australian Vocational Education and Training Statistics: Financial Information 2004

Unit Cost per Nominal Hour of Training

The ACT's unit cost per nominal hour of training was $15.20 in 2004, which was 1 per cent lower than the national average of $15.43. The lowest unit cost was in Victoria at $12.15. The unit cost for NSW was $14.03, which was 8 per cent lower than ACT.



Source: Annual National Report of the Australian Vocational Education and Training System 2004

Student Destinations and Dropout Rates

There are several pathways to vocational education and training such as:

- adult training: this may involve up-skilling or re-skilling while in work, or out of work;
- post secondary entry: students completing year 12 and then choosing a trade;
- students who discontinue university education; and
- students who do not complete year 12 education.

There is a priority need to ensure that students who do not plan to continue into university education are streamed into vocational education and training (and desirably trained at CIT) while they are engaged in secondary or college education.

Sustaining Canberra's pre-eminent place in Australia as a high income centre for leading service industries requires that very high proportions of the population obtain post secondary education qualifications. While university qualifications will be of particular importance in the ACT economic structure, VET provides a critical line of educational attainment.

The Review was advised that the Department of Education and Training was funded through the Training Pathway Guarantee in 2004-05 to provide a safety net for school leavers who are not in some form of employment, or post school study or training within a year of leaving school. These students were to be provided with access to one year's post school training in a VET course.

The program involved tracking the destinations of students who had left school without gaining a Year 12 Certificate. The Review understands that difficulties were encountered in locating the students and the program was not fully implemented. However, funding for implementing this program remains within DET appropriations.

Implementation of this policy should be given priority. This policy should be an accountability of the schools/colleges and be included as part of their performance measures as much as is their success in ensuring students qualify for tertiary education.

The benefit of this effort will be through minimising students falling out of the education/learning process at a critical time of their lives. It will also assist in addressing skills shortages.

Recommendation 114: a framework be established for monitoring and managing student destinations as a priority, and as an accountability of schools/college sectors, in collaboration with CIT.

Registered Training Organisations (RTOs)

Contractual payments to RTOs in 2004 totalled $12.3 million, with payments to 102 organisations. Of these, 96 were private organisations, and six were government agencies (comprising CIT, school and colleges).

Government agencies received $4.5 million, or 37 per cent of the total amount paid in 2004. Of the remaining 96 RTOs, 79 received small amounts of up to $20,000 each, and totalling to $1.95 million. 14 organisations received between $137,000 and $500,000, and 3 organisations received over $500,000 each.

Operationally, the reporting requirements have been identified as significant imposts on a large number of RTOs, which individually receive relatively small payments. These concerns have been raised by the ACT Association of Providers of Training Services (APTS) and the Australian Council for Private Education and Training (ACPET) with the Legislative Assembly[9].

The administration of the arrangements within the Department, at approximately 18 FTEs (estimated at $1.8 million), is also high relative to the funds disbursed.

Further work should be undertaken (between CIT, DET and RTOs) to reduce regulatory requirements, and business costs and red tape. Linked to this should be firmer action plans against RTOs that perform poorly[10]. A centralised, transparent approach for handling complaints should also be put in place across the sector.

Canberra Institute of Technology

Workforce Productivity

CIT teachers are the highest paid in the country even before superannuation payments are taken into account. The last CIT Certified Agreement gave band 1 teachers increases of between 17 per cent and 19 per cent.

The ratio of teachers to non-teaching staff at the CIT is 3:2. Whilst this is on par with other jurisdictions, a significant proportion of students in the ACT are enrolled in diploma or advanced diploma courses, and not in traditional trade courses (which require more intensive technical or other assistance).

In addition to the high ratio of teaching to non-teaching staff, around 15 per cent of teaching staff, or 75 FTE, are currently in non-teaching, including promotion positions. These teachers received between 20 per cent and 29 per cent salary increases in the last certified agreement negotiations.

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[9] *Pathways to the Future: Report on the Inquiry into Vocational Education and Training in the ACT*; Standing Committee on Education Report No. 3, ACT Legislative Assembly (2003).

[10] *Review of Efficiency and Effectiveness of VET in the ACT*; Centre for the Economic of Education and Training, Monash University (December 2005); Report prepared for the Expenditure Review Committee. The consultants reported that, in general, concerns were expressed by a number of stakeholders regarding effectiveness of TAE's monitoring. A number of RTOs favoured firmer action against those RTOs that did not perform satisfactorily. Similar views were also expressed by Unions-ACT.

Class Size

Class sizes currently average 15.5 enrolments per class. Given the ratio of higher diploma/diploma courses provided compared to the more traditional trade courses in other jurisdictions, average class sizes could be increased. Increasing average class sizes to 16 enrolments per class would contribute to better utilisation of facilities.

Corporate Services

Corporate Services and the Institute Directorate constitute around 14 per cent, or 113 of total FTE staff, and 12 per cent of total expenditure. These staff do not undertake teaching functions. Bringing these costs back to 10 per cent of total FTE should be targeted.

Recommendation 115: efficiencies be obtained within teaching and corporate services across the Canberra Institute of Technology through an increase in class size, and rationalisation of administrative overheads across campuses. Savings from these measures of $1.5 million per annum ($0.750 million in 2006-07) are to be taken to budget.

Fees and Charges

CIT fees and charges were last increased in the late 1990s. Given the time since last increases, fees should be reviewed and updated in line with changes in the market over the past five years. Progressive adjustment of fees across the forward estimates is proposed, targeted at increasing fee revenues by $1 million by 2008-09. This increase should be implemented across a three-year horizon, with fees increasing on average 10 per cent per year.

Recommendation 116: student fees and charges be progressively increased by 10 per cent per year over the forward estimates, targeting an increase in total fee revenue by $1 million by 2008-09.

Infrastructure

CIT operates on six main campuses across Canberra, with infrastructure (land and buildings) valued at $127.8 million. There are opportunities to achieve more effective use of the infrastructure devoted to VET, specifically CIT, through rationalisation of campuses.

There is limited information available on campus usage. While room bookings are available for some campuses, they are not recorded on a consistent basis and do not apply to all facilities. Enrolment data, however, provides a useful proxy.

In 2004, out of a total of 23,287 enrolments:

- Reid campus recorded the highest number at 8,743 (38 per cent);
- Bruce campus had 6,721 (29 per cent);

- Southside campus had 3,176 (14 per cent);
- Fyshwick campus had 1,292 (6 per cent);
- Tuggeranong campus with 1,180 (5 per cent);
- Weston campus with 558 (3 per cent); and
- 939 were off-campus (4 per cent).

High maintenance expenditures are being attributed to too many campuses. Inefficiencies also exist through maintaining campuses with high proportions of excess capacity, particularly given the pressures on the Institute to upgrade facilities and infrastructure in line with industry training standards.

Weston campus (horticulture)

Closure of the Weston campus, currently delivering horticulture programs, has been identified by CIT. These training programs would relocate to the Bruce campus. Recurrent savings of around $0.4 million per year have been estimated, although initial capital investment of $4 million would be required to upgrade and fit-out Bruce.

Land use policies at Weston (broadacre) currently restrict the scope of redevelopment opportunities. Change in land use policy would require variations to both the *National Capital Plan* and the *Territory Plan*.

The proposal should be subject to a business case, and cost/benefit analysis. The assessment should include the impact of land use changes, and the capital cost of upgrades at the Bruce campus.

Bruce campus (Canberra Raiders and ACT Academy of Sport)

The Bruce campus is being used by the Canberra Raiders as a Training Complex. Whilst the lease arrangements provide for the Raiders being responsible for day to day operating costs associated with the complex, no rent is paid to CIT.

The Bruce campus also provides space of 379m^2 to the ACT Academy of Sport (ACTAS). The Academy pays $18,000 per annum towards utilities, but no rent for the space occupied. It is noted that the ACTAS is subsidised through the budget for these costs so any adjustment to payments may simply add to this subsidy. Notwithstanding this, the impact on the CIT should be assessed.

It is proposed that the leases for both arrangements be reviewed, with the aim of including a rental provision to better reflect commercial use of the occupancies.

Watson Academy of Interactive Entertainment

CIT has raised an option to divest the Government's interest in the Watson campus, currently leased to the Academy of Interactive Entertainment (AIE).
The AIE has licensed the Watson campus from CIT since 2001. Rental income to CIT is $50,000 per annum, a significant under return on the infrastructure. The

longer-term opportunities for alternative uses of the site (6 hectares within the suburban area) are also significant.

Strategies for divesting Watson should be developed for Government consideration. This should be based on the poor level of return and the growing risks for the Territory in maintaining the ageing infrastructure at Watson.

Recommendations 117, 118 and 119:

- **a business case be developed for relocation of horticulture programs from Weston campus to Bruce campus, and the Weston campus closed for VET training;**
- **the leases for the Canberra Raiders and the ACT Academy of Sport at Bruce campus be reviewed to reflect a more commercial rental arrangements; and**
- **strategies for divesting government interest in the Watson campus (AIE) be developed.**

SUMMARY OF SAVINGS AND STAFFING IMPACTS

	2006-07 $'m	2007-08 $'m	2008-09 $'m	2009-10 $'m	Total FTE Impacts
Rationalisation of TAE	1.500	1.500	1.500	1.500	10
Increased fees at CIT	0.300	0.600	1.000	1.000	0
EBA Costs	-0.500	-0.500	-0.500	-0.500	0
Improved Efficiency in Cost per Hour	0.750	1.500	1.500	1.500	10
TOTAL SAVINGS	**2.050**	**3.100**	**3.500**	**3.500**	**20**
Procurement (Tender Box) Savings	0.177	0.365	0.374	0.384	-
Procurement (ERC) Savings	0.327	0.491	0.491	0.491	-
Transfer to Shared Services	1.082	2.631	2.665	2.700	29.99
IT (Review and ERC) Savings	See Government Schools chapter (unable to separately allocate)				

CHAPTER 7.5 URBAN SERVICES

OVERVIEW

The Department of Urban Services (DUS) is the Government's key municipal services provider. Services include construction and maintenance of roads and footpaths, street lighting and stormwater systems, the provision of parking services, customer information and transaction services, libraries, traffic management, waste services, public and recreational space maintenance, domestic animal services and public transport services.

The Department also provides support services to government agencies including property management, publishing and records management and operates a range of government business enterprises.

Estimated expenditure in 2005-06 is $368.8 million with staffing of 890 FTEs. This is split between Municipal Services ($214.9 million; 495 FTEs), Transport ($82.9 million; 141 FTEs) and Government Services ($71.0 million; 254 FTEs).

The Department has been the subject to two ERC reviews, in 2004 and 2005. These resulted in savings targets rising to $10 million by 2006-07. These are to be achieved through the abolition of purchaser/provider arrangements across the department and centralisation of corporate functions.

KEY CONCLUSIONS AND RECOMMENDATIONS

- The Department will have a significant task of integrating the functions being transferred from other Departments. Key machinery of government arrangements proposed by the Review include:
  - establishing a single, Territory-wide land management and conservation function following the transfer of Environment and Heritage from the Chief Minister's Department;
  - consolidation of sport and leisure facilities' management, with ACT Sport and Recreation (including all sports grounds);
  - consolidation of transport policy and operations with the transfer of Land Use and Transport from ACTPLA and ACTION;
  - transfer of Tourism functions from the Australian Capital Tourism Corporation; and
  - establishing improved coordination between planning processes and environment protection and heritage.
- Further opportunities exist for efficiencies and more effective services through consolidation of functions, centralisation of policy, and better whole-of-government co-ordination and integration of shopfronts, records management, call centres, payment facilities and library services.
- Additional areas identified include rationalisation of domestic animal services and privatising swimming pools, nursery and horticulture services. Publishing services and records management are to be transferred to Shared Services.

7.5.1 POLICY FUNCTIONS

The previous 'federation' model of operation led to the creation of many small business units with their own finance and policy capacity. While the finance areas are being consolidated into the central corporate area, policy capacity remains spread across a number of units. Currently around 46 policy staff are spread across six areas of the agency.

With the change management framework put in place over the last year, opportunity also exists to streamline and integrate the policy advising functions of the Department. The Review's arguments in Chapter 4 for policy leadership across the whole of government are also relevant in the context of Urban Services. For a department with a diverse range of activities such as Urban Services, policy coordination and leadership is essential. This would allow a wider policy perspective in advice to the Minister.

A number of other service delivery departments successfully operate smaller, quality based policy centres. For DUS, this would also allow for staff development opportunities through wider policy exposure across the full range of the Department's operations.

An outline of current policy functions across the department is shown below.

Table 7.5.1: Policy Functions in Urban Services

Activity Title	Output	Estimated FTEs
Policy and Planning	1.2 Roads	2.15
Policy and Planning	1.3 Waste	7.50
Policy, Planning and Information Systems	1.4 Urban Parks and Places	4.00
Transport Advice	2.1 Transport Regulation and Services[1]	24.00
Transport Advice	2.2 Public Transport	3.00
Purchasing Public Transport Services	2.2 Public Transport	1.20
Accounting Policy	Corporate Services	4.00
TOTAL		**45.85**

The Review's proposed machinery of government changes will see an additional 25 policy staff being transferred into the Department from Environment Management and Regulation (CMD) and 5 staff from Land Use and Transport Policy (ACTPLA). Total policy resources available under the new administrative arrangements will be in the order of 76 staff.

The Review proposes efficiencies of $4 million through integration of policy functions, equivalent to about 40 staff. The Department of City and Territory's focus will be on municipal functions and an integrated policy area adds to strengthening the strategic planning, legislative and operational directions of the Department across the medium–longer term.

[1] Total resources for Transport Regulation and Services include 11 traffic camera staff. These have been excluded from the policy staff numbers within Output 2.1.

Consolidated policy resources of 36 staff will remain, and this is more than equivalent to the resources being proposed by the Review for the new policy group structures within the Chief Minister's and Treasury central agencies. It also provides a solid base for managing significant policy matters across the Department, as well as meeting external policy input such as the intergovernmental COAG agenda.

Recommendation 120: policy functions within the new Department of City and Territory be consolidated into a unified team, with savings in staff costs of $2.5 million in 2006-07 rising to $4 million per annum across the forward years.

7.5.2 LAND MANAGEMENT FUNCTIONS

The Department has already undertaken some work towards the development of a single area for land management functions, through the consolidation of all its functions in this area, and the reaching of agreements with ACTPLA and the Land Development Agency (LDA).

The transfer of Environment ACT and Forests provides opportunity to establish a single 'land manager' in the Territory. This consolidation will allow consistent policies and practices to be developed, an enhanced ability to plan operations, better integration with other government responsibilities (such as bushfire mitigation), and savings gained through economies of scale.

The Review is not proposing that savings be returned to budget. Those should instead be reinvested in the management of unleased Territory land which is under funded.

The funding being transferred for the management of unleased land (in the order of $150,000 for 15,000 hectares) appears insufficient. Establishing nature conservation reserves would entail considerably higher costs. Environment ACT has proposed the adoption of alternative land management strategies, such as conservation leases and, where possible, more productive uses. The Review considers these measures as essential for best use of unleased Territory land.

Recommendations 121, 122 and 123:

- **urban and non-urban land management responsibilities be integrated into a single effective management structure within the Department of City and Territory;**
- **savings from the integration of land management functions be reinvested into land management activities; and**
- **alternative management options for conservation of unleased Territory land be explored by the Department of City and Territory.**

7.5.3 OFFICE OF TRANSPORT

The proposed changes to the machinery of government will draw the functions relating to transport policy and services into the department.

The Review proposes that an Office of Transport be established within the new Department of City and Territory to bring together all transport policy and operations. This should include the operational transport related functions currently managed within ACTPLA. The functions involved include:

- Urban Services – roads, infrastructure, ACTION, public transport policy and contracts, traffic lights and cameras; and
- ACTPLA – roads, infrastructure, public/community transport initiatives, and operational activities relating to *Sustainable Transport Plan* (ACTPLA will retain its responsibilities for transport planning).

Recommendation 124: an Office of Transport be established in the new Department of City and Territory, to bring together all public transport policy and operations, including responsibility for implementation of the *Sustainable Transport Plan*.

7.5.4 CUSTOMER SERVICES AND INFORMATION

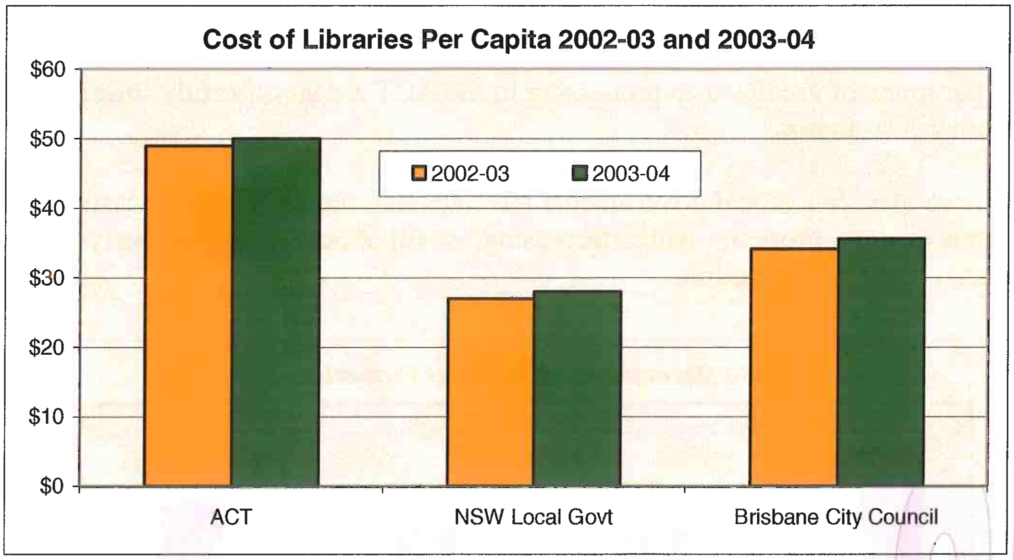
Library and Information Services

There are efficiencies to be gained through the better management of library resources and access across the ACT Government. Library resources are currently spread across the ACT Library Service, and agency-specific libraries in the Department of Justice and Community Safety, Department of Education and Training and ACT Health. This arrangement often means that more than one of these libraries will hold a subscription to the same journal, or be purchasing the same publication, leading to extensive duplication in expenditure. Conversely, while these publications and online subscriptions may be accessible to its staff, they will not be available to staff of other agencies.

Building on the model of the Government and Assembly Library, which provides an independent, high quality and confidential service to the Legislative Assembly and the Government, there would be significant benefits arising out of the consolidation of existing departmental libraries into the ACT Library Service's Specialist Information Services infrastructure. This would ensure that a wider range of resources were available for all government employees, as well as a more rationalised approach to the purchase of publications.

Recommendation 125: the existing departmental libraries be consolidated into the ACT Library Service's Specialist Information Services infrastructure.

Cost per capita of library services in the ACT is up to 45 per cent higher than that in NSW local government and the Brisbane City Council[2].



Source: ACT data provided by the Department of Urban Services.
NSW Local Govt– NSW Local Government Comparative Information 2002-03 and 2003-04
Brisbane City Council– Queensland Local Government Comparative Information 2002-03 and 2003-04

The Review proposes a benchmark of $45 per capita to be progressively achieved by 2008-09[3]. Given the current regional distribution of the library network, efficiencies should be pursued through rationalising existing libraries within town and major group centres. Given the expansion of the Civic library, consolidation of adjoining libraries would be reasonable.

Recommendation 126: library service expenses be moved in line with the local government benchmarks, achieved through the planned closure of Griffith Library and other savings, with estimated total savings of $1.6 million.

7.5.5 ROADS, PATHS, BRIDGES AND CULVERTS

The Department has raised concerns in relation to adequacy of maintenance funding, and the risks and potential future costs due to poorly maintained infrastructure. These issues are addressed in Chapter 8.

[2] In other jurisdictions, State governments maintain libraries in addition to local councils. For the ACT, an equivalent level of state service does not appear necessary, given the location of the National Library.

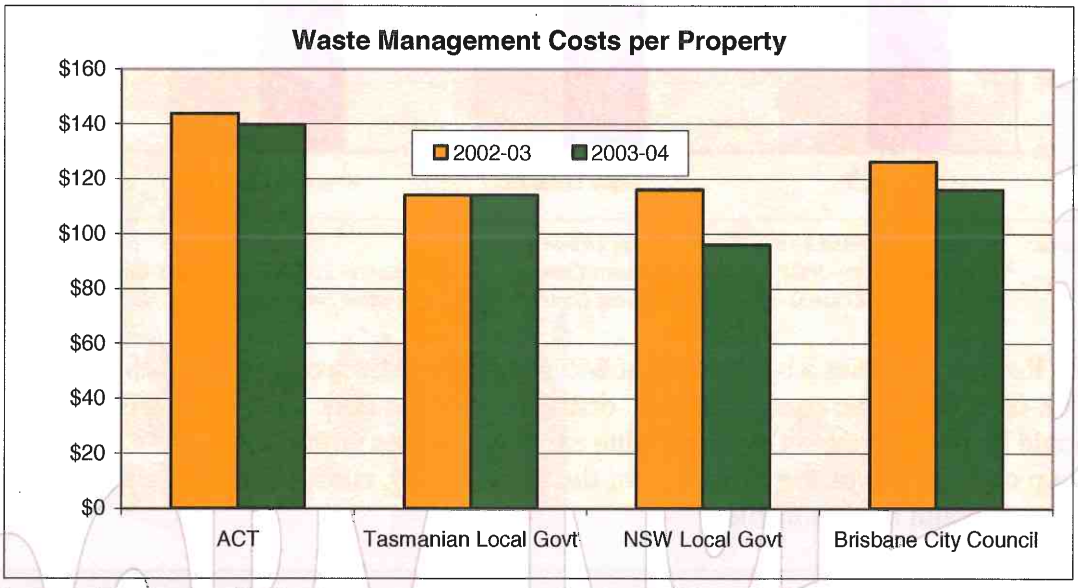
[3] The proposed target is based applying a labour cost escalator to the current benchmark (Brisbane City Council) 2008-09, and allowing a 10 per cent variance for the higher superannuation costs.

7.5.6 WASTE

Waste Management Costs

The cost per tonne of green waste processing in the ACT are significantly lower than those in other jurisdictions.

However, cost data from local governments indicates that the ACT's total waste management cost per property, while decreasing, is still about $20 per property higher than the next highest jurisdiction.



Source: ACT data provided by the Department of Urban Services; NSW Local Govt– NSW Local Government Comparative Information 2002-03 and 2003-04; Brisbane City Council– Queensland Local Government Comparative Information 2002-03 and 2003-04; Tasmanian Local Govt – Measuring Council Performance in Tasmania 2002-03 and 2003-04

Waste collection costs are largely contractual in nature. There would be some reduction from consolidation of the policy functions.

No Waste by 2010

The Territory has the highest proportion of waste recycling of all jurisdictions. The objective of zero waste to landfill under the *No Waste by 2010* strategy, however, cannot be achieved within the current budget allocations.

In order to achieve the current targets of the Strategy, cost per tonne would increase to four to five times the current cost. Cost efficient technologies are still being developed.

Any targets on waste to landfill need to take account of the policies developed and adopted at the national level between all jurisdictions on packaging. The Review proposes that more realistic targets for waste reduction be established on the basis of the intergovernmental policies as well as the current budget capacity.

Recommendation 127: targets for waste reduction under the *No Waste by 2010* strategy be reviewed on the basis that costs be contained within the Budget forward estimates.

7.5.7 CANBERRA URBAN PARKS AND PLACES

Pool Subsidy and Asset Maintenance

The Government currently owns swimming pools in Canberra City, Dickson, Manuka, Tuggeranong Town Centre and Erindale. They provide varying levels of return and/or cost to government. Service quality across pools, due to their age and amenity, also varies.

All government pools are managed by private providers. All pools are in need of repair, and there are significant budgetary risks associated with the upkeep and maintenance of the facilities.

It appears that there is a sustainable market for swimming pool operations in the Territory, with three privately owned swimming facilities operating in Belconnen and one in Deakin.

The Review proposes that the sale of government swimming pools be pursued. The arrangements should provide for site redevelopment opportunities, at no cost to the Territory.

The conditions of sale and redevelopment should take into account the heritage aspects of the existing pools, appropriate community service obligations and funding arrangements to support continued access by disadvantaged and low-income people, and swimming education purposes.

Recommendation 128: sale of government pools be pursued with protection of heritage aspects of the pools and appropriate community service obligations for continued access for those on low incomes and for swimming education purposes.

Shopping Centre Refurbishment and Suburban Precinct Management

The shopping centre refurbishment program relates to upgrades to parking areas and precincts adjoining shopping centres. The land is unleased Territory land, however, the program has direct benefits for shopping centres.

The upgrades are delivered through the capital works program. The extent of private sector contribution is unclear, and the department has identified this program as a low priority.

The recurrent cost of developing the capital program is $1.068 million, with 8.6 FTEs. Separately, Canberra Urban Parks and Places (CUPP) is responsible for maintaining these areas.

The responsibility for planning, developing and delivering future upgrades should also be managed by CUPP. The Review proposes savings of $0.868 million, allowing capacity for two staff ($0.2 million) to be retained by the Department.

Recommendation 129: the staffing costs of managing shopping centre refurbishments be reduced by $0.868 million.

Domestic Animal Services

There are a number of synergies in the provision of services by Domestic Animal Services and the RSPCA, with regard to the holding and management of stray animals. The Government provides funding to the RSPCA for its services.

There is a duplication in the facilities which both agencies use to hold animals either awaiting collection by owners, veterinary care, recovery or destruction, with both agencies also advertising to the ACT community for people to adopt pets from their service.

There would be significant benefits in the holding services currently being provided by Domestic Animal Services being contracted to the RSPCA, and the government services being more strongly focussed on ranger-related collection activities.

Recommendation 130: potential management arrangements be investigated with the RSPCA in respect to the holding and management of stray animals currently provided by the Domestic Animal Services.

7.5.8 GOVERNMENT BUSINESSES

A number of businesses were transferred to the Department following the wind-up of TotalCare. These included Cityscape and Facilities Management. CityScape is a business unit in Urban Services responsible for horticultural services across the city[4]. Its services cost approximately $21 million per annum. Facilities Management provides maintenance services for government properties, with annual costs of around $10 million.

In returning these businesses from TotalCare, it was recognised that levels of inefficiencies existed in comparison to private sector equivalent services. The Review proposes that these businesses be assessed against comparable benchmarks, with efficiency savings to be realised to the budget.

Recommendation 131: the long-term outlook for business operations of CityScape and Facilities Management be assessed, including opportunities for alternative service arrangements.

[4] It also provides services to the National Capital Authority under contract. The business has now been incorporated in Canberra Urban Parks and Places (CUPP).

7.5.9 SUMMARY OF SAVINGS AND STAFFING IMPACTS

Total savings from the Department of Urban Services is estimated at $8 million by 2009-10, as highlighted below.

Table 7.5.2: Summary of Financial Impacts

Measure – Savings / (Costs)	2006-07 $'m	2007-08 $'m	2008-09 $'m	2009-10 $'m	FTE Impacts
Integration of activities					
Single Land Management Structure	0	0	0	0	-
Integration of Policy Functions	2.500	4.100	4.202	4.307	40
Establish Office of Transport	0	0	0	0	-
Consolidate Libraries	0.500	1.000	1.600	1.640	12
Cessation of programs					
Sale of Swimming Pools	0.370	0.758	0.777	0.798	1
Consolidate Community Partnerships Program	0.300	0.307	0.315	0.323	
Abolish Local Centre Revitalisation Management (staffing only)	0.868	0.890	0.912	0.935	6.6
Total Recurrent Impact	**4.538**	**7.055**	**7.806**	**8.003**	**59.6**
Procurement Savings	1.316	2.698	2.765	2.835	-
Procurement (ERC) Savings	0.754	1.131	1.131	1.131	-
IT (Review and ERC) Savings	0.942	1.329	1.329	1.329	-
Transfer to Shared Services	1.814	4.412	4.468	4.528	48.52

CHAPTER 7.6 PUBLIC TRANSPORT

OVERVIEW

- ACTION was established as a statutory authority in January 2002. It provides public transport services under a contract with the Department of Urban Services. Services include scheduled route services; school services and special needs transport services.
- ACTION's costs are approximately $84 million per annum. Around 20 per cent of these costs are recovered through the fare box ($15.7 million in 2004-05). The Authority receives budget funding of approximately $60 million per annum. The Authority operates a fleet of around 390 buses, and has a staff of approximately 700 FTE.
- Total annual passenger boardings are approximately 16.2 million, with 32 per cent full fare boardings, 35 per cent concessions and 32 per cent school boarding.

KEY CONCLUSIONS AND RECOMMENDATIONS

- Public transport functions are currently spread across three agencies, Urban Services (purchaser of bus services), ACTION and ACTPLA (sustainable transport, real time information system).
- The original purpose of establishing ACTION as a statutory authority was, among other things, to allow public transport to operate more freely within a competitive environment and along the lines of a private bus operator. These goals have not been achieved.
- Since 2000-01, ACTION's costs have increased significantly and fare box recovery has decreased. In addition, FTE staff has increased by 4 per cent, employee costs have increased by 28 per cent, and passenger boardings have remained stable (marginal decrease in 2004-05). The recent expansion in services has not translated to increased patronage, with boardings per kilometre decreasing by around 4 per cent.
- Bus operations should be integrated within a departmental structure. Purchaser/provider (contractual) arrangements should be abolished, and duplication and overlaps eliminated.
- Given the significant increases in fuel and labour costs, fares should be increased more than the CPI to cover these costs, raising an additional $1 million in revenues. Given that these costs have already been budget funded, appropriation should be reduced accordingly.
- Savings of $4 million should also be pursued in operational management and administrative overheads.

7.6.1 ADMINISTRATIVE ARRANGEMENTS

Public transport functions are fragmented between three agencies within the ACT Government. A purchaser/provider arrangement exists between Urban Services and ACTION. ACT Planning and Land Authority advises on Sustainable Transport Policy. It also delivers specific projects relating to bus services such as, the Real Time Passenger Information System[1].

The Review is proposing to consolidate Transport Policy into the new Department of City and Territory (Chapter 4.2). Responsibility for advice to the Minister on public transport policy (including sustainable transport), and the delivery of projects should also be consolidated within the broader transport function.

Recommendation 132: public transport functions including advice on sustainable transport strategy be consolidated within the proposed new Department of City and Territory.

On 1 January 2002, ACTION was incorporated as a statutory authority under the provisions of the *ACTION Authority Act 2001*. The Act states that the main function of ACTION is *'to provide an effective, affordable and accessible public transport network within its area of operations'*.

The original intent for establishing ACTION as a separate legal entity was to allow it to operate more commercially, including the flexibility to progress towards employment conditions more appropriate to commercial operating needs. The separation was also designed to give freedom to the ACTION Board to control costs through normal commercial business measures, and to bring efficiencies into line with those of private operators.

Original legislation passed in the Legislative Assembly provided ACTION with flexibility to negotiate employment arrangements consistent with industry norms. This was later amended to extend the coverage of the *Public Sector Management Act 1994* to all employees. This amendment, in effect, gave little tangible financial or administrative benefits in retaining ACTION as a separate legal entity. The original purpose of establishing ACTION as a statutory authority has been negated.

Financially, the Authority's budget dependency has increased. Additional overheads have also been incurred in supporting the Authority, as well as duplication of roles and responsibilities between ACTION and the Department of Urban Services.

The Review proposes that the statutory authority be abolished, with responsibility for public transport integrated back into the Department of Urban Services (new Department of City and Territory). Under these arrangements, the purchaser/provider model, and duplication and overlaps, should be eliminated and savings realised to the budget.

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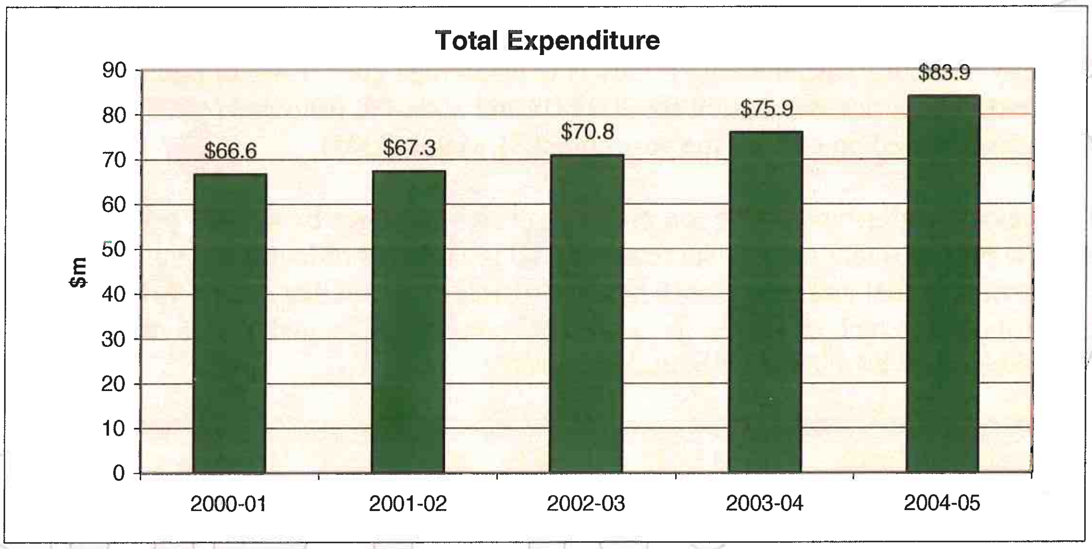
[1] 2005-06 Budget Paper No 4; Page 212.

Recommendation 133: the *ACTION Authority Act 2001* be repealed, and bus service operations be undertaken as part of a departmental structure within the proposed new Department of City and Territory.

7.6.2 PERFORMANCE TRENDS

Expenditure

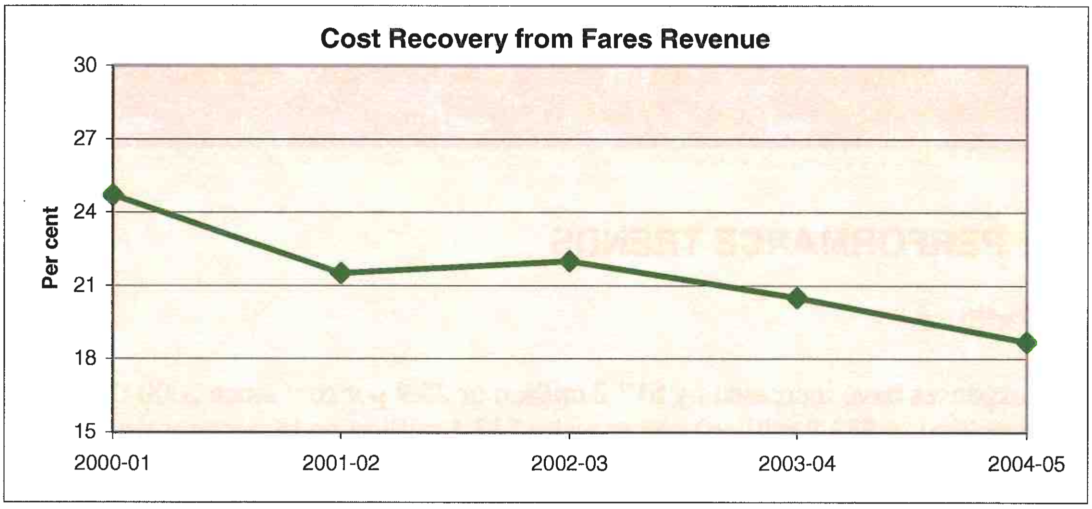
Total expenses have increased by $17.2 million or 25.9 per cent since 2000-01 ($66.6 million to $83.9 million) and grew by $13.1 million or 18 per cent since ACTION was made a statutory authority in 2002.



Source: ACTION Authority Annual Reports

Fare Box Recovery

Cost recovery from fares revenue has been steadily declining over the past 5 years, falling from 24.7 per cent in 2000-01 to 18.7 per cent in 2004-05. Fare revenue has remained relatively stable at $15.7 million.



Source: ACTION Authority Annual Reports

The Government's sustainability policy is to encourage greater use of public transport. Fare price was frozen for 2003-04 and 2004-05, followed by a CPI increase in 2005-06 (based on CPI for the year ended 31 March 2005).

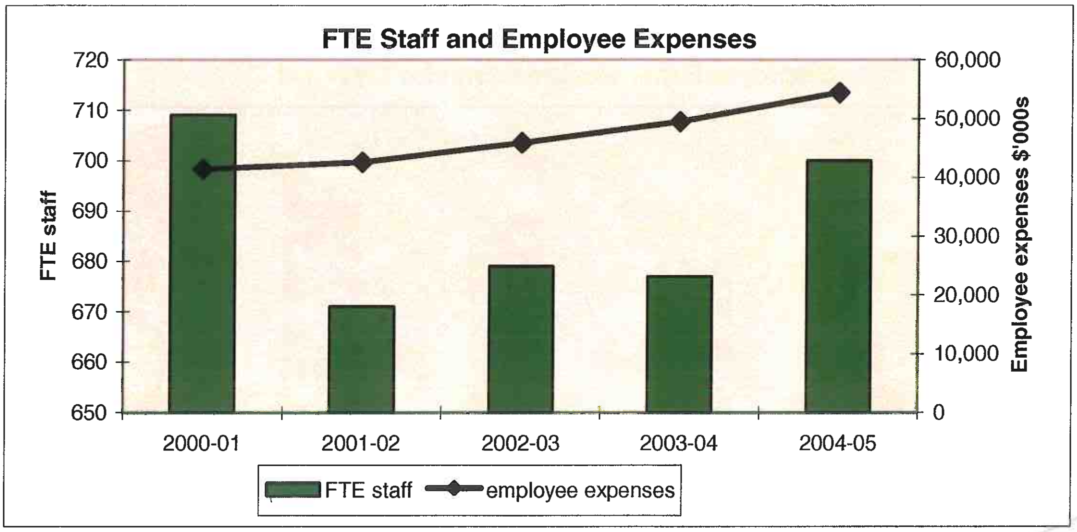
The Review understands there is a proposal to increase fares by about 3 per cent. The Review proposes that fares be increased by 10 per cent, to reflect the significant movements in fuel and labour costs for bus services. Given that ACTION has already been funded for such increases, the additional revenue, estimated at $1.5 million, should be offset by a decrease in budget funding.

Recommendation 134: fares be increased by an average of 10 per cent to cover the significant costs of fuel and labour since the last increase approved by the ICRC. The resulting revenue increase is estimated at $1.5 million.

7.6.3 EFFICIENCY AND EFFECTIVENESS

Staffing Numbers

FTE staff have increased over the past four years from 671 in 2001-02 to 700 in 2004-05, an increase of 4.3 per cent. Over the same period employee costs grew from $42.6 million to $54.5 million, an increase of 27.9 per cent.

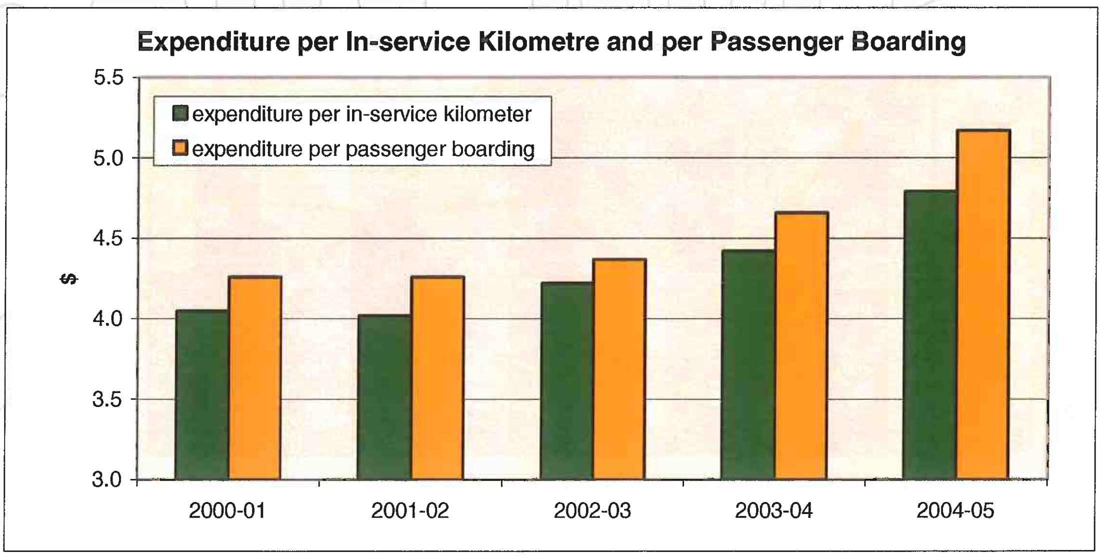


Source: ACTION Authority Annual Reports

Unit Costs

Expenditure per passenger boarding is marginally higher than expenditure per in-service kilometre.

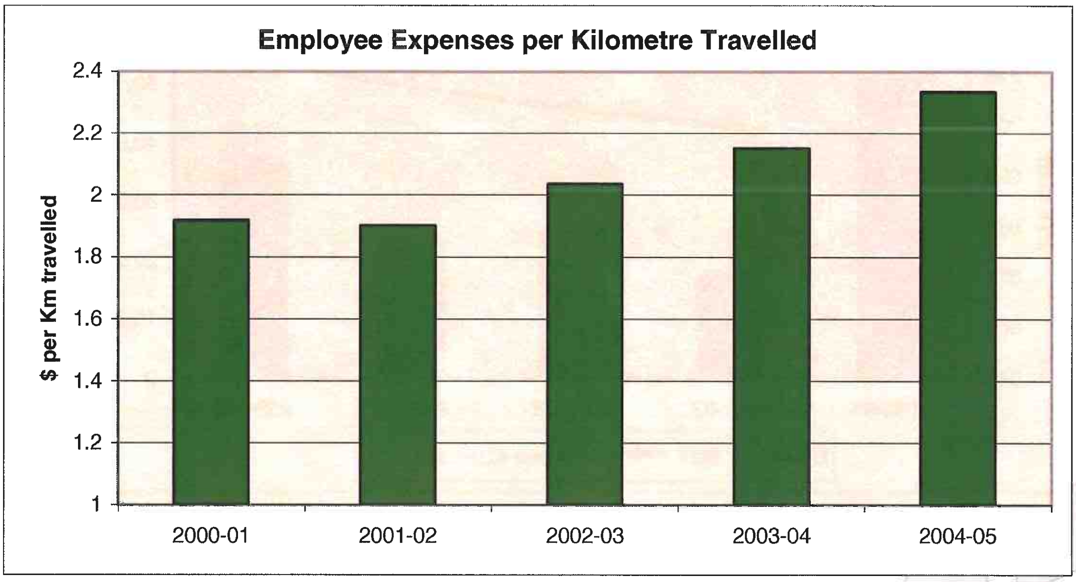
Expenditure per in-service kilometre and per passenger boarding has increased over the past 5 years. In 2004-05 expenditure per in-service kilometre was $4.79, an increase of 18.3 per cent since 2000-01. Expenditure per passenger boarding was $5.17 in 2004-05, an increase of 21.4 per cent since 2000-01.



Source: ACTION Authority Annual Reports

A total of 23.3 million kilometres were travelled in 2004-05, an increase of 8.2 per cent since 2000-01. Over the same period employee expenses have increased by 31.6 per cent.

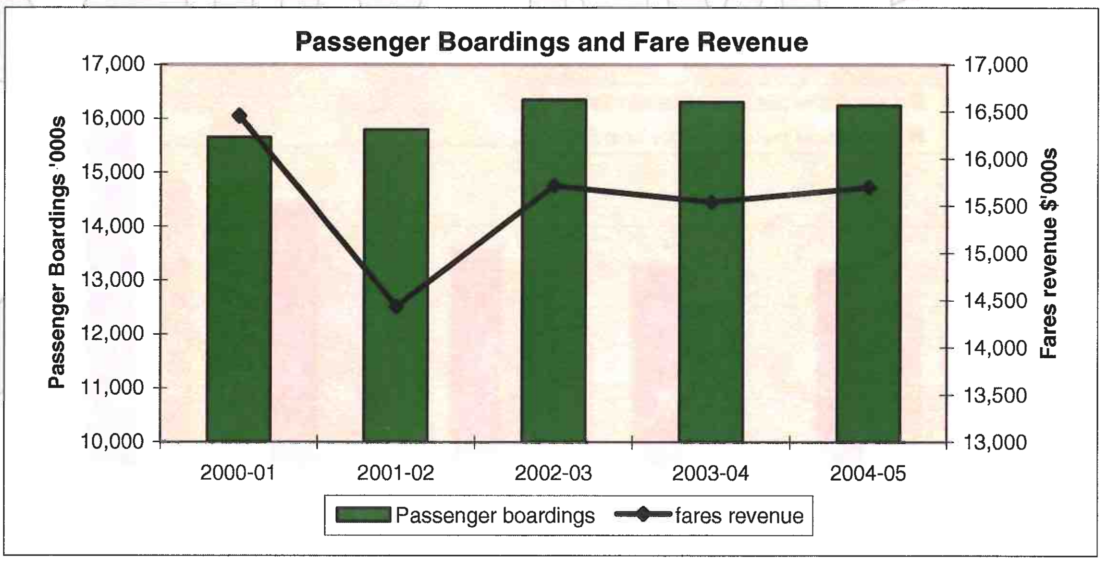
Employee expenses per kilometre travelled have increased from $1.92 in 2000-01 to $2.33 in 2004-05, an increase of 22 per cent.



Source: ACTION Authority Annual Reports

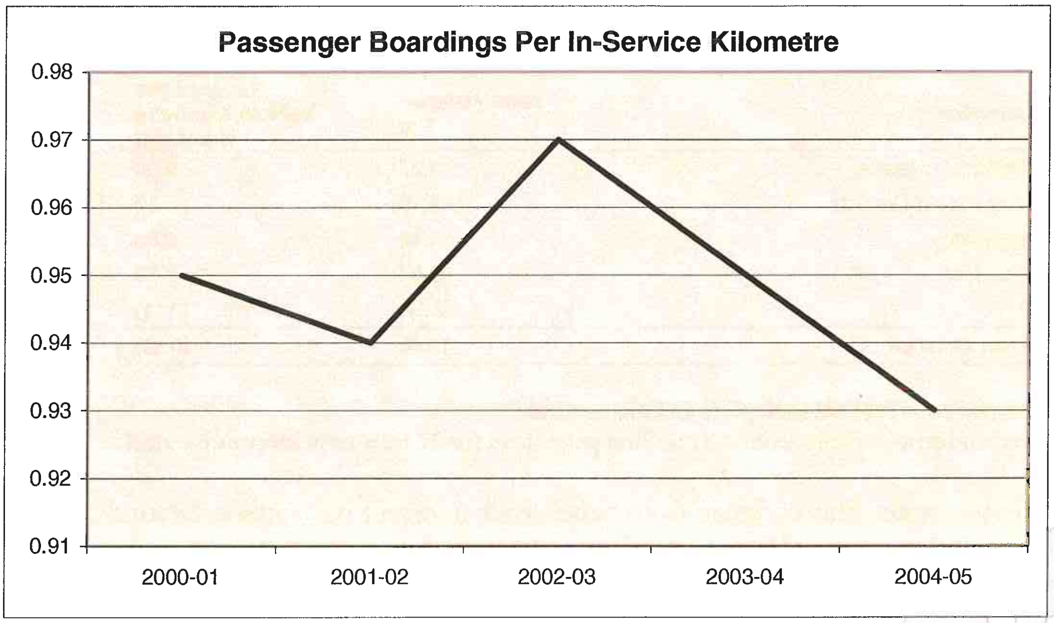
Passenger Boardings

Passenger boardings have decreased marginally over the past three years falling from a peak of 16.3 million in 2002-03 to 16.2 million in 2004-05, a decline of 1 per cent. Around two thirds of the boardings relate to concession holders (35 per cent) and school students (32 per cent). Over the same period fare revenue has remained relatively constant at around $15.7 million.



Source: ACTION Authority Annual Reports

Passenger boardings per kilometre is a useful measure of effectiveness of services. The following chart highlights that the increase in services in the recent years has not translated into improvements in patronage.



Source: ACTION Authority Annual Reports

Benchmarking

ACTION has been subject to a number of benchmarking studies and reviews, all of which have concluded that its costs were around $13 million to $15 million above the costs of an average efficient operator[2].

The latest report commissioned by ACTION indicates that its costs are $13.6 million higher than an average best practice operator. Of this, $8.4 million relates to differences in input costs, and $5.2 million relates to operational differences with the benchmark partners (such as network design, speed etc).

The following table provides a summary of the cost difference from the average best practice[3].

Table 7.6.1: Cost Difference from Average Best Practice Operator

Cost Category	Total Variance $'m	Variance per Vehicle Kilometre ($ per km)
Variance in Reported Cost	**8.36**	**0.36**
Adjustments for operational Differences		
Speed	7.96	0.35
Level of Charter	(1.38)	(0.06)
Use of Casuals	(0.27)	(0.01)
Spread of Hours	(1.08)	(0.05)
Total Cost Variance	**13.60**	**(0.59)**

The cost variance of $13.6 million has been disaggregated as follows:

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[2] For example, Commission of Audit 2002; Benchmarking Surveys undertaken on behalf of ACTION by Indec Consulting, 2001-02 and 2003-04.

[3] Benchmarking Survey 2003-04; Indec Consulting.

Table 7.6.2: Contributing Factors to Cost Variance from the Benchmark

Cost Category	Total Variance $'m	Variance per Vehicle Kilometre ($ per km)
Driver Utilisation / Leave	1.27	0.06
Driver Pay Rates / Oncosts	6.18	0.27
Distance Costs	1.74	0.08
Overhead Costs	6.93	0.30
Capital	(2.52)	(0.11)
Total Cost Variance	**13.60**	**(0.59)**

Notes:
- Distance costs include fuel, parts and maintenance.
- Overhead costs include around $1 million per annum for 27 long-term inoperative staff.

The Review notes that variance from benchmark in driver pay rates is beyond management's control. However, driver utilisation, leave management, and overhead costs, which are $8.2 million above benchmark, should be subject to management's decisions.

Review's Response

The increase in ACTION's costs has been mainly due to an increase in its base costs (wages, fuel and parts), and an expansion in services. While variance in its costs from the benchmark has remained relatively stable in recent years, it should remain a matter of concern.

A proportion of this variance relates to Government's decisions in relation to employee's conditions of service and other requirements imposed. Even excluding those, there appear to be opportunities to achieve efficiencies in driver scheduling, management of absenteeism, and reducing overhead costs, particularly related to indirect staff[4]. The Review notes that there is further scope to reduce costs by reducing dead running. This, however, may involve some redesign of the network.

The expansion in services is in the context of growth in the city and the Government's Sustainable Transport Plan. The Review notes that passenger boardings have remained stable (or marginally declined) over the past few years[5]. The increase in total FTEs and the annual bus kilometres, however, has been substantial. There is scope to increase the effectiveness of services.

Recommendation 135: savings of $4 million be targeted through decrease in Transport Officers, improvement in leave management and driver scheduling, and reducing overhead costs.

[4] Commission of Audit 2002: Report (No. 2) on the State of the Territory's Finances. The Report highlighted that direct to indirect staff ratio was 5:1, after excluding the inoperative staff and transport officers. By comparison, industry ratio was 12:1. This ratio is unlikely to have changed significantly.

[5] The Review was advised of an increase in full fare boardings in 2005-06. This, however, appears to have been partly offset by a decrease in concession and school boardings.

7.6.4 SUMMARY OF SAVINGS AND STAFFING IMPACTS

The table below provides an overview of options for where efficiency and effectiveness savings can be generated within ACTION.

Table 7.6.3: Summary of options for Efficiency and Effectiveness Improvements

Proposal	Description	Budget Impact $'m
Revenue		
Increase in Fares	Increase above CPI to address increasing costs of fuel and parts.	1.5
Cost Reductions		
Transport Officers	A group that that provides both in depot and on road supervision. 16 officers are employed to operate at four interchanges. It is proposed to introduce mobile supervision rather than static supervision at the interchanges. This would reduce the number by 8.	0.8
Driver Utilisation	Improvement in leave management and driver scheduling.	0.2
Overhead Costs	Decrease in indirect staff. Details to be determined by the Department.	3.0
Total		**5.0**

Table 7.6.4: Summary of Financial Impacts

Measure – Savings / (Costs)	2006-07 $'m	2007-08 $'m	2008-09 $'m	2009-10 $'m	FTE Impacts
Revenue					
Increase in Fares	1.500	1.500	1.500	1.500	0
Cost Reductions					
Transport Officers	0.200	0.800	0.800	0.800	8
Driver Utilisation	0.050	0.200	0.200	0.200	0
Overhead Costs	0.750	3.000	3.000	3.000	TBC
TOTAL SAVINGS	**2.500**	**5.500**	**5.500**	**5.500**	**8**
Machinery of Government Savings	0.792	1.082	1.109	1.137	9.9
Procurement (Tender Box) Savings	0.187	0.384	0.394	0.403	-
Procurement (ERC) Savings	0.111	0.166	0.166	0.166	-
IT (Review and ERC) Savings	0.112	0.158	0.158	0.158	-
Transfer to Shared Services	0.533	1.295	1.312	1.329	14.09

CHAPTER 7.7 DISABILITY, HOUSING AND COMMUNITY SERVICES (INCLUDING THE OFFICE FOR CHILDREN, YOUTH AND FAMILY SUPPORT)

OVERVIEW

- Disability, Housing and Community Services (DHCS) provides the key human service functions of public and community housing; the care and protection of children, disability services, therapy services; and a range of programs to assist families, carers and community development.
- The Department was established in response to the Board of Inquiry into Disability Services and the Reid Report in 2002. In 2004, following the Vardon and Murray reports into child protection issues, the Department assumed responsibility for children and young people. Multicultural affairs and community engagement joined the Department in 2005.
- The Department spends $276 million per annum across its three financial reporting entities Disability, Housing and Community Services ($95.5 million); The Office for Children, Youth and Family Support ($72.4 million); and Housing ACT ($108.4 million). Staff numbers total approximately 1,125 FTEs.

KEY CONCLUSIONS AND RECOMMENDATIONS

- Expenditure on child protection and out-of-home services per child is the highest of all jurisdictions at 67 per cent above the national average[1]. In public housing, overhead expenditure is approximately 66 per cent above the average of all jurisdictions and New Zealand[2].
- The Review is not proposing significant savings, but a reallocation of resources through more cost effective service delivery arrangements. This as an area likely to pose considerable risks to budget due to increased expectations for services. Priority should be targeted to minimising these fiscal and service risks.
- There is capacity to better coordinate and integrate services through a single service point for complex clients. This should include a centralised service purchasing function extended to the non-government sector.
- The Review has proposed that the functions of the Department be amalgamated with those of ACT Health, to form a new Department of Health and Community Services. The amalgamation should realise the full potential from integration of service delivery, and ensure continuum of care.
- Alternatively, the Department could stand alone as the Department of Community Services, reporting to a single Minister. Irrespective of the organisational arrangements, further integration of service purchasing and grants administration with Health should be pursued.

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[1] *Report on Government Services 2006.*

[2] Australian Housing and Urban Research Institute.

KEY CONCLUSIONS AND RECOMMENDATIONS (Contd.)

- The Review is proposing that the Department prepare a four-year rolling forward financial strategy as part of the Budget process each year to identify and savings or revenue options to address any cost or demand pressures within its financial envelope (also see Chapter 7.3).

7.7.1 HUMAN SERVICES INTEGRATION

The ACT human service 'system', covering both government and non-government service provision, is complex and unwieldy, particularly from a client perspective. There are multiple case management systems, which often overlap and agreements between agencies that often serve to inhibit access to services. Currently, when issues cannot be resolved between agencies the Management Assessment Panel (MAP) is convened. The MAP is advisory in nature and is not able to require agencies to comply with its recommendations.

To better maximise efficiencies and service effectiveness, delivery systems should be redesigned to provide universal services (access for everyone), targeted services (to groups or communities at risk) and intensive services (to individuals/families with high and complex needs).

A key principle supporting the service arrangements should be provision of timely and accessible human services through the promotion of the least intrusive human service options – that is, acting sooner and more effectively and promoting self-care wherever possible. The service system should take a whole-of-life focus (pre birth, early childhood, children, young people, through to older people). Consistent geographic/regional boundaries should be established across all program areas within the new Department(s) of Health and Community Services as part of developing a more cost effective service structures.

Geographic/regional service networks comprising relevant government and non-government service providers should also be established. In addition, some form of means testing or co-payments should be considered as part of the development of an ACT human service system.

The Review has separately made recommendations in relation to centralising grants and service purchasing arrangements in each key portfolio. In addition to ensuring value for money for government contracts, a centralised non-government service delivery function will also drive improved coordination and integration in the community sector.

Complex Case Management

People most vulnerable in society, with multiple needs are most likely to benefit from integrated service delivery. It is proposed that within the new Department(s) of Health and Community Services a single area take responsibility for the most complex clients. This is estimated to be no more that 200 individuals across the ACT. A streamlined case management system should also be established for these complex cases, so that only one case management plan covering the full range of government services is developed and implemented.

Recommendation 136: an intensive services unit be established to reduce duplication and better integrate human service delivery, with one case manager being allocated per complex client.

7.7.2 DISABILITY SERVICES

Disability services are mainly funded under the Commonwealth-State/Territory Disability Agreement (CSTDA). The relative share of funding is $1 Commonwealth to $4 ACT. The following provides a summary of the funding for disability services.

Table 7.7.1: Funding for Disability Services under the CSTDA

	2001-02 $m	2002-03 $'m	2003-04 $'m	2004-05 $'m	2005-06 $'m	Annual average growth
Commonwealth	6.907	7.376	7.623	7.936	8.373	5.3%
ACT - Commitment	30.716	35.151	36.858	37.813	38.599	6.4%
ACT - Actual	30.716	39.854	44.580	46.934	50.165	15.8%
Total	**37.623**	**47.230**	**52.203**	**54.870**	**58.583**	**13.9%**

Expenditure in the ACT has grown at an average rate of 14 per cent per annum since 2001-02. The ACT has overmatched Commonwealth funding, against a commitment of average growth of 6.4 per cent. The ACT's contribution has grown at an average of 15.8 per cent.

The significant increase in the expenditure has been largely in response to the Gallop Report. After the "catch-up", however, this level of growth should be curtailed.

Disability ACT is the principle provider of accommodation support services for people with a disability in the ACT. It provides approximately 50 per cent (168 of 331 places) of all accommodation support places in the ACT and the majority of places for people with intellectual disability.

Places in government group homes are significantly more expensive than those in the non-government sector. In 2003-04 the cost per user in government provided group homes was $112,199 compared with $60,872 in the non-government sector. The *2006 Report on Government Services* tables show the ACT government group home costs per user as 14 per cent above the national average but below the costs of Tasmania, Queensland, and New South Wales.

The Department is developing a strategy to move a proportion of clients with lower levels of need to the community sector over a three-year period. This requires short-term community sector investment to develop capacity to take on this level of service. However, resources should be found within existing resources.

The Review proposes that the balance between government and community-based services be shifted with an increased proportion of support being provided by the community sector.

Recommendation 137: using existing resources, capacity in the community sector be developed and used for the management of the maximum feasible proportion of accommodation support services.

7.7.3 PUBLIC HOUSING

Funding Arrangements

The *Commonwealth/State Housing Agreement* (CSHA) provides the framework for Commonwealth payments for public housing in the ACT. The financial contribution under the Agreement is $2 from Commonwealth to $1 from ACT.

The Territory's share of CSHA funding is determined upon the basis of population and not number of dwellings. However, as at 30 June 2005, while the Territory managed 3.2 per cent of public housing dwellings nationally, it only accounted for 1.6 per cent of population.

The current CSHA agreement requires States and Territories to find ways to involve the private market in the provision of social housing. If this requirement is not met, there is the potential for a 5 per cent penalty to be imposed on jurisdictions payments.

Over recent years, the Territory's has overmatched its contributions under the CSHA, as shown below.

Table 7.7.2: Commonwealth and ACT Matching Funding Under the CSHA

	2003-04 $'000	2004-05 $'000	2005-06 $'000	2006-07 $'000	2007-08 $'000
Commonwealth					
CSHA - Commonwealth	18,438	18,468	18,785	18,962	19,142
Total Commonwealth	**18,436**	**18,464**	**18,785**	**18,962**	**19,142**
ACT					
CSHA - Matching	8,197	8,212	8,346	8,422	8,499
ACT Overmatching Funding	5,858	2,787	2,904	2,319	2,359
Additional Appropriation - Capital	2,964	5,000	5,580	5,000	5,000
less:					
Land Tax Equivalent	-2,130	-2,130	-2,130	-2,130	-2,130
Payroll Tax Equivalent	-888	-945	-1,108	-1,159	-1,194
ACT Overmatching	**5,804**	**4,712**	**5,246**	**4,030**	**4,035**

The ACT Government should limit its contribution to the matching obligations under the CSHA. Projects presently funded through over matching provisions should be reassessed against other public housing priorities, or against efficiencies discussed below.

Whilst the payment of land tax and payroll tax are not precluded under the CSHA, in essence they are met from overmatching funds. As a result, these payments should no longer be levied on Housing ACT.

Recommendations 138 and 139:

- **funding for public housing be held to the Territory's matching requirements under the CSHA; and**
- **tax equivalent payments for payroll tax and land tax no longer be levied on Housing ACT.**

Efficiency of Public Housing

The Government's commitment to grow public housing by $40 million over the next three years is equivalent to an increase of approximately 120 dwellings. If this is to be achieved, substantial improvements in operational efficiency are required.

The ACT's recurrent expenditures per property on public housing are 69 per cent above the national average, second only to the Northern Territory. In addition, the Territory also has the highest capital cost per property in Australia, with the majority of this relating to land value.

Table 7.7.3: Government Housing Assistance 2004-05

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Aust.
Per Capita Expenditure									
Recurrent	87	48	56	81	144	148	270	261	81
Total (Including Capital)	423	239	239	270	431	432	1,028	642	340
Per Dwelling Expenditure									
Recurrent	4,704	3,686	4,444	5,080	4,836	6,116	8,066	9,423	4,757
Total (Including Capital)	22,925	18,346	18,883	16,983	14,495	17,873	30,703	23,174	19,895
CRA Expenditure									
Per Capita	105	89	136	96	92	102	52	62	104
Per Income Unit	2,211	2,136	2,251	2,190	2,105	2,063	2,012	2,236	2,189

Source: Productivity Commission Report on Government Services 2006

Research undertaken by the Australian Housing and Urban Research Institute (AHURI) across Australian jurisdictions and New Zealand indicates that at 30 June 2001, overhead expenditure in the ACT was 66 per cent above the average of all jurisdictions and NZ, at $2,518 per dwelling compared to $1,508 nationally. This equates to approximately $11.5 million above the average.

Further efficiencies in public housing operations should be targeted at bringing the Territory into line with national average costs structures. This should be achieved, for example, through:

- reduction in maintenance costs with no effect on overall maintenance levels ($2 million);

- reduction in 20 staff ($2 million);
- administrative savings thorough efficiencies in consultants, contractors and fleet ($1 million);
- introduction of water payments by tenants ($0.7 million); and
- cessation of the Private Rental Leasing and Social Landlord programs ($0.7 million).

Recommendation 140: efficiencies in management and operational costs of $10 million per annum be achieved across public housing.

The Review is proposing an increase in general rates (Chapter 11), which impacts on public housing operations. In 2004-05, an additional $0.940 million was appropriated to compensate for the increase in rates.

In the private rental market the landlord would be expected to recover additional rates charges through higher rentals. With the level of rebates being applied by Housing ACT, only 14 per cent of the rates increase is likely to be recovered through higher rents.

Consistent with maintaining funding at the matching level, any future increases in general rates should be targeted from efficiencies in public housing operations.

Recommendation 141: the cost to ACT Housing of the proposed increase in General Rates be covered through additional public housing efficiencies.

Effectiveness of Public Housing

Waiting Lists Eligibility Criteria

Income limits for public housing are currently determined according to household size and are tied to ACT Average Weekly Earnings (ACTAWE) advised on a quarterly basis by the Australian Bureau of Statistics.

For a single person, the income threshold or limit is set at 60 per cent of ACTAWE, while for a household of two people, the income limit is set at 100 per cent of ACTAWE (plus allowances for additional people)[3]. These limits are $585 and $975 gross per week respectively[4]. The corresponding national average weekly earnings are $483 and $805 respectively.

These levels do not reflect the likelihood of being able to obtain public housing through the priority wait list approach. Unless there are other circumstances it is

[3] In addition to the income test there is an asset limit of $40,000 which is applied to realisable assets and which excludes basic items such as clothing and ordinary personal and household effects, tools of trade and one motor vehicle per household.

[4] As at 18 November 2005.

highly unlikely that a couple with an income of $51,000 (ACTAWE), or even $42,000 (National AWE), per year will be housed within reasonable foreseeable timeframes.

To ensure that the waiting list comprises people who are likely to be housed and are those in the most need, the income limits for couples should be set at 75 per cent of the National AWE, approximately $603 per week and the limits for singles be set at 60 per cent of the National AWE, $483 per week.

However, given the considerable tightening in the financial eligibility tests, flexibility should be available to the Commissioner for Housing to consider other factors in determining final eligibility. For example, women escaping domestic violence and others who have high support costs that significantly reduce their net disposable income.

Recommendation 142: the upper income limits eligibility criteria for new public housing tenants be set at 60 per cent of the national average weekly earnings for singles and 75 per cent of the national average weekly earnings for couples.

Targeting Stock to Need

The waiting times for housing allocations have increased due to the relatively small number of dwellings that become available for allocation or re-allocation each year, and the high demand for these dwellings. Available dwellings have reduced markedly in recent years from the 637[5] public housing allocations in 2004-05 compared with the 1,198 allocations in 2000-01.

The financial circumstances and housing needs of public housing tenants change over time. Stable employment and improvement in income may obviate the need for housing assistance, and the asset could be targeted to someone in housing stress. Changes in household size through the various phases of life mean that households need to move to larger or smaller dwellings.

The flexibility required to target and continually match the stock to tenant needs is not part of the Government's existing policy on security of tenure and accordingly the current provisions of the Public Rental Housing Program (PRHP) do not allow it. The program, as prescribed under the *Housing Assistance Act 1987*, only provides for the transfer of tenants to a more appropriate property where their current dwelling is unsafe or is to be redeveloped. As a consequence, depending upon the measure used, the stock is underutilised by 20 per cent to 50 per cent, as the tenants cannot be moved without their agreement.

Greater flexibility could be provided through a notifiable instrument under the *Housing Assistance Act 1987* if the Government were prepared to modify its security of tenure policy from security within an existing dwelling to security within the system.

[5] Report on Government Services 2006, Table 16A.1.

While the management of Housing ACT should have an ability to move tenants, this power should be exercised as a last resort. Negotiation, and providing incentives should be the primary means to achieve better stock allocation.

The issues highlighted above are not new. The proposed change will provide the means to implement recommendations of Government's Affordable Housing Taskforce[6]. This approach is also being adopted by housing authorities in other jurisdictions[7].

Recommendation 143: the Public Rental Housing Program be amended to facilitate better stock utilisation through relocation of tenants to more suitable accommodation across the system.

Whilst public housing eligibility is moving to a position of a welfare housing provider for its new tenants, there are still approximately 1,600 market renters in public housing. This is more than the number of people on the priority waiting lists. Of these, less than 60 pay more than $300 per week for their accommodation. There is little information on the actual incomes as there is currently no process to collect that information. The Government is to consider a Submission that seeks to allow Housing ACT to collect financial information from market renters.

The debate around security of tenure for market renters is contentious, and it is likely to remain while waiting lists are long and slow. The Government's position has been to maintain security of tenure. However, it has indicated that it would be prepared to consider incentives to encourage market renters to either purchase their properties or relocate to alternative accommodation. Such a strategy was recommended by the Affordable Housing Taskforce[8].

The Minister for Disability, Housing and Community Services has recently initiated consultation around a number of housing matters including that security of tenure may not continue to be in place for future entrants to public housing. While this is unlikely to have any significant impact in the short to medium term, it may well allow for better targeting in the longer term.

A more fundamental and immediate change would be to remove security of tenure for tenants who have been paying market rent for three years or more. This would equate to approximately 700 tenants.

Recommendation 144: security of tenure be removed for public housing tenants who have been paying market rent for three years or more.

[6] *Affordable Housing in the Australian Capital Territory: Strategies for Action*; Report of the Ministerial taskforce on Affordable Housing, December 2002, Page 60.

[7] For example, NSW announced changes to public housing tenure in their 2005-06 Budget, such that from 1 July 200,5 the length of time a tenant can stay in public housing will be matched to their need for public housing - *NSW 2005-06 Budget Paper 3, Page 9-3.*

[8] *Affordable Housing in the Australian Capital Territory: Strategies for Action*; Report of the Ministerial taskforce on Affordable Housing, December 2002, Page 61.

Housing Stock

There are approximately 11,500 public housing dwellings in the Territory. These are spread through out the ACT with only a small number of suburbs not having public housing represented within them.

There are a number of suburbs where stock numbers are significantly higher than 10 per cent of the suburb. The highest concentrations, in excess of 25 per cent, of public housing are in Braddon, Reid and Turner where there are a number of large multi unit complexes skewing the overall figures.

There are also large holdings, in absolute terms, of single title properties in Kambah (628), Narrabundah (380), Ainslie (376), O'Connor (279) and Florey (278).

The average age of the Territory's housing stock exceeds 29 years of age, one of the oldest within Australia. The current property turnover rate is such that the stock continues to age. The condition of the stock is generally good, with approximately 82 per cent found to meet standards. However, the ageing of the stock adds to maintenance costs per property.

There is also a mismatch between the type of stock, and that required by those on the housing waiting list. A significant proportion of future clients and existing clients' needs are likely to be for one and two bedrooms dwellings, rather than for the three-bedroom stock that is currently held by Housing ACT.

There is also an expanding need for properties with more than three bedrooms for larger families.

While there are many single clients on the waiting list and likely to be more in the future, it is also true that these clients may well have a need for more than one bedroom properties. This will include parents who have access to children on a less than full time basis and those that form relationships in the future. This factor combined with low capital growth associated with one bedroom apartments, only small cost differences between one and two bedroom accommodation and a greater degree of flexibility in allocation leads to a preference for two bedrooms over one.

The challenge is to restructure the portfolio, addressing both age and type of dwelling, in a manner that responds to the needs of those on the waiting list, minimises vacant properties and increases private sector involvement in the provision of social housing.

The Review has received proposals for sale/lease back/management of public housing stock that provide private sector investment into the public housing system, and may assist in matching stock to tenants' needs. A number of opportunities have also been identified by Housing ACT.

Sale options explored target a portfolio sale to an institutional investor (e.g., a superannuation fund). The option involves the sale of 500 three-bedroom properties with part of the proceeds to be used to purchase 200 two-bedroom properties to meet the merging needs.

Indicative financial analysis indicates that such a sale would be feasible with the potential to improve the overall financial position of Housing ACT. This analysis should be tested further through independent advice.

Recommendation 145: options for the sale of 500 public housing dwellings be examined as one approach for reconfiguring public housing assets to match tenant demand and need. This should be assessed through independent advice, in conjunction with Housing ACT and Treasury.

7.7.4 SUPPORTED ACCOMMODATION ASSISTANCE PROGRAM

The Supported Accommodation Assistance Program Five (SAAP V) provides the framework for funding and reporting on homelessness services throughout Australia. The ACT receives approximately 3.4 per cent of the total funding from the Australian Government, while it has only has 1.6 per cent of the total population.

The ACT is required to match the relatively higher proportion of funding provided by the Commonwealth on 1 to 1 basis. The Territory, however, overmatches by between \$0.2 million and \$0.4 million per annum in the homelessness sector. This overmatching funding should be removed.

In addition to the overmatching, the Territory also funds approximately \$2.2 million in SAAP-like services, such as Family Accommodation Services. These services provide housing for families who would otherwise be split up in shelters and services, and to maintain tenancies and prevent homelessness.

The average cost per service for the ACT is nearly four times the national average. The average cost per day of service is twice the national average, indicating that the period of service in the ACT is twice the average length of service nationally.

The caseload and accommodation per service in the Territory is low compared with national standards.

The Review proposes that expenditure on SAAP services be limited to the matching obligations under the SAAPV agreement. In addition, SAAP-like services should be managed within the SAAPV financial limits.

Recommendation 146: homelessness funding by the ACT Government be reduced to the matching requirement of SAAPV.

7.7.5 OFFICE OF CHILDREN, YOUTH AND FAMILY SUPPORT

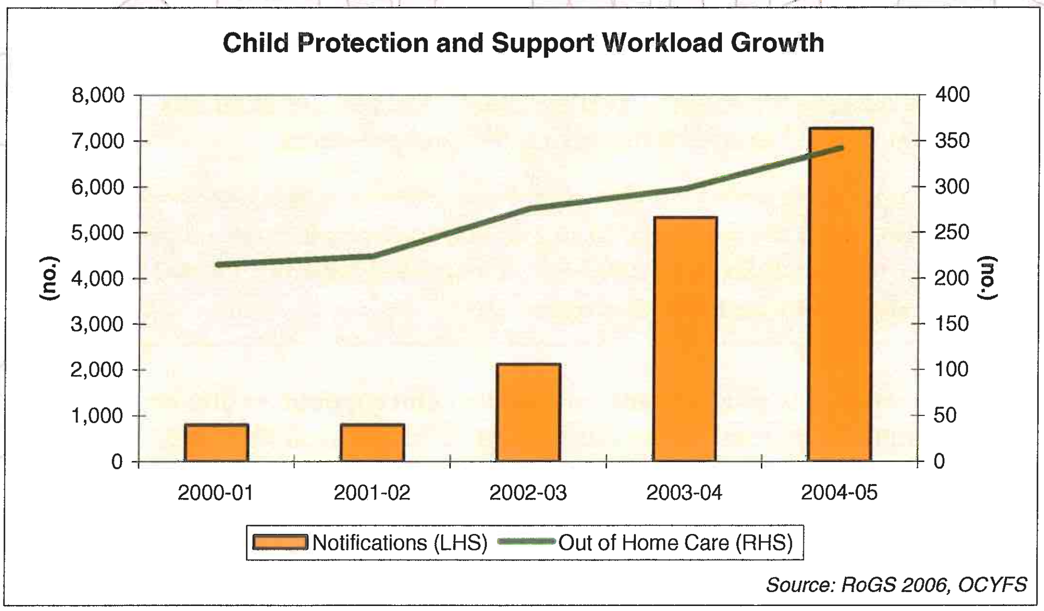
The services provided by the Office of Children, Youth and Family Support (OCYFS) include provision of appropriate care and protection strategies for children and young people, youth justice services, family support activities, and the monitoring and licensing of children's services. The Office was established in response to the Vardon Report on child protection management[9].

In response to that Report, the Government revised its governance arrangements, undertook a major recruitment campaign to engage child protection workers and injected additional funds into the child protection system.

Operational expenditure on child protection has increased from $42.9 million in 2001-02 to $75.3 million in 2005-06. The number of child protection workers has increased from 46 to 110.

Increase in Notifications and Out of Home Care

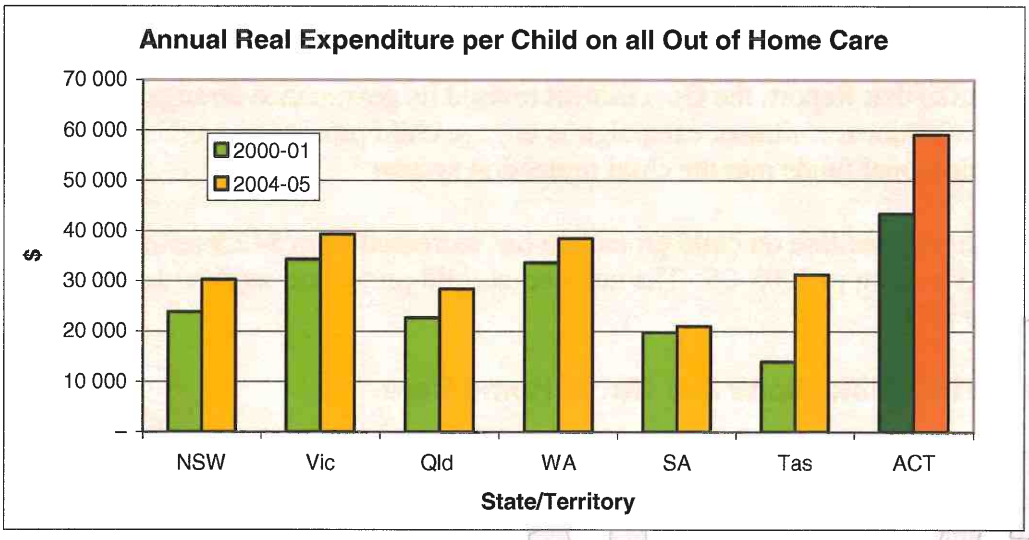
In 2002-03, arrangements for recording reports of concerns about children and young people changed. Along with stricter mandatory reporting requirements, this has led to a significant growth in the number of notifications being processed by the OCYFS, up by nearly a factor of 10 (from 794 in 2000-01 to 7,275 in 2004-05). There has also been a large increase in the number of out-of-home placements in recent times, up 59 per cent from 215 in 2001 to 342 in 2005.



[9] *The Territory as Parent.*

Cost of Out of Home Care

The ACT has the highest cost per child on out of home care. The cost increased from $45,922 per child[10] in 2003-04 to $59,102 per child[11] in 2004-05.



Source: Report on Government Services 2006; Table 15 A.3.

The significant increase in notifications, and in the number of children in out of home care places, combined with the high costs of out of home care expenditure per child, represents a significant risk to the budget. The Review notes a number of reforms underway to reduce costs in this area and proposes that out of home care cost per child be brought back to the 2003-04 level of $46,000. For the medium term, a target should be set to achieve the national average costs. The savings from this recommendation be used to absorb increasing demand pressures.

Recommendation 147: average cost of out-of-home care placements per child be reduced to cost levels achieved in 2003-04. The cost structures should be progressively aligned to national averages.

More fundamentally, it is a significant concern that current policies and approaches have led to a dramatic increase in the numbers of children taken into care. It is noted that expert opinion has in recent times questioned whether current models of mandatory notification, community and family support, and the management of cases are best serving the needs of all children and their families.

Recommendation 148: ACT authorities should actively monitor developments in the area of out-of-home care placements (both nationally and internationally) and bring forward proposals for new approaches where expert opinion supports these.

10 Per child in care at 30 June 2004.

11 Per child in care at 30 June 2005.

7.7.6 ADVISORY BOARDS AND COMMITTEES

The Department is advised by, and services, 58 external boards and committees. The costs attributed to these are $834,000 per annum in sitting fees, staffing and other support. Very few of the Committees have a legislative basis, other than the ACT Community Recovery Sub-Committee and the Housing Review Committee.

Of the total number of bodies, approximately 10 are related to disability, 13 to housing/homelessness, 8 to community services/engagement, 24 to children and youth services and 3 to cross agency or other. In three cases, multiple committees have been established to advise on aspects of one issue (five on Disability Future Directions, two on New Youth Detention Centre, and seven on Vardon and Murray Reports).

Recommendation 149: the number of advisory boards, councils and committees be rationalised, with no more than one advisory/consultative body established per sector.

7.7.7 CORPORATE SERVICES

In Chapter 4.2, the Review has proposed the establishment of a single Department of Health and Community Services, with significant savings through rationalisation of overhead and support costs. Should a separate Department of Community Services be maintained, savings in corporate and organisational services costs should still be pursued. These are outside the resources being transferred to the proposed Shared Services Centre.

The corporate services in DHCS provides a wide range of support services, including the following:

- Executive;
- Strategic Policy, Research and Organisational Governance;
- Finance and Budgets;
- Organisational Service;
- Advocacy, Review and Quality;
- Community Services; and
- Business Services.

Currently the above group consists of approximately 160 staff. The establishment of the Shared Services centre will require 38 FTEs to be transferred, leaving 122 FTEs.

A reduction of 22 FTEs is proposed in the first year, with a further reduction of 6 FTE staff in 2007-08. This would equate to savings in the order of $3 million per annum.

Recommendation 150: efficiencies from rationalisation of corporate and support services be achieved within the Department of Community Services, with savings of $3 million per annum.

7.7.8 SUMMARY OF SAVINGS AND STAFFING IMPACTS

	2006-07 $'m	2007-08 $'m	2008-09 $'m	2009-10 $'m	Total FTE Impacts
ACT Public Housing – CSHA Matching	4.000	4.000	4.000	4.000	20
SAAP V	2.200	2.200	2.200	2.200	-
Corporate Overheads and Support Services Savings	1.200	2.427	3.104	3.182	28
TOTAL SAVINGS	**7.400**	**8.627**	**9.304**	**9.382**	**48**
Procurement (Tender Box) Savings	0.593	1.216	1.246	1.277	-
Procurement (ERC) Savings	0.557	0.836	0.836	0.836	-
IT (Review and ERC) Savings	0.967	1.365	1.365	1.365	-
Transfer to Shared Services	1.417	3.444	3.489	3.534	38.11

CHAPTER 7.8 JUSTICE AND COMMUNITY SAFETY

OVERVIEW

The Department of Justice and Community Safety (JACS) is responsible for activities and services in the areas of justice, the law, commercial practices and elections.

A significant proportion of outputs within JACS involve compliance with legislation or the performance of statutory duties. Independent statutory officers within the department include the Director of Public Prosecutions, the Electoral Commission, Office of the Community Advocate, and the Human Rights Office. The Department is also responsible for the management of services provided by the Commonwealth through the Australian Federal Police, the Ombudsman and the Privacy Commissioner. JACS manages ACT corrections services and arrangements for accommodating ACT prisoners in NSW.

Output Classes

The output classes for the Department, the budgeted expenditure, and full time equivalent (FTE) staff for 2005-06 are outlined in the table below.

Table 7.8.1: Justice and Community Safety Outputs and Expenditure

OUTPUT CLASS	$'000	FTE Staff
Output 1.1 Policy Advice and Justice Programs	6,452.0	39.0
Output 1.2 Courts and Tribunals	23,126.0	142.0
Output 1.3 Legal Services to Government	5,830.0	53.0
Output 1.4 Legislative Drafting and Legislative Information	3,354.0	20.0
Output 1.5 Public Prosecutions	6,109.0	48.5
Output 1.6 Protection of Rights [1]	7,229.0	17.0
Output 1.7 Electoral Services	1,043.0	5.8
Output 1.8 Regulatory Services	9,066.0	78.8
Output Class 1: Justice Services	***62,209.0***	***404.1***
Output 2.1 ACT Corrective Services	30,476.0	186.0
Output Class 2: Corrective Services	***30,476.0***	***186.0***
TOTAL JUSTICE AND COMMUNITY SAFETY (DEPT)	**92,685.0**	**590.1**
Output EBT[2]1: Legal Aid Commission	9,554	0.0
Output EBT 2: ACT Policing	95,791	0.0
TOTAL JUSTICE AND COMMUNITY SAFETY (TERR)	**105,345.0**	**585.10[3]**

[1] Includes payments to the Office of the Public Trustee, Commonwealth Ombudsman, Tenants Advisory Service, Office of the Privacy Commissioner, the Office of the Community Advocate and the ACT Human Rights Office.

[2] EBT is Expenditure on behalf of the Territory, or the so called administered expenditure.

[3] FTE count does not include those organisations the Department makes payments to (eg. Output 1.6)

KEY CONCLUSIONS AND RECOMMENDATIONS

- Expenditure on corrective services and justice in the ACT is similar to national average.
- Community corrections service costs are significantly above the national average and are recommended to be reduced to national average.
- With occupancy in NSW prisons currently increasing, continuing reliance on NSW prisons puts the ACT at risk of access problems, or increased costs arising from the need to build more prisons in NSW. Consequently, it would be financially imprudent not to proceed with the new prison.
- Costs associated with the Human Rights Commission could be reduced through appointment of part-time commissioners or through individual commissioners having more than one role.
- Courts administration costs are proposed to be capped at current published forward estimates through the implementation of the ACT Auditor General's recommendations.
- A range of regulatory functions and resources are proposed to be relocated to the Department from other agencies to streamline regulatory activity.

7.8.1 CORRECTIVE SERVICES

Community Corrections

Community corrections recurrent costs per offender in the ACT are the second highest of any State or Territory behind Western Australia, and at $15.7 per offender per day, are 39% higher than the national average of $11.6.

Recurrent expenditure in the ACT in 2004-05 was $7.2 million. Reducing the ACT cost per offender per day to the national average would reduce the overall costs to around $5.1 million, a saving of $2 million.

Based on the information available, it is difficult to conclude that the relatively higher expenditure leads to better rehabilitative outcomes for offenders in the ACT. The single indicator used in the Report on Government Services to measure outcomes in community corrections is completion rates. While reported ACT completion rates are high, Tasmanian rates, for example, are even higher[4].

Similarly, the higher costs could not be attributed to diseconomies of scale in a small jurisdiction. Tasmania has a recurrent cost per offender per day of $9, well below the national average, while it has fewer community corrections offenders on average than the ACT.

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[4] The Report does, however, caution against interstate comparisons against this indicator.

Given the level of disparity between the ACT and national costs, the Department should make a concerted effort to reduce costs to a level closer to the national average. Recognising that a cost reduction of $2 million would be difficult to achieve in one year, a reduction in costs by approximately $500,000 per annum until the costs are in line with national average would be more realistic.

A reduction of $2 million represents a reduction of about 28 per cent, and would be achieved by a 28 per cent reduction in staffing numbers. This represents a reduction of about 20 FTE staff.

Recommendation 151: expenditure on community corrections be reduced progressively by $500,000 per annum, rising to $2 million per annum in four years, until the daily cost per offender is in line with the national average.

Prison Project and Costs

The cost per prisoner per day in the ACT is $252, which is 48 per cent higher than the national average of $170, and 31 per cent higher than the next most expensive jurisdiction, Victoria. The higher cost is driven by the cost of the remand centres in the ACT rather than payments to NSW for prisoners, which are based on NSW costs[5].

The ACT prison is planned to commence in the 2007-08 financial year, with set up costs being incurred from 2006-07 onwards. The prison is designed to replace the Belconnen and Symonston remand centres, and accommodate sentenced prisoners currently being held in NSW prisons.

The prisoner population in NSW has considerably increased over the past few years. In 2001-02, the average daily prison population was 7,764. This had increased by 15 per cent to 8,926 in 2004-05 (an average of 5 per cent per annum). The prison utilisation rate has also increased similarly to 110 per cent in 2004-05.

With occupancy in NSW prisons currently increasing, continuing reliance on NSW prisons puts the ACT at risk of access problems or increased costs arising from the need to build more prisons in NSW. A further factor to consider is the significant level of inefficiency in the current remand centres' configuration. Consequently, it would be financially imprudent not to proceed with the new prison.

The expected operating costs of the prison based on a benchmarking exercise undertaken in 2003 by JACS are included in the forward estimates. These costs are outlined in the table below:

[5] The Department advises that, subject to a number of variables, the costs per prison per day for both sentenced prisoners and remandees will drop to $203 per prisoner per day, or about 19 per cent above the national average, with the construction of the new correctional facility, the Alexander Maconochie Centre.

Table 7.8.2: Prison Estimated Operating Costs

	2005-06 $'000	2006-07 $'000	2007-08 $'000	2008-09 $'000
Remand Centres	7,683	7,960	2,749	-
NSW Sentenced Prisoners	8,750	8,969	10	10
Court Transport Unit	1,159	1,201	1,244	1,289
New Prison Operating Costs	-	-	14,620	20,195
One Off Set Up Costs	-	600	2,221	-
Prisoners in NSW	-	-	1,442	-
Total Justice and Community Safety	**17,592**	**18,729**	**22,285**	**21,493**
Health Costs	1,190	1,233	1,277	1,323
Total Costs	**18,782**	**19,962**	**23,563**	**22,817**

Notes:

- New prison costs based on $16.286 million in 2002-03 prices, indexed by ACT labour cost index, and multiplied 0.75 in 2007-08 to reflect part year operation.
- Other ACT costs based on 2005-06 budgets indexed by ACT labour cost index.
- 2007-08 remand centre costs based on 4 months operation while the prison is being established.
- NSW prisoner costs based on based on 2005-06 budget, indexed by 2.5 per cent.
- Corporate costs are excluded, and these estimates assume that corporate costs remain unchanged following commencement of prison operations.

The Review has accepted the forward estimates based on this benchmarking. A detailed modelling of costs, based on staff allocation and rostering, is yet to be undertaken.

The key parameters of the prison are well established, and the Review recommends that modelling of the recurrent costs be completed by 30 June 2006, with the aim of holding costs within the forward estimates.

Recommendation 152 and 153:

- **the prison project be continued; and**
- **the recurrent costs of the prison be contained within the forward estimates limits, with the staffing model presented to Cabinet by 30 June 2006.**

7.8.2 OFFICE OF THE DIRECTOR OF PUBLIC PROSECUTIONS

There are considerable concerns in relation to the resourcing and performance of the Office of the Director of Public Prosecutions (DPP). The rate of successful convictions has been very low and this may in part be attributed to lack of resources to engage suitably skilled staff.

The Review proposes additional funding of $0.5 million per annum for the Office, to allow a shift towards more senior staff.

Recommendations 154 and 155:

- **the Office of the Director of Public Prosecutions be provided with additional funding of $0.5 million per annum; and**
- **the Office be configured towards more senior staff.**

7.8.3 COURT ADMINISTRATION

The ACT costs for court administration are close to national average. The courts have recently been reviewed by the ACT Auditor General, whose findings indicate that:

- the accountability for management and expenditure of court administration was unclear and needed to be improved;
- a costing study needed to be undertaken to understand the cost drivers in court administration and to identify possible efficiencies; and
- there is under-use of court time, lack of integration between administrative areas of the courts and opportunities for efficiencies through reform of the registry processes.

All parties accepted the Auditor General's recommendations, and work has commenced on implementation. Implementing the Auditor General's recommendations should enable the Courts to operate within budget, and accordingly, the Review recommends that Courts expenditure be capped at the current forward estimates amounts.

Recommendation 156: courts expenditure be capped at the current published forward estimates levels.

7.8.4 LEGAL SERVICES

The ACT Government Solicitor (GSO) is the primary legal services provider to Government and a number of agencies, but the ACT Government has no legal services policy. Across government legal services are discussed in detail Chapter 5.

The Review is proposing that legal services be consolidated in Justice and Community Safety with:

- the GSO to outsource services where required in collaboration with the relevant agency through a panel of preselected providers with expertise in defined areas of law would also be most practical;
- in house legal units to remain in some departments but with supervision and support provided by the GSO and be out-posted to agencies;
- agreed quality and timeliness service standards for the GSO; and

- a small number of statutory authorities and corporations that are required to operate commercially, use outsourced legal services.

7.8.5 REGULATORY ARRANGEMENTS

Regulation is defined as any laws or other government 'rules' which influence or control the way people and businesses behave[6]. Under this definition, regulation is not limited to legislation and formal regulations; it also includes 'quasi-regulation' (such as codes of conduct, advisory instruments or notes etc).

The cost of regulatory activities in the ACT is approximately $76 million, including staffing costs of approximately $55.3 million.

Current Regulatory Arrangements

The regulatory arrangements that currently exist within regulatory agencies in the ACT Government include:

- independent statutory bodies responsible for both the regulation and policy for specific activities or industries;
- independent statutory office holders fully responsible for all aspects of regulatory control;
- statutory office holders who share decision making responsibility with an independent board with, in most cases, the board having responsibility for disciplinary matters; and
- arrangements where the regulatory powers are delegated from the Minister or Departmental Chief Executive.

The regulatory activities are either:

- aligned to a range of other policy or administrative activities within a Department having common interests with overall responsibility for similar issues (for example, a range of public health protection regulations within ACT Health); or
- grouped together on the basis of the discharge of a range of regulatory responsibilities that require similar skills or activities (for example, the general licensing and fair trading responsibilities undertaken by the Office of Fair Trading); or
- sit within specialised organisations that are responsible for the regulation of a specific industry or activity (for example, the Gambling and Racing Commission).

The following table provides a summary of the regulatory activities across government agencies:

[6] The Australian Government *Taskforce on Reducing the Regulatory Burden on Business.*

Table 7.8.3: Summary of Regulatory Activities across ACT Government Agencies

Operational Unit	Staff Costs $'000	Other Costs $'000
Chief Minister's Department		
Environment Protection	2,500	1,089
ACT WorkCover	4,914	3,246
Department of Urban Services		
Roads ACT	20	-
Road User Services	2,466	827
City Rangers	430	205
Domestic Animal Services	809	431
Parks and Open Space – Charitable collections	163	20
Road Transport – Driver, Vehicle and Parking Policy	1,639	274
Road Transport – Road User Services	1,375	72
Parking Operations	2,528	1,171
National Transport Reforms	-	284
Road Safety – CTPI premiums	107	40
Public Transport and Road User Services	528	190
ACT NOWaste	221	3,507
Department of Treasury		
Revenue Management Division	5,373	4,390
ICRC	792	363
Emergency Services Authority		
Fire Safety	920	182
ACT Planning and Land Authority		
Territory Plan	331	21
Statutory Planing	130	8
Land Information Centre – Commissioner for Surveys	112	5
Development Assessment	3,598	69
Construction Occupation and Land Regulation	13,115	110
Leasing	1,434	215
Regulatory Reform	211	7
Department of Economic Development		
Gambling and Racing	2,759	1,056
Small Business Commissioner	300	46
Strategic Policy – boxing control	20	-
ACT Health		
Pharmaceutical Services	182	10
Radiation Safety Section	164	37
Environmental Health	778	49
Communicable Disease	629	76
Department of Disability, Housing and Community Services		
Children's Services Unit	626	28
Department of Justice and Community Safety		
Community & Health Services Complaints Commissioner	807	299
Office of Fair Trading	2,682	991
Registrar-General's Office	2,597	1,421
TOTAL	**55,260**	**20,744**

Proposed Regulatory Structures

The diversity, complexity and size of the regulatory activities undertaken across the ACT Government precludes the establishment of a single entity that would be responsible for all aspects of the identified regulatory activity.

There are a number of activities that require highly specialised skills that may be managed though government shopfronts, and/or are more closely aligned to the broader activities of the host department than to a specialised regulatory agency.

These include regulatory activities related to:

- administration of government taxes and rates;
- educational services;
- planning and land management;
- specialised health services;
- transport regulation (including drivers licences and vehicle registration); and
- environmental protection.

The remaining regulatory activities are currently spread across a number of government agencies, and for such activities, efficiencies and increased effectiveness can be achieved through the establishment of a Central Regulatory Office that is responsible for a broad range of business, occupational and consumer regulation.

Central Regulatory Office

In general, effective regulatory oversight requires a capability to undertake licensing, registration and accreditation, dispute resolution and consumer and trader assistance, compliance and enforcement/litigation, and consumer and trader education. These functions are similar across a number of regulatory activities, and there are opportunities to achieve economies of scale through grouping together the regulation of similar activities or those requiring similar skills.

Savings will also be achieved through reducing duplication of business systems. For example, ACT WorkCover is currently expending funds on the development of an integrated database to capture information on compliance activity, while the Office of Fair Trading already has a well-developed system to cover all licensing and regulatory activities.

More focused and simplified regulatory arrangements will also lead to more effective government interaction with industry. This will enable a 'One-Stop-Shop' approach to a greater range of industry interaction with government. This would reduce situations like the current arrangements where, for example, a café owner is required to deal with at least three different agencies to establish a café with an outdoor service area.

The current functions to be incorporated into the central regulatory office are those currently performed by the Office of Fair Trading, the Registrar-General activities, and ACT WorkCover. In addition, the following activities performed within agencies could be incorporated:

- tobacco licensing and smoke-free area regulation (currently within ACT Health);
- occupational licensing of construction industries (currently within ACTPLA);
- approvals and administration of a range of business activities associated with the use of public land (outdoor café approvals and hawkers licences);
- the licensing and regulatory responsibilities of the Independent Competition and Regulatory Commission (ICRC); and
- regulatory activities related to parking operations.

The amalgamation of the responsibilities would allow for the development of a single government shopfront that administers a significant range of business and occupational licensing.

The Central Regulatory Office would not be responsible for the development of policy in relation to the Acts and regulations that it administers. The separation of policy and regulatory functions is already common in a number of areas. For example, in respect of competition policy, the ACCC is responsible for the regulation of the Trade Practices Act and the Commonwealth Treasury advises government on the policy issues. The separation enables a clear delineation of responsibility between regulatory and policy functions.

The following table provides a summary of the resources to be included in the Central Regulatory Office.

Table 7.8.4: Functions for amalgamation within a single regulatory office

Agency	Staff (FTE)	Costs $'000
Office of Fair Trading	35	3,763
Registrar-General's Office	43	4,018
WorkCover	68.2	8,160
Tobacco Licensing	1	118
Smoke-Free area Regulation	1	118
Construction Occupation Licensing (including Architects Board)	24.5	1,988
Outdoor Cafes, Hawkers and Charitable Collections	1.8	691
ICRC	10	1,142
Parking Operations	48	3,686
TOTAL	**232.5**	**23,684**

Benefits and Savings

In summary, efficiencies will arise through:

- removing duplication of corporate or overhead services;
- correcting the under-utilisation of the resources;

- maximising capacity to share systems and equipment and the staging of regulatory activities over a year (both licensing and regulation) to achieve greatest productivity can be delivered from the least resources possible; and
- streamlining and simplifying the legislative and administrative structures associated with ACT Government regulation.

Savings in staff costs are estimated at $4.7 million, representing 46.5 FTE. It is proposed that in the first year, $1 million be reinvested to support the development of systems and processes and change management.

Recommendations 157, 158, 159 and 160:

- **all regulatory functions relating to the Office of Fair Trading, the Registrar-Generals Office and ACT WorkCover be incorporated into a central regulatory office within the Department of Justice and Community Safety;**
- **in addition, the following agency activities also be incorporated into the central regulatory office:**
  - **tobacco licensing and smoke-free area regulation;**
  - **occupational licensing of construction industries;**
  - **approvals and administration of a range of business activities associated with the use of public land (outdoor café approvals and hawkers licences);**
  - **the licensing and regulatory responsibilities of the Independent Competition and Regulatory Commission (ICRC); and**
  - **regulatory activities related to parking operations.**
- **savings of $4.7 million per annum be realised, phased over two years; and**
- **$1 million be provided in 2006-07 to support changes in systems and processes, and change management.**

Further Regulatory Reform

Regulation is one of the key functions of government. In certain instances, it may be the most effective means of achieving outcomes for the society. To ensure that regulation achieves its stated objectives it must, however, be well designed and targeted. As a general principle, the efficiency of new and amended regulation should be maximised to avoid unnecessary compliance costs and restrictions on competition.

The Council of Australian Governments (COAG) has agreed that all governments will undertake work to reduce regulatory burden, and in particular, address six priority cross-jurisdictional 'hot spot' areas where overlapping and inconsistent regulatory regimes are impeding economic activity[7].

[7] These include rail safety regulation; occupational health and safety; national trade measurement; chemicals and plastics; development assessment arrangements; and building regulation.

The Commonwealth Office of Regulatory Review has developed a checklist for assessing regulatory quality articulating seven principles and features that characterise best practice in the design of regulatory structures. The consideration of these design elements needs to occur both at a whole of government level as well as at the individual agency or operational unit level.

Given the limited time, such an analysis has not been undertaken. The Review proposes that this work be undertaken within 12 months to identify the potential to simplify ACT Government regulatory activity.

Table 7.8.5: Checklist for assessing regulatory quality – Office of Regulatory Review

Regulation that conform to best practice design standards are characterised by the following seven principles and features:

Minimum necessary to achieve objectives

- overall benefit to the community justify costs;
- kept simple to avoid unnecessary restrictions;
- targeted at the problem to achieve the objectives;
- not imposing an unnecessary burden on those affected; and
- does not restrict competition, unless demonstrated net benefit.

Not unduly prescriptive

- performance and outcome focused; and
- general rather than overly specific.

Accessible, transparent and accountable

- readily available to the public;
- easy to understand;
- fairly and consistently enforced;
- flexible enough to deal with special circumstances; and
- open to appeal and review.

Integrated and consistent with other laws

- addresses a problem not addressed by other regulation; and
- recognises existing regulations and international obligations.

Communicated effectively

- written in 'plain language'; and
- clear and concise.

Mindful of the compliance burden imposed

- proportionate to the problem; and
- set at a level that avoids unnecessary costs.

Enforceable

- provides the minimum incentives needed for reasonable compliance; and
- able to be monitored and policed effectively.

Sources: Argy and Johnson (2003) derived from: OECD (1995); Office of Regulatory Reform, Victoria (1996 and 1998); COAG (2004) – as amended; and Cabinet Office, United Kingdom (2000).

Recommendation 161: all agencies should review their regulatory activities against the 'assessing regulatory quality' guidelines and, where possible, develop regulatory nodes to discharge their regulatory obligations.

7.8.6 STATUTORY COMMISSIONS AND TRIBUNALS

The ACT Government has established a substantial number of statutory commissions and tribunals. These bodies undertake a range of functionally similar roles, across a diverse range of subject areas.

While all of these functions play a vital part in securing citizen rights and justice, the small scale of the ACT argues for the greatest possible integration or amalgamation of these areas to achieve the most efficient and effective service delivery.

Commissions Dealing with Citizen Rights

At present, the ACT has several commissions dealing with citizen rights and administrative review, including the Human Rights Office, the Health and Community Services Complaints Commission, the Office of the Community Advocate, as well as payments to the Commonwealth Ombudsman and Privacy Commissioner.

Work is underway to combine the Human Rights Office and the Health and Community Services Complaints Commission, as well as the new positions of a Disability Commissioner and a Children and Young People Commissioner, to create a new Human Rights Commission. The Commission is to be headed by a President as a separate position to the other Commissioners.

The Commissioner positions are currently proposed to be separate full time positions. Combining the Children and Young People Commissioner and Disability Commissioner positions with the President's position can deliver savings of approximately $400,000 per annum through reduction of 2 FTE positions.

Recommendation 162: the President of the Human Rights Commission also be the Children and Young People Commissioner and Disability Commissioner, delivering savings of approximately $400,000 per annum.

Tribunals

At present the ACT has seven tribunals (Administrative Appeals Tribunal, ACT Credit Tribunal, Discrimination Tribunal, Guardianship and Management of Property Tribunal, Mental Health Tribunal, Residential Tenancies Tribunal, Consumer and Trader Tribunal) and an Essential Services Consumer Council. With the exception of the Consumer and Trader Tribunal and the Essential Services Consumer Council, the tribunals operate in the jurisdiction of the magistrate's court.

Some progress has been made towards consolidating tribunals through the establishment of the Consumer and Trader Tribunal and Essential Services Consumer Council as single entities replacing a number of civil tribunals. The Government has committed to a further review of tribunals with a view to greater consolidation.

The concept of a single tribunal, with a number of divisions covering administrative decisions of Government, community services, consumer and trading and occupational regulation/supervision, has been raised before but not progressed. Both Victoria and NSW have undertaken significant consolidation, with feedback indicating the experience has been positive and delivered greater clarity for consumers.

There is potential to achieve efficiencies and savings through either a single tribunal or a more rationalised model than the present arrangements, and this should be examined in greater detail by the Department of Justice and Community Safety.

Recommendation 163: the Department of Justice and Community Safety undertake further work on consolidating tribunals, with a view to establishing a single tribunal or a significantly more streamlined model than exists at present.

7.8.7 SUMMARY OF SAVINGS AND STAFFING IMPACTS

Total recommended savings are outlined in the table below.

	2006-07 $'m	2007-08 $'m	2008-09 $'m	2009-10 $'m	Total FTE Impacts
Director of Public Prosecutions	-0.500	-0.500	-0.500	-0.500	-5
Community Corrections	0.500	1.000	1.500	2.000	20
Human Rights Commission	0.400	0.400	0.400	0.400	2
Streamlining Regulation[8]	2.400	4.700	4.700	4.700	46.5
Reinvestment into Regulatory Reforms	-1.000	0	0	0	0
Total Justice and Community Safety	**1.800**	**5.600**	**6.100**	**6.600**	**63.5**
Procurement (Tender Box) Savings	0.187	0.381	0.391	0.401	-
Procurement (ERC) Savings	0.177	0.266	0.266	0.266	-
IT (Review and ERC) Savings	0.548	0.773	0.773	0.773	-
Transfer to Shared Services	0.132	0.320	0.325	0.329	3.11

[8] Savings to be achieved following transfer of resources from other agencies to JACS.

CHAPTER 7.9 ECONOMIC DEVELOPMENT

OVERVIEW

The Department of Economic Development was established in 2004 and is responsible for economic development strategies, business support and assistance, tourism policy and services, racing and gaming and sport and recreation. It also has portfolio responsibility for ACTTAB (Limited). The Department operates as a federation of agencies.

The Stadium's Authority manages the Canberra Stadium with own sourced revenue of \$3.3 million[1]. The Gambling and Racing Commission receives a payment of around \$3.7 million from Sport and Recreation for operations.

The Department's expenditure in 2005-06 is estimated to be \$58.9 million with a staffing of 149 FTEs. The expenditure is split between Economic Development (\$22.5 million; 52 FTEs), Small Business Commissioner (\$0.4 million, 3 FTEs) Tourism (\$20.4 million; 56 FTEs) and Sport and Recreation (15.6 million; 38 FTEs).

The focus of sport and recreation funding is broad, encompassing community sport, elite and professional sport and business sport (covering appearance payments for the Brumbies, Raiders and Kangaroos). Expenditure on elite athletes is significantly higher than the national average. Administration costs associated with sports grants are high, as are the cost associated with the separate administrative arrangements for Canberra Stadium and Manuka Oval.

In Chapter 4.2, the Review recommended that the Department of Economic Development be disbanded with responsibility for economic development being assumed by the Chief Minister's Department and sport and recreation and tourism activities being transferred to the Department of City and Territory. The Review also proposed that the Racing and Gaming Commission be relocated within the Treasury Portfolio.

[1] This, however, is mainly recovered from the elite teams (Brumbies and Raiders), which are provided subsidies from the Sport and Recreation budget in the Department.

KEY CONCLUSIONS AND RECOMMENDATIONS

- ACT Government expenditure on economic development is $542 per business in the ACT. This is 161 per cent higher than the national average of $336 per business[2].
- The Government's role in business assistance should be refocussed, with emphasis on leveraging off the Territory's competitive advantages and on establishing an environment that results in businesses seeing the ACT as a good place in which to operate in - rather than providing grants and subsidies.
- The Review proposes adoption of alternative business support arrangements, for example, through CANBAS. High government backend costs should be removed, and residual funds targeted to business services assistance.
- Expenditure on supporting and assisting business should be benchmarked to the national average expenditure per business.
- The Canberra Stadium and Manuka Oval are currently managed as separate bodies outside the Department. There is a disconnect between these facilities and other sporting facilities managed by the Department of Urban Services. The administration and management of all sporting facilities should be brought together within the Department of City and Territory.
- Expenditure on tourism per capita is 111 per cent above the average of all jurisdictions. The Australian Capital Tourism Corporation should be disbanded, and functions relocated within the Department of City and Territory. Expenditure on tourism should be targeted to benchmark levels, with reduced overheads and corporate structures. Clearer integrated links should be established with similar e Commonwealth and private sector programs.

Summary Machinery of Government (see Chapter 4.2)

- abolish the Department of Economic Development;
- Business ACT and Economic Development functions to the Chief Minister's Department;
- Sport and Recreation ACT to the Department of City and Territory (with amalgamation of Sports Facilities);
- Australian Capital Tourism Corporation be abolished, with functions transfer to the Department of City and Territory;
- Stadiums Authority be abolished and functions transferred to the Department of City and Territory, and amalgamated with Manuka and Phillip Ovals and other sportsgrounds;
- National Teams to transfer to the Chief Minister's Department (being economic development focused);
- Gambling and Racing Commission to transfer to the Treasury Portfolio, along with ACTTAB.

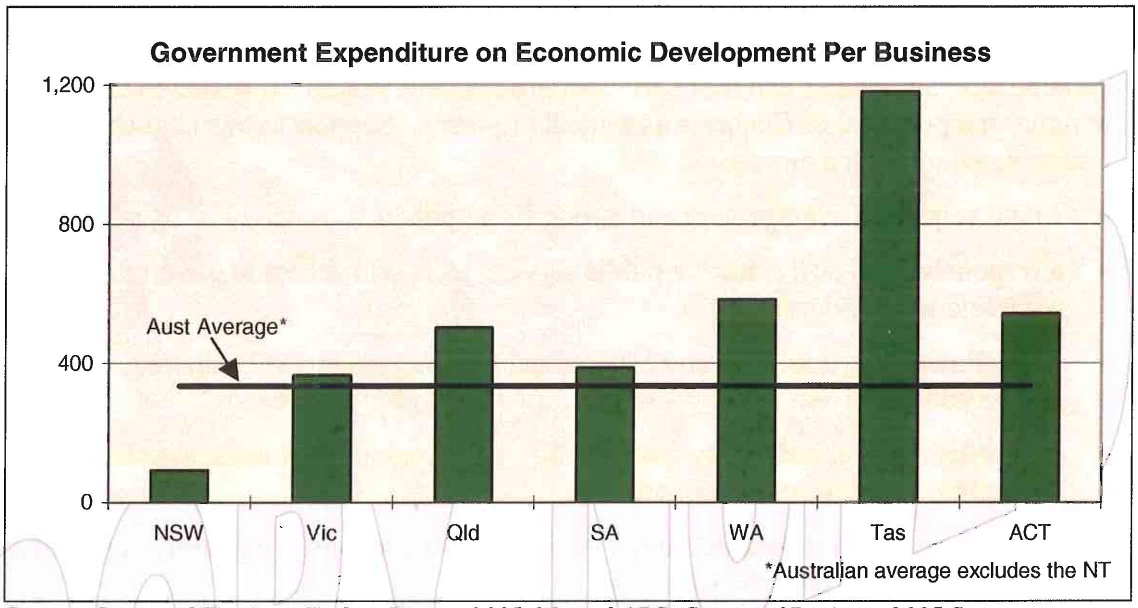
[2] The national average excludes the Northern Territory.

7.9.1 ECONOMIC DEVELOPMENT

The Government's Role in Business Support and Assistance

The ACT has an atypical economic base. The Commonwealth and ACT governments comprise the largest single employment component of the ACT economy. There is an absence of large industry groups, apart from the public sector. Manufacturing makes up only a very small proportion of the economy and there is a higher proportion of small and micro businesses compared to other jurisdictions.

The graph below shows state and territory government expenditure per business.



Source: State and Territory Budget Papers 2005-06; and ABS, Counts of Business 2005 Summary Tables 8161.055.001

In 2005-06, ACT Government expenditure on economic development was $542 per business, which is 161 per cent higher than the national average (excluding the NT) of $336 per business.

The Territory's small size and narrow sub-regional economic base limit, in many ways, the Government's capacity to influence and assist business activity and economic opportunities. Linked to this, the Commonwealth's large presence acts as an independent catalyst to influence growth and business decisions to relocate to Canberra, reflected in the presence of businesses relating to defence, consulting and advisory support.

The Government's role should be targeted to providing an environment that establishes the Territory as a good place for business. Canberra already has many advantages in attracting knowledge-based industries. It has a highly skilled workforce with the highest average levels of educational attainment in Australia[3]. Relatively stable industrial relations are also a feature, dominated by small businesses.

[3] Australian Bureau of Statistics Labour Force Survey Cat No 6291.0.55.001.

Canberra's educational and research institutions are among the best in the country. The quality of life in Canberra is high, with good health and community facilities. Life expectancy for Canberrans is the highest in the country, as is participation in sport and recreation activities.

The Review's approach is for the Government to leverage off these competitive advantages. Attraction policies should provide support to industry with priority given to enhancing and growing work-skills training to meet business and educational needs. Government emphasis should also be on providing the 'infrastructure' required to attract businesses. The Territory should also seek to attract skilled and business migration both from overseas and interstate, such as the Western Sydney initiative.

In creating an environment conducive to business, the Government should focus on creating simpler, clearer and more efficient government structures, scaled to the realities and potential of Canberra as a small city-state. Support to business should be underpinned through a climate of:

- sound economic management and strong fiscal policy;
- a responsive and cost effective public service, and open access to government contracts and services;
- commitment to work-skills and educational training to support business growth, and an education and training system responsive to business needs;
- cost reflective and efficiently priced utility services and other infrastructure, with streamlined land development processes;
- regulations that meet health, safety, environmental and other regulatory standards while minimising compliance costs;
- competitive tax regimes with low compliance costs; and
- stable industrial relations.

Within this framework and commensurate with its size and relative position within the ACT economy, the ACT Government's expenditure on economic development should be brought into line with national averages. Spending adjustments should be achieved through a package of measures including:

- reduced expenditure on discretionary (grants) assistance to business;
- increased expenditure on information and support services;
- rationalisation of marketing activities;
- efficiencies through the transfer of policy functions to the Chief Minister's Department; and
- withdrawal from Venture Capital arrangements in the longer term.

Reduced Expenditure on Discretionary (Grants) Assistance to Business

The Territory spends about $9 million on discretionary business support programs (including the Knowledge Fund, the Export Growth Program and the Accelerating Business Innovation Program), with little clarity around the net benefits for the ACT.

Limited evaluation or review of discretionary business assistance programs has been conducted. A review of the Knowledge Fund, conducted by Acumen Alliance in 2004, concluded that the funds provided to the majority of organisations made a significant difference to their survival. This suggests that the funding is being used to finance existing levels of activity, rather than growing business capability and potential. Many organisations had difficulty reporting the concrete outcomes from their projects.

The ACT provides export assistance and opportunities through a range of initiatives such as the Export Growth Program, which provides $1.1 million in grants to assist businesses offset export costs. Marketing programs also provide assistance, such as the Trade Mission Program and Export Channel Relationships, with contributions made to Washington and Shanghai Trade Promotion Offices.

Given the size of the ACT, there is little evidence of the leverage value of these programs. To a large extent, the programs duplicate those provided by the Commonwealth.

Increased Expenditure in Information and Support Services

Information and support services such as the Business Licence Information Service are important in supporting businesses, particularly small and micro businesses, which form the majority of businesses in the ACT. The Review proposes that these programs be strengthened as part of a more strategic business facilitation approach.

Mentoring and advisory services are also provided through private sector organisations such as the Canberra Business Advisory Service (CANBAS). Given the relatively high overhead costs of the Department of Economic Development (at some 16 per cent), the Review proposes that efficiencies be gained by providing information and support services through existing private sector organisations, such as CANBAS.

Rationalisation of Marketing Activities

The level of marketing activity being undertaken by Business ACT is high, at around 11 per cent of expenditure and 32 per cent of staff (19 FTEs). When this is combined with expenditure on marketing undertaken by Australian Capital Tourism, it totals $8.3 million or over 13 per cent of the Department's budget.

There are three types of marketing activities funded within Business ACT: marketing business, marketing Canberra and marketing the department itself. With such a broad focus, marketing activities become expensive. Programs that market business include a range of local, national and international marketing activities, a number of which duplicate Commonwealth initiatives.

Marketing Canberra activities overlap those conducted by Australian Capital Tourism. This role should be integrated with other tourism activities in the Department of City and Territory, and in conjunction with, for example, the National Capital Authority. This should also include event and sponsorship management, strategic communications, website and online marketing and newsletters.

The Skills and Business Migration program, recently relaunched, has been well received by business and links with the strategic direction through ensuring that there is an appropriately skilled workforce for businesses wishing to develop in the ACT. Its activities are linked to and leverage off, the more comprehensive programs operated by the Commonwealth. The Territory's investment in this activity should be retained.

Efficiency in the Policy Functions

The cost of the policy function within the economic development area of the Department is around $3.2 million, and involves 24 per cent of staff (15 FTE). It includes inter-governmental policy activities such as collaboration with the ANU, intra-governmental activities such as liaison with ACT Planning and Land Authority and support for key groups such as the Canberra Partnership Board. Much of this activity is process based, rather than strategic in nature.

A number of projects duplicate work being undertaken by other government agencies, for example ACT skills and future workforce planning, which is being undertaken in the CIT and in DET as part of vocational education and training. Work on demographics and population duplicates that currently undertaken by ACT Treasury.

Venture Capital Arrangements

The Territory has made sizeable investments in venture capital funds. Funding has been provided to three investment equity programs, the Canberra Business Development Fund, ANU Connect[4] and Epicorp ICT Incubator. Business ACT's role is now one of monitoring the outcomes of this investment.

The Canberra Business Development Fund, a $6 million venture capital fund incorporating ACT Government equity contributions matched with private funding sources and managed by Australian Capital Ventures Ltd (ACVL), has been operating since 1997. To date, the Government has provided $3 million, including a $1 million top up in 2004-05 from the Knowledge Fund. There is limited information on the effectiveness of the program.

[4] This fund has not commenced operations.

The Review proposes that, in the longer term, the Government should seek to divest its interest in the existing funds.

Recommendations 164, 165, 166 and 167:

- **Economic development be refocused on creating an environment conducive to business by creating simpler, clearer and more efficient government structures, scaled to the potential of Canberra as a small city-state;**
- **savings of $5.4 million in 2006-07 rising to $8.7 million by 2008-09 (net of shared services) from Business ACT be realised through benchmarking Government expenditure on economic development per business to the national average, with savings in:**
  - **discretionary business assistance programs, which will be discontinued;**
  - **rationalisation of marketing activities;**
  - **rationalisation of economic development policy associated with its transfer to the Chief Minister's Department;**
  - **reductions in corporate governance and support;**
- **$1 million of the savings be redirected to information and mentoring support for business; and**
- **the Government should seek to divest its interest in venture capital funds in the longer term.**

Small Business Commissioner

The Small Business Commissioner was established late in 2005 with estimated expenditure of $0.35 million. Its tasks relate to assisting small businesses in dispute resolution and resolving complaints. In many ways, its responsibilities mirror other existing complaints mechanisms such as the Administrative Appeals Tribunal.

The ACT and Regional Chamber of Commerce and Industry and the Business Council of the ACT are also available to provide advice to businesses and the Government in areas of legislation and regulations effecting business activity.

The size of the ACT and the number of complaints mechanisms already in place make the continuation of the role difficult to justify in terms of efficiency or function.

Recommendation 168: the Office of the Small Business Commissioner be abolished with savings of $0.35 million being realised.

7.9.2 SPORT, RECREATION, GAMING AND RACING

The focus of sport and recreation covers community sport, elite and professional sport and business sport[5].

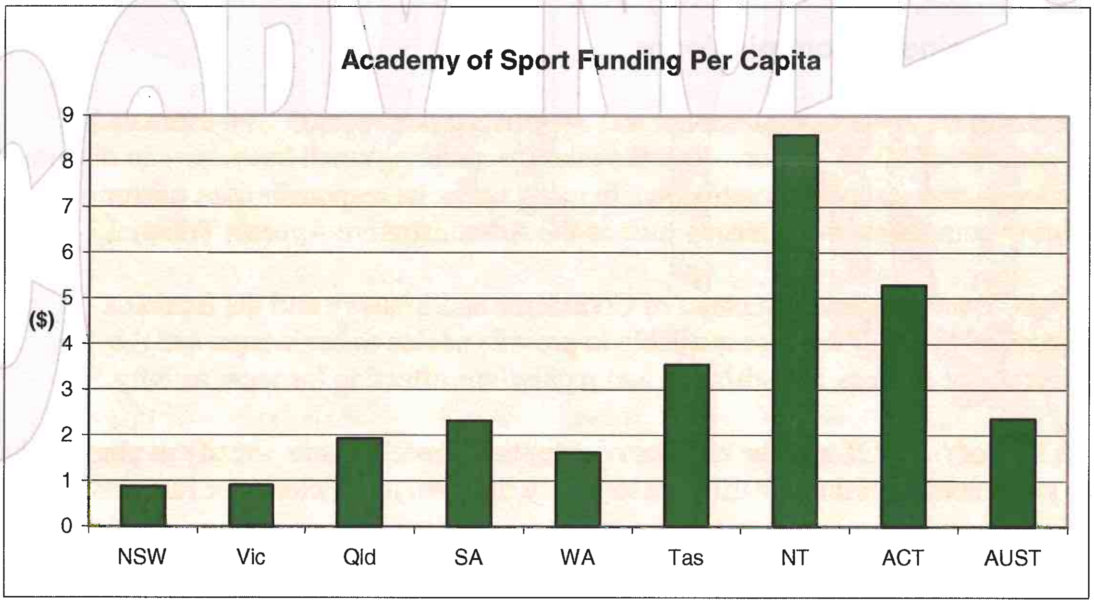
ACT expenditure on elite athletes is significantly higher than the national average. The management arrangements associated with Canberra Stadium and Manuka Oval carry structural inefficiencies. Corporate costs for Sport and Recreation ACT are high. The Review proposes that efficiencies be targeted against corporate and support costs, with emphasis on maximising resources to sport in the community.

Elite Athletes

Athlete scholarships and services are provided through the ACT Academy of Sport, and involve 250 athletes and 19 squad sports. The Academy was established in 1989 to provide ACT elite athletes with access to advanced coaching, sport science and medicine services, training, competition and athlete career opportunities.

In 2004, Academy of Sport funding per capita was $5.28 in the ACT. This was $2.93 or 225 per cent higher than the national average of $2.35. The highest Academy of Sport funding was in the Northern Territory at $8.57 per capita, with the lowest at $0.87 per capita in NSW.

The graph below shows jurisdiction's per capita funding for Academies of Sport.



Source: Sport and Recreation and ABS Demographic Statistics cat no. 3101.0

Whilst reducing per capita funding to national average levels is an option, the low level of annual expenditure ($1.7 million) would compromise program viability.

[5] Business sport covers appearance payments for the Brumbies, Raiders and Kangaroos.

There are, however, a number of areas within the Academy's operations where high costs exist including program coordination and administration, and promotion and marketing. These comprise 32 per cent of expenditure, at around $0.46 million per annum. Efficiencies should be targeted in these support areas.

Recommendation 169: efficiencies be achieved in the ACT Academy of Sport program to realise $0.250 million in savings.

Management of Facilities

Expenditure on facilities includes performance fees and operating subsidies. The operations of the Canberra Stadium and Manuka Oval are dependent on government performance fees paid to the Brumbies, the Raiders and the Kangaroos.

The current ten-year agreement between the Government and Manuka Oval Management Committee limits the Territory's capacity to optimise the commercial potential of the asset. The agreement provides $0.45 million to the Management Committee as an annual operating subsidy. A contract is in place with the Australian Football League to play four games per season at the Manuka Oval. The Government can terminate the agreement at any time following six months notice.

Managing the Canberra Stadium separately from Manuka Oval does not take advantage of the potential for additional revenue through increased membership, corporate sales and catering commissions. The Canberra Stadium has moved from requiring government operating subsidies and this should be the long-term objective for Manuka Oval. Seeking an optimum commercial return for the Government is appropriate for both entities. While a Stadiums Authority was appropriate when it was created, there is no longer need for a separate authority structure.

Sport and Recreation has assumed responsibility for Phillip Oval, with an recurrent subsidy for ongoing maintenance and operating costs. Capital works of $1.7 million have been approved to upgrade the oval and facilities, of which approximately $25,000 has been expended to date. Advice to the Review is that the Department is reconsidering the future uses for the oval, and have put further expenditure on hold.

Given this uncertainty, no further expenditure should be incurred until the future use is resolved by the Government, including alternative development options for the site. In the interim, the site should be maintained at minimum standard and safety levels (given the fire damage to the grandstand). Responsibility for Phillip Oval should rest with the Department of City and Territory.

Recommendations 170, 171 and 172:

- **management of Phillip Oval be transferred to the Department of City and Territory, with minimal maintenance to ensure public safety;**
- **a business case be developed by the Department of City and Territory for the sale of Phillip Oval; and**
- **the Stadiums Authority be disbanded with the Canberra Stadium and Manuka Oval being integrated within the Department of City and Territory structures, delivering savings in management costs and reduced reliance on government subsidies.**

Professional Sporting Funding

Expenditure on elite and professional sporting activities constitutes around 45 per cent of Sport and Recreation ACT's expenditure. This compares with 34 per cent expended on community sporting activities.

Placing a ceiling on the proportion of sport and recreation funding allocated to 'for profit' sporting entities such as the Raiders should be considered. If this is not possible, any additional funding required should be offset from savings elsewhere within the portfolio while also retaining the proportion of funding allocated to community sporting programs.

Recommendation 173: current levels of funding allocated to business sporting entities be capped, and if this is not possible, in future any increase be funded by offsets from within the portfolio without reducing the amount spent on community sporting programs.

Sport and Recreation Administrative Costs

The ACT has the highest participation rate in physical activity in Australia[6]. Targeted programs and development grants constitute around 37 per cent of overall Sport and Recreation ACT expenditure and fund significant community sporting activities, clubs and facilities.

However, administration of the Sport and Recreation Development Grants is currently at 16 per cent of program expenditure, compared to best practice ranging from 3 per cent to 5 per cent. The proportion of staff devoted to Ministerial Servicing within Sport and Recreation is also high, at 18 per cent.

Recommendation 174: administrative support and corporate governance within Sport and Recreation ACT be rationalised with total savings of $0.840 million per annum.

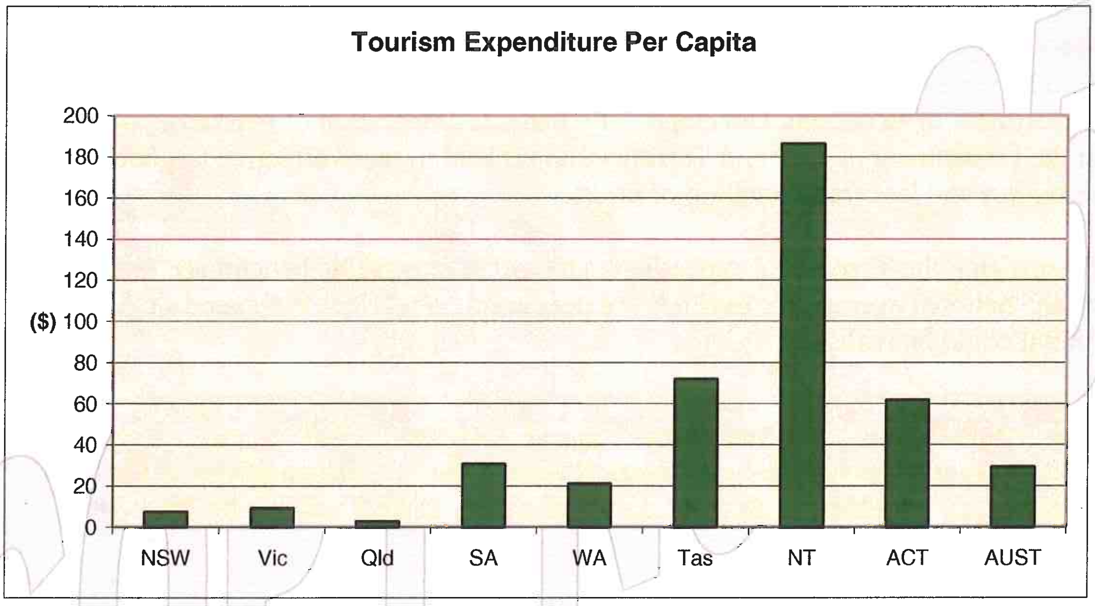
[6] ABS Participation in Sport and Physical Activity Cat No 4156.0

7.9.3 AUSTRALIAN CAPITAL TOURISM CORPORATION

The Corporation markets and develops the ACT locally, nationally and internationally. It functions in parallel with the National Capital Authority, which also coordinates marketing and events related to national institutions such as Parliament House, War Memorial, National Gallery and National Museum.

The benefits from tourism are acknowledged, with increases in overnight visitation for the twelve months ending September 2005, consistently high hotel occupancy rates at 70 per cent and record passenger numbers through Canberra airport[7]. It is also recognised that the tourism industry employs over 11,000 people.

The graph below details tourism expenditure per capita by jurisdiction.



Source: State and Territory Budget Papers and ABS Demographic Statistics Cat No. 3101.0

In 2004, government expenditure per capita for tourism in the ACT was $62. This was $33 or 111 per cent higher than the national average of $29 per capita. The highest government expenditure per capita was in the Northern Territory at $186 per capita, with the lowest at $3 per capita in Queensland.

[7] Australian Capital Tourism Corporation submission to the review.

The Commonwealth Grants Commission's assessments indicate that the ACT's per capita actual expenditure on Tourism is $25.40 above standardised expenditure[8].

The current structure of Australian Capital Tourism is complex, resource intensive and not appropriate for a small city-state. The Corporation duplicates the effort undertaken by the Commonwealth and mirrors practises undertaken by larger jurisdictions. The additional overheads in maintaining a corporation are evident in the costs of corporate services, which comprise over 16 per cent of tourism expenditure.

The Corporation's research program overlaps that undertaken by the Commonwealth and specific outputs are unclear. The Product and Industry Development program overlaps with the marketing and events programs and there is not a clear basis for continuing similar initiatives. These programs should be integrated and resources rationalised.

Marketing constitutes 29 per cent of the corporation's expenditure. When combined with Business ACT expenditure on marketing, it totals 13.3 per cent of the Department of Economic Development's budget. Integration of marketing programs in the Department of City and Territory should lead to more effective targeting of resources and less fragmentation of effort.

By bringing the Territory's expenditures to within reasonable benchmark levels, based on the national average for expenditure per capita on tourism, estimated savings of $8.9m could be realised.

Recommendation 175: Australian Capital Tourism be disbanded as a statutory authority, with its functions integrated within the new Department of City and Territory, with efficiencies of $6.3 million rising to $8.9 million by 2009-10 realised to budget.

8 Commonwealth Grants Commission, *Relative Fiscal Capacities of the States 2006.*

7.9.4 SUMMARY OF SAVINGS AND STAFFING IMPACTS

Total proposed estimated total savings in 2006-07 from disbanding the Department of Economic Development, rationalising programs and incorporating tourism into a departmental structure are $13.65 million. Discounting savings extracted for corporate governance and support and procurement, the net savings are $11.7 million.

Table 7.9.2: Summary of Financial Impacts

Measure – Savings / (Costs)	2006-07 $'m	2007-08 $'m	2008-09 $'m	2009-10 $'m
Business ACT				
Benchmark Government expenditure on economic development per business to national average with savings in: - business assistance; and - policy, marketing and intergovernmental commitments	5.429[9]	7.512	8.675[10]	5.840[11]
Reduce corporate governance and support[12]	0.590	0.605	0.620	0.635
Procurement savings	0.149	0.238	0.239	0.241
IT Savings	0.111	0.157	0.157	0.157
Cost of additional funding to private sector for mentoring and support to business	-1.000	-1.025	-1.051	-1.077
Small Business Commissioner				
Abolish Commissioner	0.355	0.359	0.364	0.369
Sport, Recreation, Gambling and Racing[13]				
Reduce corporate governance and support [4]	0.765	0.784	0.804	0.824
Stadiums Authority				
Abolish Statutory Authority [4]	0.229	0.235	0.241	0.247
Procurement Savings	0.027	0.041	0.041	0.041
Athlete Scholarships and Services				
Reduce administration and coordination of Academy of Sport	0.212	0.215	0.218	0.221
Gambling and Racing Commission				
IT Savings	0.030	0.042	0.042	0.042
Australian Capital Tourism Corporation[14]				
Benchmark Government expenditure on tourism per capita to national average with savings in research and marketing	6.341	8.415	8.637	8.859
Reduce corporate governance and support [4]	0.396	0.406	0.410	0.420
Procurement savings	0.176	0.339	0.346	0.353
Total savings from portfolio	**13.810**	**18.323**	**19.743**	**17.172**
Machinery of Government Savings	-1.980	-2.030	-2.075	-2.126
Procurement (ERC) Savings	-0.183	-0.274	-0.274	-0.274
Procurement (Tender Box) Savings	-0.169	-0.344	-0.352	-0.361
IT (Review and ERC) Savings	-0.141	-0.199	-0.199	-0.199
Net savings excluding savings in corporate governance and procurement	**11.337**	**15.476**	**16.843**	**14.212**[15]
Transfer of services to Shared Services Centre				
Gambling and Racing	0.016	0.040	0.040	0.041
Australian Capital Tourism Corporation	0.134	0.326	0.331	0.335

[9] This excludes 0.35m of the ACT Export Growth Program that has been committed for 2006-2007

[10] The Knowledge Fund was scheduled to increase to $3 million in 2008-09.

[11] The Knowledge Fund ceases after 2008-09.

[12] Machinery of Government savings

[13] Additional savings of $0.098m (Sports Grants program reduced administration) have also been deducted earlier in this report.

[14] Additional savings of $0.045m from the Tourism Grants Program have also been deducted earlier in this report.

[15] Totals may not add due to rounding.

Staffing Impacts

The staffing reduction from the proposed measures is 62.5 FTE staff, including 29 for business support and assistance[16], 6 for sport and recreation and 27.5 for tourism.

Table 7.9.3: Impact on Staffing

Measure	FTEs
Benchmark business support and assistance expenditure	22
Reduce Corporate Governance and support	4
Abolish Small Business Commissioner	3
Reduce sport and recreation administration and corporate governance and support	6
Benchmark tourism expenditure	25
Reduce tourism corporate governance and support	2.55

[16] This includes 3 FTE staff from the Office of the Small Business Commissioner

CHAPTER 7.10 PLANNING AND LAND DEVELOPMENT

OVERVIEW

Land planning and development have both direct and indirect effects on the ACT Budget. Those include:

- the direct budget costs of planning processes;
- revenue from land sales net of development costs; and
- indirectly, the budget costs (or revenue losses) that arise where planning and development outcomes affect population growth, the economy, living costs or other factors, with second round effects on the budget (for example, high land and housing costs can contribute to higher demand for housing assistance).

More importantly, however, land planning and development are community and economic services that have tended to be overshadowed by considerations of revenue.

The ACT has unusual land planning and development arrangements. Despite a very large supply of raw land, land prices and housing costs are high relative to most other Australian cities. At the same time, the Territory Budget has an unusually high reliance on land sales revenue.

As discussed in Chapter 2, land revenue will be an increasingly smaller component of the budget revenue base. In this context, the Territory will need to focus on providing land at a good price and speedily.

KEY CONCLUSIONS AND RECOMMENDATIONS

- The high cost of land is clearly a constraint on development and population growth. Also, the planning processes are overly burdensome, with significant economic and cost impacts resulting from planning considerations and timing delays in getting land to the market.
- Issues of environmental and heritage impacts should not be absolute in their own right, but rather be treated as one part of a broader sustainability assessment, which includes environmental, economic, financial and social impacts.
- The Government should assess, in conjunction with the six monthly budget reporting cycle, its strategic goals for the planning, release and development of land, balancing whole-of-government considerations including land use, budget revenue, economic development, infrastructure and social priorities. The Chief Minister's Department should formulate strategic land policies for Cabinet, taking account of advice from a land planning and development strategy consultative taskforce comprising the main public agencies involved in land issues.
- Land agency responsibilities, together with environmental and heritage functions, should be brought together in a single portfolio under one Minister. Agency functions should be streamlined and clarified to improve coordination and accountability. The Minister and Department of City and Territory should have exclusive responsibility for the management of Territory lands (including land release programs) and for city/territory infrastructure works programs. The ACT Planning and Land Authority (ACTPLA) should retain its statutory independent role but its functions should not extend beyond land use and transport planning, leasing and development application approval. The Land Development Agency (LDA) will maintain its existing statutory identity.
- Strategic planning should require all significant variations to the *Territory Plan* to be considered and approved by Cabinet prior to commencing the variation process, and prior to final tabling in the Legislative Assembly.
- Priority should be given to establishing a "land bank" which is ready for release or sale to the market. The new development head in Molonglo should be prepared for release as a priority.
- Savings from planning and land development activities are proposed through reducing planning resources by $3 million, and integrating ACTPLA's land management, infrastructure planning and capital works responsibilities into the Department of City and Territory ($0.5 million).
- Savings from land development activities are proposed through bringing land development costs ($68,000 per block) back to industry benchmark ($57,000 per block) ($4.8 million), tying advertising costs to 1.5 per cent of sales ($2 million), reducing staff and "staff-like" contractors to industry benchmark ($3 million), and transferring financial and human services responsibilities to the Shared Services Centre, consistent with other departments.

7.10.1 PLANNING AND LAND DEVELOPMENT ARRANGEMENTS

Planning and land development arrangements in the Territory are unique:

- Commonwealth and Territory planning regimes co-exist. The National Capital Authority exercises substantial controls over significant aspects of ACT development, and the ACT's *Territory Plan* cannot be inconsistent with the Commonwealth's *National Capital Plan*;
- Territory land is sold under a leasehold system, rather than the freehold systems applying in other jurisdictions;
- the ACT Government is the sole supplier of green-field land in the ACT;
- a statutory agency, the Land Development Agency (LDA), has an unusually dominant position in land development activities; and
- the statutory planning agency (ACTPLA) has a range of roles that usually do not reside in such agencies, including its own infrastructure development program and transport services.

Land planning and development have been subject to a number of reviews and inquiries over the years[1]. There have also been a number of structural arrangements put in place to improve the cost effectiveness of statutory land policy and land management/release arrangements[2]. The Review has not sought to review the ACT planning process or to undertake an evaluation of the performance of the LDA.

Rather, the Review has focussed on three main issues:

- the strategic goals of the land planning and development policies of the Territory, in particular the balance between land revenue goals and wider social and economic goals for delivering affordable land and housing;
- the structure of the agency arrangements for the various elements of the land planning and development process, in particular the clarity of the lines of accountability and their efficiency in reconciling competing interests; and
- the scope for changes to directly benefit the ACT budget position.

7.10.2 STRATEGIC GOALS

For the most part, the physical development of Canberra has been based on the pursuit of high standards across a range of social and environmental considerations.

The Government also has a policy of a greater involvement in land development and sale, to access additional profits from public sector land development. Land revenues

[1] *Report into the Administration of ACT Leasehold*, November 1995 (Chair: P Stein), Publications and Public Communications, Canberra; and

A Study of Betterment and the Change of Use Charge in the ACT – its impact on investment and a consideration of options. Professor Des Nicholls, May 1999.

[2] Establishment of ACTPLA and LDA.

have been a significant revenue source for the Territory budget, at $170 million per annum.

Land and housing prices in Canberra have long been high compared with most other Australian cities. These high prices arise mainly from discretionary land use and development policies, not from the effects of scarcity of available land or unusually high prices for development services.

High land and housing prices potentially have social, demographic and economic costs. Particular concerns include housing access for lower income people and the lower than average population growth in Canberra over the past decade, especially in recent years, with much higher population growth occurring in adjacent NSW.

Higher prices can be secured in part through the exploitation of the monopoly power of the public land agencies. The LDA has above average land development costs and well above average profit margins. Land planning decisions also add appreciably to cost of land sold, infrastructure costs, and transport costs through geographic dispersion. This largely arises through large tracts of land being set aside from potential development due to environmental and other planning constraints.

Recommendation 176: the Land Development Agency be free to act within a commercial environment. Detailed financial arrangements and performance targets should be set through the *Statement of Intent*.

The Review proposes the retention of ACTPLA and LDA as separate entities. Currently, environmental, heritage and conservation (for example, trees) issues are incorporated in planning considerations through advisory and legislative functions outside ACTPLA. The Review proposes that ACTPLA should assume responsibility for planning policies relating to such issues. This would improve planning certainty and ensure closure on environmental and heritage conservation issues.

LDA should continue as a developer of land on commercial principles. Land release strategy and annual targets on land release are Ministerial responsibilities. Advice on these matters should be a departmental function located in the proposed Department of City and Territory Development. Likewise, the department should provide advice on transport strategy and public transport, and these functions should be transferred to the transport policy area within the Department. Management of leased and unleased land should also transfer to the Department.

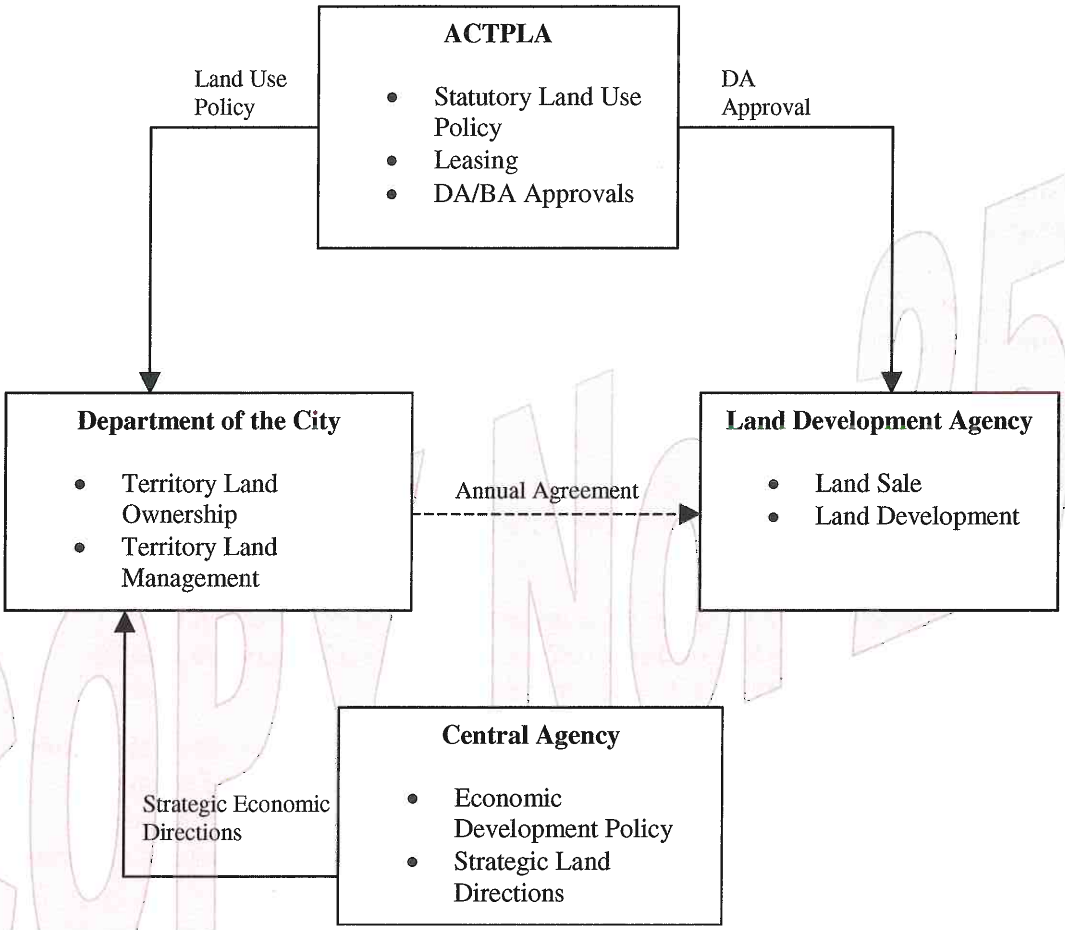
The above measures will allow ACTPLA to focus on its core function of planning and align departmental policy advice with Ministerial responsibilities.

The current financial management arrangements for the LDA should continue with joint ventures and borrowings to be agreed by Cabinet.

Planning and Land Responsibilities

There is a need for clear separation between statutory planning responsibilities, land ownership and management, and land development.

An outline of the Review's proposed arrangements is shown below.



ACTPLA should remain as statutory authority, to reflect the Government's commitment to an independent planning body. ACTPLA's primary roles should be its statutory responsibilities under the *Territory Plan,* leasing (including land uses), transport planning and development/building approvals against regulatory codes.

Consistent with the changes to the *Financial Management Act 1996*, funding to ACTPLA should be by direct appropriation. Appropriate financial and service performance targets should be set in the *Statement of Intent*.

Land "ownership" and day-to-day management responsibility for all unleased Territory land (urban and non urban) should be vested within the Department of City and Territory. Within the new department, all current land management bodies should be consolidated into a single land management structure.

The LDA should retain its capacity to operate commercially in the land development market. It should do this in a cost effective way geared to comparable cost structures and industry benchmarks. Construction activities, targeted outcomes, financial performance parameters and land revenue targets should be specified in the *Statement of Intent*.

Land releases to the LDA should be managed by the Department of City and Territory, under a formal performance agreement with the Agency.

Concept planning of areas should rest with the LDA, consistent with principles set by ACTPLA. Responsibility for approving concept plans remains with ACTPLA. Given that principally government processes are involved, concept planning should be developed cooperatively between the two organisations.

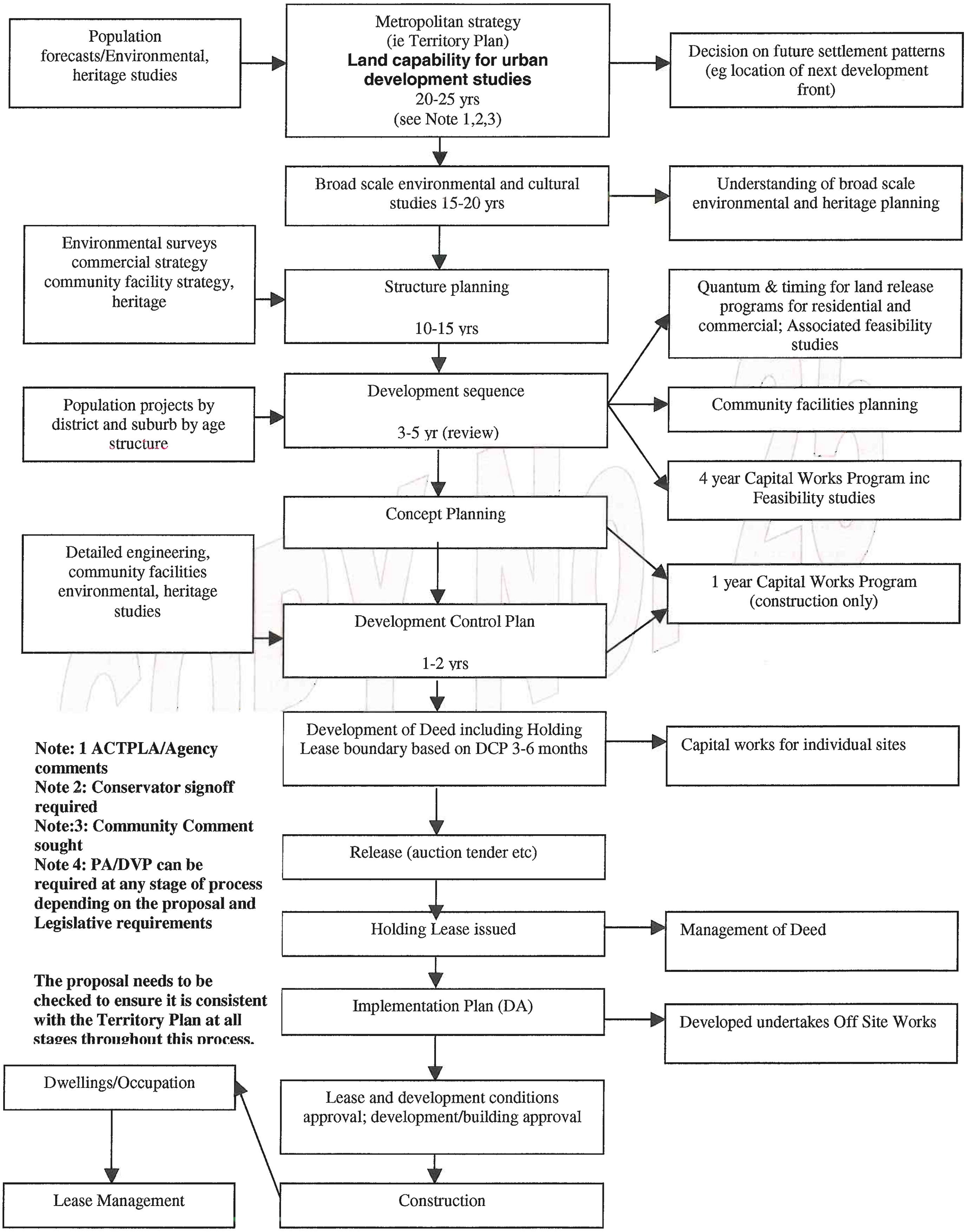
Strategic decision-making in respect of land and urban development should be the responsibility of the Chief Minister's Department (CMD), with strategic decisions for Cabinet being lead by this department. The *Urban Development Program* should be chaired and directed by CMD, with expertise from ACTPLA City and Territory and other key agencies.

Recommendations 177, 178 and 179:

- **ACTPLA be retained as a statutory authority, but its responsibilities restructured to focus on statutory planning, land use policy, leasing and development approvals;**
- **responsibilities for land ownership, management of unleased land, infrastructure works and land releases to LDA be integrated into the Department of City and Territory; and**
- **the Chief Minister be responsible for bringing to Cabinet strategic policy setting and decision-making on land releases, with the Chief Minister's Department drawing on central agency economic development advice, planning expertise from ACTPLA and land development/release expertise from the Department of City and Territory.**

7.10.3 PLANNING AND DEVELOPMENT

The sequence for planning and developing land in the Territory is shown in the Chart below. This shows the planning and development cycles from a raw "englobo" state through to urban completion. The typical cycle runs over (approximately) 25 years.



Note: 1 ACTPLA/Agency comments
Note 2: Conservator signoff required
Note:3: Community Comment sought
Note 4: PA/DVP can be required at any stage of process depending on the proposal and Legislative requirements

The proposal needs to be checked to ensure it is consistent with the Territory Plan at all stages throughout this process.

There are a number of major decision points across the planning horizon, with significant opportunities for land loss through the processes. In many instances, the economic impacts that arise from land decisions do not appear to be fully assessed, for example the "sprawling" effect of development and the uneconomic use of existing and additional major infrastructure.

Land resources are often seen and treated as a "free" good, with little economic assessment (environmental, social and financial) of the impacts of decisions taken. In the past, there has been limited consideration of these matters by Cabinet, and no real assessment of true economic costs and benefits of land proposals.

Current sustainability assessments are clearly weighted towards environmental and heritage assessments, with social and economic impacts a secondary degree. There is a void of any real financial assessment in relation to land resources, and little information or alternatives available for the Government to make informed decisions and choices. Continuing in this manner puts at risk the optimal use of the Territory's land resource base. Issues of environmental and heritage impacts should not be absolute in their own right, but rather be treated as one part of a broader sustainability assessment, and which equally include economic, financial and social impacts.

Since self-government, approximately 1,319ha of land has been set aside from development on environmental grounds, government commitments and other planning issues. A further 780ha is identified/confirmed/announced for future variations to the *Territory Plan*. Conservative value of this land, if it was available for development, is estimated at $2.2 billion.

A tension exists in relation to the multiple points where planning decisions can be 'reopened', with further restrictions and/or limitations placed on development (including additional land being set aside). Effective and orderly development should see these risks minimised over time, as planning progresses through the various phases. As a measure to assist greater certainty, decisions on land use limitations should be taken early in the macro planning phases, and finalised at the structural planning stage. Revisiting of issues through subsequent planning and development approval processes should be by exception only.

A key issue identified by the Review in this respect relates to tree conservation and protection, particularly in greenfields planning. The role of the Conservator is open on this and allows for decisions of tree preservation at much finer levels of the planning processes. Like other environmental and heritage matters, these decisions should be settled at the structural planning stage.

Recommendations 180 and 181:

- **key environmental, heritage and conservation issues be resolved at the Structure Planning level, with ACTPLA having the responsibility for final sign off; and**
- **tree protection legislation and policies be reviewed, to minimise impacts in greenfield development areas. Policies and practices should be brought into line with management arrangements for verge trees in existing urban areas.**

Planning System Reform Project

The Planning System Reform Project includes an overhaul and rewrite of the existing planning and land legislation. This presents an opportunity to address and streamline regulatory and operating practices that restrict speedy release of land to the market. Perhaps one of the most significant impediment to the timely release and development of land is the requirement for separate approvals associated with heritage and tree protection, currently covered by separate legislation.

In most local governments, heritage clearances are not separated from planning and development approvals. Integration of heritage planning and clearance within the Planning Authority will provide a broader perspective in planning considerations and reduce approval times.

On this basis, the Heritage Council, which currently has a statutory decision making role should be subsumed by that of the Planning Authority so that it becomes one part of the consideration process, albeit an important one when it arises. Practically, this could be implemented by the Planning and Land Council having its membership expanded to include a heritage expert. Alternatively, one of the Council's current positions could be changed to allow for this expertise within the present numbers[3].

A similar approach should be taken in relation to tree protection legislation. While ACTPLA and Environment ACT have devised a range of provisions that will enable more effective integration, these are less direct, complicated and rely on good faith between officers of the two organisations[4].

A draft *Planning and Development Bill* is likely to be released for public consultation in June 2006. The Review proposes that the Bill incorporate the heritage and tree protection aspects, in order to achieve a single development approval as it occurs in other jurisdictions.

Recommendations 182, 183 and 184:

- **the heritage function be transferred to ACT Planning and Land Authority, and the Heritage Council be subsumed into the Planning and Land Council;**
- **the *Planning System Reform Project* include streamlining regulatory regimes and direct and indirect management practices to improve the effectiveness of the planning framework, and to target getting land speedily to the market; and**
- **the *Planning and Development Bill* incorporate heritage and tree protection provisions into the planning approval processes.**

[3] This arrangement would address the current unsatisfactory situation where the Heritage Council can appeal against the ACT Planning Authority's decision.

[4] This includes, for example, the development of Codes that will sit inside the Territory Plan, new requirements for referral authorities to respond, once only referrals, and consequential changes to the tree and heritage legislation. All of this, however, remains tenuous and still does not remove the need in some instances for someone to obtain three separate approvals

Concept Planning

The concept planning stage in the planning framework appears to be the area where responsibilities overlap between ACTPLA and LDA. Examples were cited which clearly demonstrated significant additional costs being incurred ($1 million), and delays in moving to sale of up to 18 months. The market impact of these delays has not been assessed.

The Review proposes that concept planning be the responsibility of the LDA (developer), based on the principles prescribed by ACTPLA. Whilst concept plans are ultimately approved by ACTPLA, there is merit in these plans being prepared in cooperation and consultation between both organisations.

Recommendation 185: concept planning responsibilities be clarified, to remove overlaps, delays and costs. The LDA, as developer, should assume full responsibility for preparing concept plans, based on principles identified by ACTPLA. Approval of concept plans should remain the authority of ACTPLA.

Territory Plan Variations

Decisions to vary the *Territory Plan* ultimately rest with the Legislative Assembly.

Whilst variations are proposed and managed by ACTPLA, it is appropriate that Cabinet consider significant proposals for change to land use policies and land boundaries that may have wider policy impacts across the Public Sector. In addition, it is also proposed that ACTPLA consult with all relevant departments in the initial phases of preparing variation proposals.

The recent example of Draft Variation No 165 (Open Space Network Project) proposing to set aside large tracts of land, including around schools, from community, residential and commercial use highlights the risk from limiting redevelopment opportunities associated with school closures.

Advice to Cabinet on significant variations should include full triple bottom line assessment of each proposal.

Recommendation 186 and 187:

- **proposed variations to the *Territory Plan* be circulated to all departments for comment prior to being initiated by ACTPLA; and**
- **significant variations be considered and agreed by Cabinet in advance of drafts being initiated by ACTPLA, and subsequently approved prior to final tabling in the Legislative Assembly.**

Land Supply

The planning and land release/development arrangements are premised on having five years supply of land with the LDA, for sale or development in response to market demand.

Whilst much effort and commitment has been taken to achieve this goal, evidence to the Review indicates that delays still exist, and significant planning is still required for new estates and the new development in Molonglo. The timing of the release of Molonglo is dependent on *Territory Plan* variations and this could take up to two years to complete.

The new Molonglo development head will be, to some extent, a market competitor to Gungahlin and offer alternative locational choice to homebuyers. It will also act as a competitor against new estates across the border expected to come on line in this period.

A policy of having five years supply of land "release ready" should be targeted.

Recommendations 188 and 189:

- **priority be given by ACTPLA and LDA to establish a bank of "sale ready" residential, commercial and community land; and**
- **the new development head in Molonglo be finalised for release and development as a market alternative to Gungahlin, as well as a viable competitor against new estates due to come on line in adjoining NSW.**

Land Releases

Land development and release arrangements were established on the basis of releasing land through the following mechanisms:

- one-third by "englobo" land sales;
- one-third through joint venture arrangements with the private sector; and
- one-third being through full development by the LDA, for direct sale to the market.

In 2005-06, however, the LDA expects to primarily release land through joint venture and full development arrangements. Outright "englobo" sales of land are small.

The LDA is moving to a position more akin to a monopoly. Government policy is targeted at achieving greater shares from the development and sale of land. Private sector competition and diversity in the market place is limited compared to previous years, with their role more as a civil contractor to the LDA.

Whilst key drivers are revenue returns, market place monopolies often mask efficiency of operations. The Government should have the benefit of both revenue from sales and cost effective management of development.

The Review proposes that one-third of new land releases be through “englobo” sales to the private sector, to maintain reasonable price competitiveness in the market place, a stable construction industry and a wider choice for home-buyers.

Recommendation 190: one third of land releases by the LDA be through “englobo” land sale to private industry developers, with the balance of releases through joint venture or full development by the Agency.

7.10.4 ACT PLANNING AND LAND AUTHORITY

Introduction

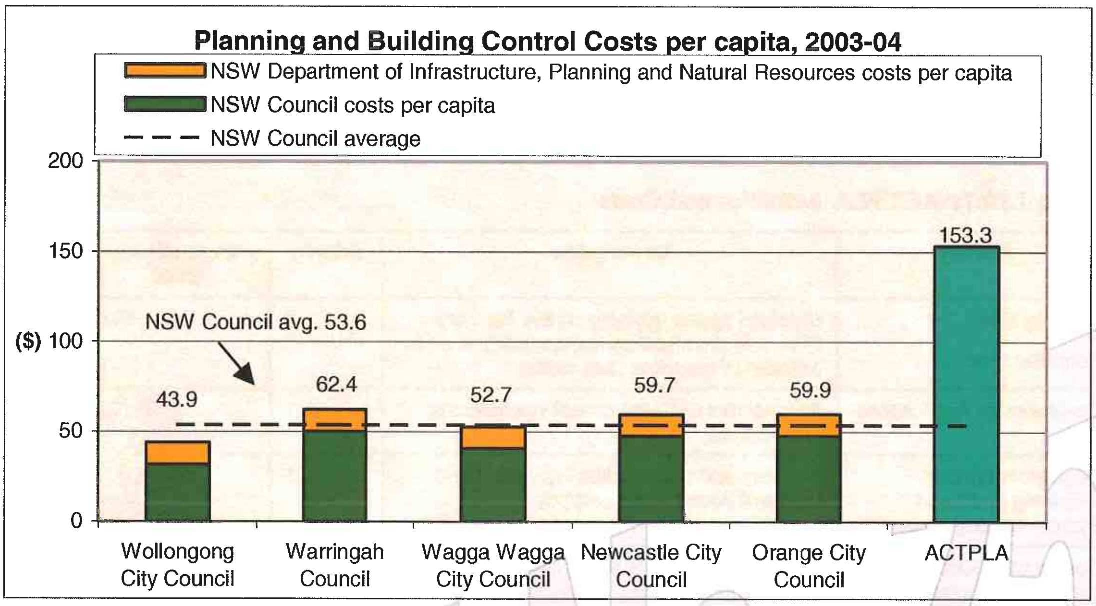
More than 300 staff are employed within ACTPLA, with their functions ranging from statutory planning, structural planning, development approvals, regulation of building and construction, managing the ACT cadastre and agency corporate support costs. Annual average recurrent expenditure in excess of $35 million is incurred. A summary of the Authority's activities is shown below.

Table 7.10.1: ACTPLA Activities and Costs

Activity	Description	Priority	Expenditure $'000	FTEs
Territory Plan Administration	Maintaining and advising on the Territory Plan, and the statutory implementation and associated guideline documents	1	819.0	7.4
Development Applications	Assessment of Development Applications and appeals	1	5,813	54.6
Regulatory Reform (Planning and Land System Reform Project)	Planning and construction legislation and technical codes and standards	1	1,093	7.7
Construction Occupations and Land Regulation	Regulation of ACT Building industry, architectural, building, electrical, plumbing and land surveyors	1	3,512	41.3
Infrastructure Planning	Engineering, design, and construction and management of infrastructure supporting land development	1	1,658	13.0
Structure Planning	Metropolitan structure planning and investigation, feasibility assessments and outline/concept planning in greenfields areas	1	1,857	9.8
Land Strategy and Assets	Urban Development program and land Supply Strategy, Land custodianship Register	1	1,647	10.3
Urban Design and Projects	Coordinate and deliver major strategic projects	2	2,115	17.0
Land Use and Transport	Coordinate and monitor implementation of *Canberra Spatial Plan* and *Sustainable Transport Plan*	2	950	10.7
Canberra Central Project	Revitalisation of City Centre	2	532	-
Spatial Plan	Implement *Canberra Spatial Plan*	1	1,716	10.8
Leasing	Granting leases and licences	1	3,595	21.3
ACT Land Information Centre	Maintenance of ACT cadastre	2	2,754	23.1
Planning and Land Council Secretariat and community services	Coordinate the Authority community engagement function	1	520	2.2
Customer Services Shopfronts	Information services to the public	1	3,485	38.7
Corporate Services	Corporate and overhead costs	1	5,603	43.3
Total			**37,669**	**311.2**

In addition, the Authority separately spends $3.4 million in consultancy and contract services to assist with statutory and other planning initiatives.

Whilst direct performance comparison with other jurisdictions is difficult due to the combined state/local planning functions within ACTPLA, it is possible to draw some indicative conclusions by combining NSW state planning functions and those operated within larger local government bodies in NSW. This is shown below.



Source: NSW 2005-06 Budget Paper, ACT 2005-06 Budget Paper, Department of Local Government: Comparative Information 2003/04 and ABS: Population by Age and Sex, Australian States and Territories cat no. 3201.0

In the broadest of terms, ACT planning resources appear high. A rationalisation of planning activities is proposed, as follows:

- all statutory planning responsibilities, leasing and development approvals should rest with ACTPLA;
- activities such as urban design, the Canberra Central Project and the Spatial Plan are initiative-specific. As initiatives wind-down, it would be appropriate for staffing resources to also reduce, with savings realised. A minimal resourcing level to cover government priority matters should be retained;
- efficiencies in planning resources be targeted towards comparative state-local government levels, with estimated savings of $3 million (30 FTEs);
- land custodianship should be with the new Department of City and Territory (land should not be "owned" or managed by the planning authority);
- responsibility for infrastructure planning, land release, and transport policy should transfer to the new Department of City and Territory, with efficiencies gained through integration of infrastructure responsibilities;
- ACTPLA's construction occupations licensing responsibilities should be amalgamated within the new central regulatory office within JACS;
- customer service shopfront staffing levels be rationalised, and corporate services and overheads be reduced in line with downsizing of the overall organisation.

Recommendations 191, 192, 193 and 194:

- **planning resources be scaled back to comparable levels in other jurisdictions, with efficiencies of $3 million;**
- **functional responsibilities for infrastructure planning, land strategy and release and transport policy transfer to the Department of City and Territory, with efficiencies of $0.5 million through integration of the infrastructure planning and land strategy and release functions within the new departmental structures**
- **regulatory functions for occupational standards be transferred into the new regulatory arrangements within JACS; and**
- **shopfront services be rationalised, and corporate services reduced commensurate with the downsizing of the Authority.**

7.10.5 LAND DEVELOPMENT AGENCY

In establishing the Land Development Agency (LDA), the Government sought firstly to optimise the Territory's return on its land assets and secondly to lift the standard of urban design and built form outcomes. Equally important objectives included the implementation of best practice principles of sustainable development, and a better balance between demand and land availability.

Land Development Costs

Average land development costs are estimated at $80,000 per block (including 10 per cent contingencies). A breakdown of the cost structures provided by the LDA is shown below.

Table 7.10.2 LDA Average Project Construction Costs

LDA INDICATIVE COSTS ELEMENTS	Per Block amount (inc GST)	
Project Initiation **(use only if land is to be held for a long time prior to construction)**		
1.1 Investigations		
1.2 Transfer Costs		
1.3 Land Values		
1.4 Site Preparation/Cleanup & Demolition	$100	
1.5 Decontamination		
Planning and Consultant	$800	2% of civil works
2.1 Urban Design (including Landscaping)		
2.2 Lease & Development Conditions (L&Ds)		
2.3 Concept Plan		
Other Consultants	$1200	3% of civil works
3.1 Environmental & Cultural Consultants (includes Tree Survey		
3.2 Architect		
3.3 Water Sensitive Urban Design		
3.4 Community Development Consultation		
3.5 Contract Management – Including ACT Procurement Solutions fess		
Engineering Consultants	$4,000	% of civil works
4.1 Design and Construct (including Landscaping and Traffic)		10% if 100 –200 blks
4.2 Engineering Survey		7% if 1000 blks
4.3 Geotechnical		
Project Management		
5.1 External		
Construction		
6.1 Infrastructure – External		
6.2 Construction		
6.2a Civil Works & WSUD (landscaping if combined contract)	$40,000	
6.2b Provisional Sums/Variations (10%) (Includes landscaping)	$5,325	10% of construction
6.3 Electricity – Includes street lighting	$3,000	
6.4 Landscaping		
Landscape/Streetscape finalisation (including driveways, verges, footpaths, trees, parks)	$5,000	
Remediation and rectification works after construction	$750	15% of Landscape
Enhanced landscaping including WSUD	$5,000	
Rear Lane Paving (if required)	$2,500	
Fees & Charges		
7.1 ACTPLA Fees – including DA fees	$50	
7.2 Leases		
7.3 Miscellaneous (Printing postage etc)		
7.4 Legals		
7.5 Training Levy	$80	0.2% of civil works
Valuations	$85	
Estate Maintenance		
Pre-Construction	$100	
9.1 Bushfire Prevention		
9.2 Weed Control		
Post-Construction	$1,300	Covers 2 years
9.3 Rubbish Removal		
9.4 Repairs/watering/slashing	$6,400	4% of gross sales
Marketing		
10.1 Advertising Consultant		
10.2 Advertising Direct Costs		
10.3 Display Village		
10.4 Miscellaneous (Signs, flags, & Landscaping etc)		
Selling Expenses	$3,200	2% of Gross sales
11.1 Sales Office		
11.2 Conveyancing		
11.3 Ballots		
11.3a Security		
11.3b Ballot Papers		
11.4 Sales Commission		
Contingency		
12.1 Construction	$ -	0% of construction
12.2 Consultants	$ -	0% of construction
12.3 Projects	$7,899	10% of all costs

Source: Information provided by LDA.

The Review was provided with an analysis of the Agency's development costs, undertaken by Hill PDA[5]. The report indicates that development costs are in the order of $68,000 per block (including contingencies). The comparable industry development costs are in the order of $45,000 per block, plus environmental allowances of $7,000 per block and $5,000 for higher levels of amenity, such as advanced landscaping. The report from Hill PDA also indicates that total development costs for Wells Station were $96,158 per block ($60.5 million for 629 blocks).

In establishing the LDA in 2002-03, Colliers Jardine and WP Brown (consulting engineers) were engaged to assess appropriate construction financial benchmarks for the Agency. Average development costs were estimated at $55,000 per block (in today's prices).

In summary, average cost of development is $11,000 per block higher than the industry benchmark, and the Wells Station development was $39,000 per block higher than the industry standard. These higher costs have to be met by the home buyers, with a direct impact on housing affordability. In addition, there is a flow on cost to Government due to the need to increase expenditure on affordable housing measures. The Review proposes that development costs be brought more into line with industry benchmarks.

The overall marketing budget for the LDA is in the order of 2 per cent to 3 per cent of gross sales. Comparable industry estimates are 1.5 per cent to 2 per cent[6] of sales (in a competitive market).

However, given its near monopoly status, the LDA's marketing and advertising costs should be at the lower level (1.5 per cent). Estimated savings of $2 million should be achieved.

Recommendations 195 and 196:

- **LDA development costs be brought into line with current industry benchmarks, with estimated savings of $4.8 million per annum.**
- **Land marketing and advertising costs be reduced to 1.5 per cent of gross sales, with savings of $2 million per annum.**

Staffing

The LDA currently employs about 50 staff, with 70 per cent of these at middle to senior management levels. In addition, about 15 contactors are also employed in "staff-like" positions, taking total resources to approximately 65 staff. Again, these are paid at the higher end of the salary scale.

[5] *LDA Benchmarking,* Hill PDA March 2006.

[6] ibid - Page 12.

In establishing the Agency, it was estimated that a staff of 30 would be required, including resources for direct sales. Industry staffing levels for an equivalent level of land development/sale activity would be no more than these numbers in aggregate (with additional specialist resources employed through consultancies).

The current structures appear to be relatively rigid and inflexible, with the majority of staff employed under the *Public Sector Management Act 1994*. Given the fluctuations in activity levels, structures should allow greater flexibility in matching work programming to market releases. Activity in 2005-06, in terms of sales revenue, is 6.5 per cent below that estimated at the time of the budget. Conversely, overall staffing resources have increased by approximately 25 per cent during the year.

Total staffing, including contractors undertaking "staff-like" positions, should be reduced to comparative industry levels over the next two years.

No financial or human services staff have been identified for transfer to the Shared Services Centre. The LDA should be integrated into these structural arrangements, as with all other areas across the Public Sector.

Recommendations 197:

- **LDA staffing levels be brought into line with current industry benchmarks, with estimated savings of $3 million; and**
- **LDA corporate support staff relating to financial and human resource areas be incorporated into the Shared Services Centre consistent with other ACT agencies.**

7.10.6 SUMMARY OF SAVINGS AND STAFFING IMPACTS

	2006-07 $'m	2007-08 $'m	2008-09 $'m	2009-10 $'m	Total FTE Impacts
ACTPLA Staff Reductions	2.000	3.050	3.126	3.204	30
Construction Costs to industry benchmarks (LDA)	4.800	4.800	4.800	4.800	0
Advertising costs to industry benchmarks (LDA)	2.000	2.050	2.100	2.150	2
Staffing into line with industry benchmarks, including staff into Shared Service Centre (LDA)	1.500	3.080	3.150	3.230	30
SUB-TOTAL SAVINGS	**10.300**	**12.980**	**13.176**	**13.384**	**62**
Consolidation of functions within Department of City and Territory	0.480	0.492	0.504	0.517	4
Procurement (Tender Box) Savings - ACTPLA	0.059	0.121	0.124	0.127	-
Procurement (ERC) Savings - ACTPLA	0.049	0.074	0.074	0.074	-
IT (Review and ERC) Savings - ACTPLA	0.376	0.530	0.530	0.530	-
Transfer to Shared Services - ACTPLA	0.279	0.677	0.686	0.695	6.95
IT (Review and ERC) Savings - LDA	0.068	0.096	0.096	0.096	-
Transfer to Shared Services - LDA	TBC	TBC	TBC	TBC	TBC

CHAPTER 7.11 EMERGENCY SERVICES

OVERVIEW

- The Emergency Services Authority (ESA) was established on 1 July 2004 under the *Emergencies Act 2004*. Expenditure in 2005-06 is estimated at $67.5million. It operates the ACT Fire Brigade, ACT Ambulance Service, ACT Rural Fire Service and the State Emergency Service.
- The fire brigade and ambulance service functions comprise two thirds of the Authority's annual expenditure. A further 16 per cent of the total expenditure relates to the Emergency Management Group, which provides planning, logistics and communications support across the Authority. The Rural Fire Brigade and the State Emergency Service are predominantly staffed by volunteers.

KEY CONCLUSIONS AND RECOMMENDATIONS

- The Authority's budget has increased by approximately $21 million since 2002-03 (an increase of 46 per cent). Notwithstanding this, the Authority has had significant budget overruns since its inception. In 2004-05, its expenditure was $10.5 million in excess of the original budget. For 2005-06, it is forecast to be $7.5 million above budget.
- Persistent expenditure overruns suggest poor budget discipline and lack of financial control. The Review is proposing that the Authority be integrated within a departmental structure, with statutory powers of the service chiefs being retained.
- For both fire and ambulance services, the ACT is significantly advantaged due to its concentration of population, and lower risk compared to other States and Territories[1]. Yet, the ACT is spending significantly higher than the national average on the fire services.
- Expenditure on fire services in the ACT is 65 per cent above the national average. The ACT has low fire risk due to a lower level of industrial activity. Weight of response required is also relatively lower due to this, as well as because of lower urban density and fewer high-rise buildings. The lower risk is reflected in comparatively lower fire incidents. Response times remain amongst the fastest in Australia.
- There are currently nine existing fire stations. If reconfigured, it would be possible to maintain coverage with seven stations.
- The cost of Ambulance Services has increased by around 32 per cent over the past two years. There has been growth in the number of ambulance responses compared to the number of incidents, without significant improvement in response time. The classification/training of crew is one of the highest in Australia.
- There are significant periods of down time for ambulance crews during the night shift. Efficiencies should be possible through changed shift arrangements.

[1] See for example, Ambulance Demand and Funding Project, 2004.

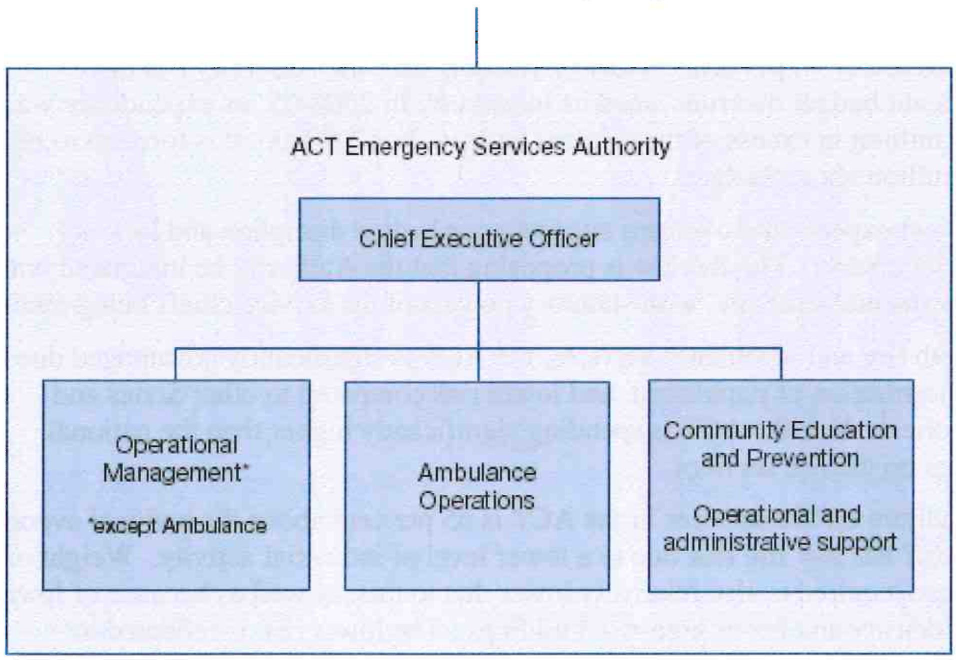
7.11.1 STRUCTURE OF EMERGENCY SERVICES AUTHORITY

A key recommendation from the 2003 McLeod Report[2] was to create the Emergency Services Authority (ESA). The Authority was to ensure:

- an appropriate operational focus on delivering emergency management and response across the Territory, and that this operational focus was not diminished within the public service environment;
- a stronger more cohesive strategic and operational direction for fire, ambulance and emergency services;
- decision making authority resting more in the hands of those with the technical and specialist experience, skills and abilities to give it practical effect; and
- a unity of command across the emergency service providers.

The proposed structure in the McLeod recommendations is shown below:

Figure 6
Minister responsible for Emergency Services



Source: McLeod Report of the Inquiry in the Operational Response to the January 2003 Bushfires.

The legislation establishing the ESA expanded the above structure by providing for chief officers for each of the four services, urban fire, rural fire, SES and ambulance. Each reports directly to the Chief Executive Officer, as does the head of the Emergency Management Group. The Chief Executive Officer reports directly to the Minister for Emergency Services.

Since its establishment, the Authority has expanded significantly. The Authority's budget has increased by approximately $21 million per annum since 2002-03 (an increase of 46 per cent). Notwithstanding this, the Authority has had significant

[2] *McLeod Report of the Inquiry in the Operational Response to the January 2003 Bushfires.*

budget overruns since its inception. In 2004-05, its expenditure was $10.5 million in excess of its original budget. For 2005-06, it is forecast to be $7.5 million above budget.

Persistent expenditure overruns suggest poor budget discipline and a lack of financial control. In both years since its inception, it has over allocated its budget to component services. There appears to be a breakdown between operational planning and decisions, and consideration of the financial impacts arising from those decisions.

The Authority's capacity to manage change within agreed fiscal limits requires a joint operational and financial focus, and acceptance of accountabilities to manage within budget limits. The absence of such accountabilities brings into question the continuing independence of the Authority.

This lack of accountability is evident in other aspects of the management of the ESA particularly around significant projects being undertaken within the ESA. The communications project and the Headquarters project have not been well planned or managed. These projects are discussed in detail later in this Chapter.

The continual failure to meet expected standards of financial management is a key risk if left unchecked.

The *Emergencies Act 2004* provides for:

- statutory powers for Chief Officers of operational services to direct their staff to particular tasks, and deal with the public in discharging their duties;
- operational independence for Chief Officers; and
- statutory independence for the Commissioner and the Authority.

Statutory powers and operational independence are requisites of operational services to undertake their tasks on a day to day basis, and deal with emergencies. While the statutory independence is not to the extent of that conferred on the Auditor-General or the Ombudsman, it diminishes Ministerial and Cabinet control to achieve a balance between service level and financial management.

Under the Act, Ministerial control is limited to making a written direction which is to be tabled in the Assembly. The Administrative Arrangement Orders also establish the Commissioner as Chief Executive, and therefore subject to the provisions of the *Public Sector Management Act 1994*. The extent of Ministerial control in managing the financial affairs of the Authority is only confused rather than established.

The Review proposes that the part of the *Emergencies Act 2004* which establishes the Commissioner and the Authority be repealed with the intention of creating a departmental structure essential for good governance. Other jurisdictions operate emergency services through a mix of statutory and non-statutory arrangements and structures.

It is proposed that the roles and functions of the Authority and Commissioner be subsumed within the Department of Justice and Community Safety. Responsibility and accountabilities should rest with the Chief Executive and, in turn, be delegated to an appropriately qualified and skilled senior executive within the Department.

This approach maintains the McLeod Inquiry recommendation for the appointment of a chief executive officer with single responsibility for emergency services. It also meets the recommendation for a small policy formulation unit to be established within the department responsible for emergency management (currently missing from the arrangements).

The statutory powers and responsibilities contained in the *Emergencies Act 2004* in respect of the Chief Officers of each operational service should be retained, as they provide for appropriate operational focus for the services and a mechanism for co-ordinating the management of the various services during emergencies. The restructuring of the Authority should require Chief Officers to give equal weighting to operational and financial management responsibilities within their services, through the departmental executive structure.

Recommendations 198, 199 and 200:

- **the part of the *Emergencies Act 2004* which establishes the Commissioner and the Authority be amended in order that the Authority's functions and responsibilities integrated within the Department of Justice and Community Safety;**
- **the Commissioner be administratively responsible to the Chief Executive of the Department of Justice and Community Safety, while retaining independent operational responsibility for Emergency Services; and**
- **statutory powers of the Chief Officers of each operational emergency service be retained under the *Emergencies Act 2004*.**

7.11.2 ACT FIRE BRIGADE

Effectiveness

The ACT Fire Brigade's operational cost for 2005-06 is $43 million, including ESA overhead support. The total staff complement is 337, comprising 300 shift positions and 37 staff located at the ESA headquarters.

Fire brigade expenditure per 1,000 people in 2004-05 was $142,583 compared to the Australian average of $86,158. This is 65 per cent above the national average (the highest of all jurisdictions).

Whilst expenditure levels are high, there are low levels of accidental residential structure fires reported per 100,000 households.

The Fire Brigade responds to on average 26.25 incidents per day, equivalent to three incidents per station per day. Of these incidents, between 10 per cent and 15 per cent of responses are for actual fires, 11 per cent are non-fire rescue, approximately

50 per cent of responses relate to false alarms, with the balance being responses to hazardous conditions and storm events.

Table 7.11.1: Fire and Other Emergency Incidents

	2002-03	2003-04	2004-05	3 Year Daily Average
Fires				
Fires in Structure, involving a structure	280	245	279	0.73
Landscape fires, bush and grass	623	238	217	0.98
Other Fires	640	522	546	1.56
Sub-total	**1,543**	**1,005**	**1,042**	**3.28**
Other Emergencies and Incidents				
Non fire rescue calls includes road rescue	1,096	1,082	1,285	3.16
Hazardous Conditions	443	438	224	1.01
Calls to floods, storm and tempest and other natural disasters	699	974	698	2.17
Good Intent calls	690	537	436	1.52
Malicious false calls	242	174	145	0.51
System initiated false alarms	4,744	5,162	4,586	13.23
Other	316	113	1067	1.37
Sub-total	**8,230**	**8,480**	**8441**	**22.97**
Total	**9,773**	**9,485**	**9,483**	**26.25**

Source: Report on Government Services 2006

A generally accepted target response time for the 50th percentile is eight minutes, and ten minutes for the 90th percentile. The ACT's response time for the 50th percentile is one of the fastest in Australia, as is its response time for the 90th percentile.

Table 7.11.2: Response to Structured Fires in Urban areas

Item		2001-02	2002-03	2003-04	2004-05
No of Incidents			280	245	279
50 percentile	minutes	5.4	5.0	5.4	5.8
90 Percentile	minutes	9.8	9.0	8.8	10.7

Source: Report on Government Services 2006

The ACT has relatively lower risks, compared to other States and Territories, as evidenced by the lower incidence of fire. It does not have heavy industry and high-rise buildings on the scale of other jurisdictions, which require higher weight of response. Notwithstanding this, it spends significantly more than the national average on fire brigade services.

It is impossible to staff and provide resources for 100 per cent risk coverage. It is quite clear that the ACT Fire Brigade maintains and resources an immediate response capacity which provides significantly higher coverage than other jurisdictions. Given that the Territory's revenue effort is on par with the national average, the expenditure should be scaled back towards the average across other jurisdictions.

To bring fire services to the national average would reduce costs by about $14 million per year[3]. Even with such a reduction (to the national average), the Territory would still have a relatively higher coverage because of lower risk. However, bringing the costs down so significantly is likely to be difficult to achieve in the short to medium term. Well planned change and savings need to be achieved progressively over time.

The Review proposes a first tranche of savings of $2.5 million per annum. These should be targeted at reducing overhead costs, which are in the order of $8 million to $10 million (20 per cent to 25 per cent of fire brigade total costs). Further work should be undertaken to identify further efficiencies for the Brigade.

Recommendation 201: savings of $2.5 million per annum be achieved in urban fire services, targeted at reducing overhead costs.

Location of Fire Stations

The fire brigade currently operates from nine fire stations and runs two shifts per day, a ten-hour day shift and a fourteen-hour night shift. All fire stations maintain full shifts on a 24/7 basis.

Due to the expansion of the city, the location of some of the fire stations has become less than ideal. Preliminary work undertaken by the ESA during this Review indicates that satisfactory response times could be achieved with fewer, more appropriately located, stations. It is possible to reduce the number of stations to seven (from the current nine). The infrastructure costs of moving to a 7-station configuration are estimated at between $8 million and $10 million.

Work should be undertaken on developing options for Cabinet consideration to move to a 7-station configuration. This should address issues in relation to siting and planning as well as opportunities for reducing the number of frontline tanker crew shifts.

Recommendation 202: options be prepared for Cabinet's consideration to move to a 7-station configuration with opportunities for reducing the number of frontline tanker crew shifts.

7.11.3 ACT AMBULANCE SERVICE

The ACT Ambulance Service has an expenditure budget for 2005-06 of $18 million, including ESA overhead support. There are seven stations located across the ACT, with total staff resources of 124 FTE.

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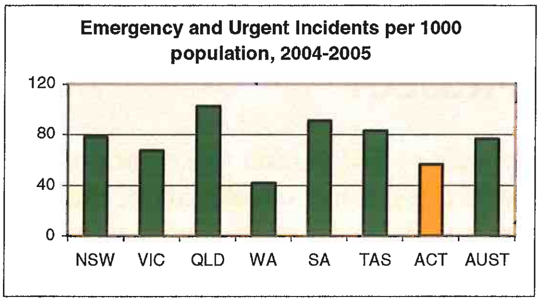
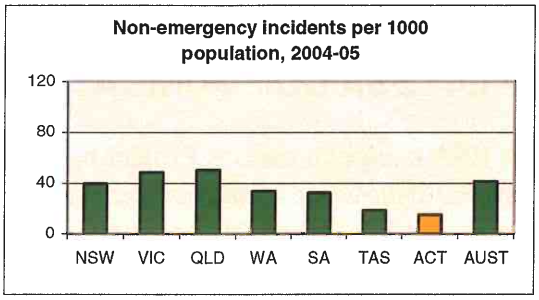
[3] In making this estimate, allowance has been made for the higher superannuation costs and the separate Rural Fire Service in the ACT. Both these factors contribute approximately 15% of the excess cost.

The ACT has a lower level of incidents per 100,000 households than the national average. In 2004-05, the ACT had 40 per cent less incidents per 100,000 people than the national average.





Notwithstanding this low incident rate, expenditure per 1,000 people increased from $45,473 in 2003-04 to $59,811 in 2004-05, an increase of 31.5 per cent. Cost structures were slightly below national average levels of $63,063 per 1,000 people.

The ratio of responses to incidents has grown from 105.8 per cent to 117.8 per cent over four years. Response times are the fastest of all jurisdictions (responses represent the number of crews who attend an incident).

Table 7.11.3: Summary of Ambulance Services

Indicator	2001-02	2002-03	2003-04	2004-05
Number of ambulances responses	24,565	26,599	27,167	27,619
Number of incidents attended by ACTAS	23,226	24,690	24,937	23,440
Percentage of Responses to Incidents	105.77%	107.73%	108.94%	117.83%
No. of responses per '000 head of population	76.9	82.7	83.7	84.8
No. of incidents per '000 head of population	72.7	76.7	76.8	72.0
50 Percentile Minutes – Target 8.0	7.5	7.7	7.8	7.25
90 Percentile Minutes – Target 12.5	12.4	12.5	12.5	12.3

Source: JACS and ESA Annual Reports 2001-02 to 2004-05

The number of incidents equates to 4.5 incidents per ambulance per day, which averages at two to three incidents per shift. The ESA advised the Review that there are significant differences in incident numbers between day and night shifts. The Authority also indicated it should be possible to reduce shift numbers in the low activity shifts and still maintain appropriate levels of response.

Operating an advance single paramedic to calls followed by ambulance attendance is potentially leading to higher costs, the efficiency and effectiveness of this is questionable in a jurisdiction which has the fastest response times in Australia. ACT ambulance crews are the most qualified of all jurisdictions.

A change in the current response process to one that delivers ambulance response times closer to national average performance, a review of the shift requirements and options to reduce the rating of the ambulance crew should be undertaken with a view to achieving savings of $1 million.

Recommendation 203: savings of $1 million be achieved within the ACT Ambulance Service, through changes in shift arrangements, crew standards and current operating practices.

7.11.4 ESA COMMUNICATIONS PROJECT

The ESA Communications Project has a capital cost of $30 million and recurrent costs in the order of $5 million per annum. Given the size and complexity of the project, the Review sought to satisfy itself regarding risks of cost overruns, with assistance from an ICT consultant[4].

Due to limited time, a full-scale review of the project was not possible, and the analysis by the Consultant has been restricted to a review of background material provided by ESA, and advice from InTACT on the status of the project. The Consultant has raised a number of concerns which are discussed below.

Project Documentation

For such a project, it is reasonable to expect that there is a self-contained package of information that describes to a reasonable level of detail the project's goals and objectives, major components, overall timetable, high-level risk analysis, and budgets.

There exist high-level Cabinet Submissions, as well as specific low-level technical documents that address, in isolation, individual project building blocks. There apparently is no suitably comprehensive document that describes the integrated Communication Project and its components.

Scope of the Project

The consultant noted that no material was available that defines the scope of the ESA Communications Project (or projects). This is a symptom of the lack of documentation mentioned above.

The material provided by ESA highlights a need for annual recurrent funding of the Communications Project of $4.126 million – compared with existing annual base funding of $1.246 million (a shortfall of $2.88 million).

The ESA advised that the augmented communications capabilities allow data to be provided to mobile vehicles, where formerly only voice communications were possible. This places a demand on the ESA applications and information systems to have an availability and robustness that is appropriate to operational systems (as opposed to administrative systems).

[4] Valuesourcing Pty Limited.

ESA considers that the use of office systems on a continuous basis to support operations also requires InTACT support arrangements that provide a higher level of response than that required for other departments[5]. Some of the increase in funding sought by ESA relates to the enhancement of the reliability of these applications. This, however, was neither foreshadowed nor costed into the original business cases and funding submissions.

Further, it would appear that ESA has redefined the scope of the Communications Project to include all of its ICT requirements. The additional funding relates to fixed and mobile phone charges and desktop charges, which apply to the entire organisation. The Consultant concluded that in this case there has been a blurring of the distinction between funding for a specific ESA project and overall funding of the Authority.

Robustness of Costs

While a detailed analysis of costs was not possible, there is evidence to suggest the costs are generous. As an example, the project manager is engaged as a contractor at an annual cost of $316,800. The consultant suggested that reduced monthly or annual fees in exchange for continuity of work could be sought, presuming the skills cannot be sourced from within Government. It is unlikely that this is the only example.

Review's Response

There is a clear requirement for improved emergency communications in the ACT. This is not disputed. The work of ESA to achieve this must continue.

The ESA, however, must prepare an ICT strategic plan which places the current project in the context of its overall IT needs. In relation to the Project, comprehensive documentation needs to be prepared.

These are not documents intended purely to inform expenditure decisions. These documents are essential for professional management by ESA of its ICT expenditure.

Given potential budgetary risks with the Project, the work should be undertaken as a priority in consultation with Treasury and InTACT.

Recommendation 204: ESA prepare an ICT strategic plan and comprehensive documentation for its integrated Communications Project, in consultation with Treasury and InTACT.

[5] Covering Briefing Note entitled "Overview of ESA Information [Sic] and Communications [Sic] Systems" by ESA to J. Radik on 24 January 2006.

7.11.5 EMERGENCY SERVICES HEADQUARTERS

The Government agreed to the ESA entering into a lease for a new operational headquarters at the Canberra Airport. This lease is being negotiated through the Department of Urban Services.

The preferred option of the ESA was estimated to cost approximately $91 million over a 15-year period. The Review has been advised that these costs have subsequently increased by $11 million, and Treasury is proposing for the matter to be considered again by Cabinet.

The lease should not be finalised before further consideration by Cabinet. Advice to Cabinet should include a full cost/benefit analysis of the proposed lease, and comprehensive assessments of alternatives, including upgrading of existing premises at Curtin.

Recommendation 205: the lease for the ESA headquarters at the Canberra Airport be reconsidered by Cabinet, given the additional $11 million involved. Full financial analysis of the lease increase should be provided to Cabinet, along with identification and assessments of alternatives including upgrading the existing premises at Curtin.

7.11.6 PRESENTATION OF BUDGET INFORMATION

In recent years ESA has presented budget information between two outputs, namely:

- Prevention and preparedness; and
- Response and recovery.

Expenditures have traditionally been split 20 per cent to the first output and 80 per cent to the second output.

For greater accountability and transparency, it would be preferable for each operational service to be separately reported on, as follows:

- Fire Brigade Service;
- Ambulance Service;
- Rural Fire Service; and
- State Emergency Service.

Corporate and other support groups within ESA should allocate their expenses across each relevant operational service, on an agreed and well-understood methodology.

The benefits of these reporting structures would come through greater means for comparison with other jurisdictions. As well, improved disclosure on the impact of corporate and support areas on each service would be available.

Individually, each operational service would also gain a better understanding of the cost of their support services, and be better placed to more accurately specify their needs within available budgets.

Recommendation 206: the budgetary information for the Emergency Service Authority be realigned to better reflect activities against its service by service operational structures.

7.11.7 SUMMARY OF SAVINGS AND STAFFING IMPACTS

	2006-07 $'m	2007-08 $'m	2008-09 $'m	2009-10 $'m	Total FTE Impacts
ACT Fire Brigade Overhead Reductions	1.500	2.500	2.563	2.627	0
ACT Ambulance Service	1.000	1.025	1.051	1.077	0
TOTAL SAVINGS	**2.500**	**3.525**	**3.614**	**3.704**	**0.0**
Machinery of Government Savings	0.743	1.486	1.523	1.561	11.68
Procurement (Tender Box) Savings	0.100	0.205	0.211	0.216	-
Procurement (ERC) Savings	0.171	0.257	0.257	0.257	-
IT (Review and ERC) Savings	0.254	0.359	0.359	0.359	-
Transfer to Shared Services	0.737	1.791	1.814	1.838	19.92

Part

8

ABORIGINAL AND TORRES STRAIT ISLANDER ISSUES

CHAPTER 8 ABORIGINAL AND TORRES STRAIT ISLANDERS

OVERVIEW

- In 2004, the Indigenous population in the ACT was approximately 4,200 accounting for 1.3 per cent of the Territory's total population.
- Funding for specific Aboriginal and Torres Strait Islander services totals approximately $8 million per annum. Five Aboriginal and Torres Strait Islander service providers receive the majority of this funding.

KEY CONCLUSIONS AND RECOMMENDATIONS

- The ACT has agreed to the *National Framework of Principles for Delivering Services to Indigenous Australians* reporting framework for monitoring and reporting against the *Overcoming Indigenous Disadvantage Indicators* as agreed by COAG and the Productivity Commission.
- Reviews or evaluations of Aboriginal and Torres Strait Islander services and programs are not embedded in departmental responsibilities and accountabilities.
- Each department should establish an Indigenous plan in respect of their services (mainstream and Indigenous specific), and put in place mechanisms to deliver outcomes against their plan, consistent with the national framework.

8.1 PROFILE OF THE INDIGENOUS POPULATION

The median age of the Indigenous population is lower than that for the ACT as a whole at 20.8 years and 34.1 years respectively.[1]

In 2004, Indigenous students in Year 3 were performing as well as non-Indigenous students with 95 per cent of Indigenous and non-Indigenous students achieving the reading benchmark and 96 per cent achieving the writing benchmark. Just under 92 per cent of Indigenous students achieved the numeracy benchmark compared with 95 per cent for all students.[2]

The Indigenous unemployment rate was 13 per cent in 2001, this was 8.1 percentage points higher than the overall ACT unemployment rate of 5 per cent. The labour force participation rate for Indigenous people was 67.8 per cent compared with 71.7 per cent for non-Indigenous persons.[3]

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[1] ABS - Australian Social Trends 2005 - Cat No 4102.0
[2] National Report on Schooling in Australia 2004
[3] ABS – Population Characteristics of Aboriginal and Torres Strait Islander Australians, Australian Capital Territory – Cat No 4713.8.55.001

The median income for Indigenous persons in the ACT was $405 per week in 2001. This was $142 per week lower than that for non-Indigenous persons.[4] In 2001, 25 per cent of Indigenous persons were in the lowest income quintile compared with 11 per cent for non-Indigenous persons.[5]

The average number of residents per household is higher in Indigenous households at 3.1 compared with 2.6 for non-Indigenous households in 2001.[6]

Indigenous young people were over represented in the ACT justice system in 2001-02, with Indigenous persons accounting for 45 per cent of persons on juvenile detention orders and 27 per cent of young people in Quamby Detention Centre. This picture is consistent across those justice areas that collect data on Indigenous status[7].

Indigenous children aged 0-17 years were over eight times more likely to be in out of home care in 2004-05 than non-Indigenous children with a rate of 32.0 per 1000 children compared with 3.8 for non-Indigenous children. Indigenous children accounted for 17 per cent of all children on care and protection orders in June 2005.[8]

In 2002, 18 per cent of the ACT Indigenous population rated their health as fair/poor and 37.5 per cent had a disability or long-term health condition.[9]

Across most indicators, Aboriginal and Torres Strait Islander people in the ACT compare relatively well against their community counterparts interstate, but not against non-Aboriginal and Torres Strait Islander populations.

8.2 FUNDING OF INDIGENOUS SERVICES

A summary of specific indigenous services funded by agency is summarised below. This funding is targeted and does not include mainstream services.

Table 8.2 – Indigenous Services Funding

Agency	$m
Department of Urban Services	0.06
Chief Minister's Department	0.27
ACT Health	2.21
Department of Justice and Community Safety	0.49
Department of Education and Training	1.39
Department of Disability, Housing and Community Services	3.13
Department of Economic Development	0.14
Canberra Institute of Technology	0.31
TOTAL	**8.00**

[4] ABS – Population Characteristics, Aboriginal and Torres Strait Islander Australians – Cat No 4713.0
[5] ABS – Population Characteristics of Aboriginal and Torres Strait Islander Australians, Australian Capital Territory – Cat No 4713.8.55.001
[6] ibid
[7] Profile of Young Offenders in the ACT 2001-2002 Chief Minister's Department
[8] Report on Government Services, 2006
[9] ABS – National Aboriginal and Torres Strait Islander Social Survey 2002 – Cat No 4174.0.55.001

8.3 PLANNING FRAMEWORK

Departments either have plans in place for Aboriginal and Torres Strait Islander people or are in the process of developing policies.

The relatively small size of the Aboriginal and Torres Strait Islander population in the ACT, and the compactness of the Territory itself, should allow for much better overall planning and provision of services. This planning framework should cover all services including health, education, housing, business, heritage, arts, employment, culture, education, sport and training matters.

Departments should develop Indigenous service plans based on the *National Framework of Principles for Delivering Services to Indigenous Australian.* The framework should monitor and report against the *Overcoming Indigenous Disadvantage Indicators*, as agreed by COAG and assessed by the Productivity Commission.

The plans should identify key headline indicators against relevant departments, and seek to address gaps in services between departments.

Appropriate accountabilities for statistical data, specific outcomes, evaluation mechanisms and reporting also should be incorporated into each department's plan.

Recommendation 207: Departments establish individual Indigenous service plans, consistent with the COAG *Overcoming Indigenous Disadvantage Indicators*, and the principles within the *National Framework of Principles for Delivering Services to Indigenous Australians.* Plans should include appropriate outcome performance targets and evaluation/reporting mechanisms.

Part

9

INFRASTRUCTURE AND CAPITAL WORKS

CHAPTER 9.1 INFRASTRUCTURE AND ASSET MANAGEMENT

OVERVIEW

The Territory's infrastructure is valued at $10.130 billion, comprising $6.026 billion of assets in the General Government Sector (GGS) and $4.105 billion in the Public Trading Enterprise (PTE) sector at the time of the 2005-06 Mid Year Review. The value of infrastructure (property, plant and equipment) increased by 23 per cent over the past five years.

This chapter primarily focuses on the infrastructure within the General Government Sector, and the management of that asset base.

KEY CONCLUSIONS AND RECOMMENDATIONS

- There is a lack of strategic infrastructure and asset planning across the public sector, at agency or Territory levels. The Government's *Asset Management Strategy* dates back to 1997. Other issues identified by the Review include:
  - maintenance expenditure on assets is inadequate compared to the size of the asset base and industry practices;
  - the quality of asset management plans across agencies varies, however, they are generally deficient, particularly in whole of life management, information on asset performance and utilisation, and low maintenance commitments; and
  - the capital works arrangements have deteriorated in terms of overall program performance to a level of unacceptable risk.
- The Review's strategies for infrastructure are targeted at:
  - developing an asset management strategy for the General Government Sector, with enhanced asset plans for departments and major asset categories;
  - establishing a medium term planning horizon for capital works (aimed to eliminate program slippage and underperformance at the Territory level); and
  - strengthening of the management and oversight of capital planning, a more rigorous approach to developing proposals for consideration by the Government, and enhanced monitoring and reporting of the programs performance.
- There is a need to strengthen infrastructure planning and performance, and this should be managed by a Chief Executive taskforce.
- The Review proposes a number of asset rationalisation initiatives, including Rhodium, Capital Linen Services, Kowen Forest and surplus properties.

9.1.1 ASSET MANAGEMENT IN THE TERRITORY

Asset Management Strategy

At self-government, the assets transferred to the Territory were relatively young with very little backlog in maintenance[1]. Since that time, a number of key service assets have deteriorated to a position where their ongoing functionality is dependent on major refurbishment and/or upgrades.

The whole-of-government Asset Management Strategy dates back to 1997. It is clear that the strategy needs to be updated or a new strategy developed.

Recommendation 208: a new whole-of-government Asset Management Strategy be developed by Treasury.

Condition Audits

The starting point for improving asset management is to maintain a continuing program of condition audits. From this, appropriate maintenance planning can be developed. Outlined below is the status of condition audits by the major asset holding agencies:

- Urban Services – the Territory's road, pavements around shopping centres and bridges infrastructure have condition data. Urban Services also has condition data on its building assets and has undertaken spot audits for its stormwater infrastructure;
- Housing - has recently completed a condition audit of approximately 73 per cent of its stock. The condition audit identified that 82 per cent of the stock was within standard and that a further 2 per cent to 5 per cent could be brought within standard with relatively low levels of expenditure;
- Education – latest round of condition audit data indicates that the average condition of schools is 2.3, which is less than the condition rating of 3 (normal) sought for schools; and
- Health – is yet to undertake a comprehensive condition audit.

Improved data information on asset condition is essential, particularly across the key infrastructure areas. This should be given priority by departments.

Recommendations 209 and 210:

- **condition audits be completed for all major asset holdings, and brought to Cabinet as part of departments' asset management plans; and**
- **information systems be reviewed and updated, based on latest condition audits.**

[1] Priorities Review Board Report – *Priorities for Improved Public Sector Management,* May 1990.

Asset Management Plans

A number of departments have developed specific asset management plans for major infrastructure holdings. These include, for example, roads, trees, public housing and arts facilities.

Given the significance of the asset bases, and the dependence of service delivery on their condition being maintained to reasonable standards, the financial framework in which they operate should provide certainty for regular maintenance expenditure across the medium term horizon.

There is evidence that, in a number of cases, departments have not operated within this management framework, with some applying maintenance funding as savings towards achieving 'bottom line' efficiencies. In some cases, this approach has been adopted in areas where the Government previously approved significant additional base funding for specific maintenance purposes.

The asset management plans (where they exist) may have been developed in the context of a dated strategy, and have not been subject to Cabinet's consideration and agreement.

The asset management framework should be reviewed and each agency's maintenance arrangements assessed for adequacy of financial capacity. Once assessed, funding should be quarantined from other budgetary pressures. This would ensure that capital planning and replacement policies are not put at risk by short-term budgetary expediencies.

Recommendations 211 and 212:

- **agencies be required to develop asset management plans in consultation with Treasury; and**
- **asset management plans be brought to Cabinet for its approval as part of the 2007-08 Budget process.**

Asset Maintenance

Maintenance of assets has not kept pace with the age of assets, resulting in deterioration in condition. If left unchecked, there will be significant balance sheet risks, and pressures placed for early intervention and investment in capital upgrading and replacement of major infrastructure.

Examination of information provided to the Review shows weaknesses and gaps in the level of understanding on asset condition and performance, for example:

- there is no current asset management plan for health infrastructure, and a full condition audit of assets, including at The Canberra Hospital, is still required;
- current condition audits of government schools are only partially completed, with some schools not assessed in the last five years; and

- limited, if any, information is provided on asset utilisation and performance against benchmarks.

Maintenance levels in the Territory have generally been low since self-government. For example, in 1997, a review by the Auditor-General[2] found that for several years inadequate maintenance funding had been available to cost effectively maximise the useful lives of ACT roads, and the backlog of maintenance had reached between $24 million and $36 million. The audit also found that the annual expenditure on pavement maintenance was around half the annual road pavement maintenance funding level recommended by an earlier review in 1992[3].

Road pavements in general have a useful life of 20-25 years[4]. This can be greatly increased, and significant costs avoided, by maintenance at critical points[5]. The maintenance program for roads, which covers less than 3 per cent of the roads per annum[6], appears to suggest that optimum maintenance is not being undertaken, with the effect of shifting costs to future generations.

The Review was advised by Urban Services of a shortfall in maintenance expenditure in the order of $25 million to $40 million for its assets alone[7]. Additional expenditure of this magnitude cannot be accommodated within the current budgetary position. It is therefore important that maintenance targets be set in the context of realistic asset management plans[8], with works prioritised within the funding levels. In the first instance, 'black spots' should be identified that require critical and urgent works.

Notwithstanding this, the Review has recognised the need for increased maintenance, and proposes a base increase in expenditure.

The additional funding proposed by the Review will only address in part the shortfall in maintenance expenditure. Consideration should be given in the future budgets, subject to financial capacity, to further increase maintenance funding.

Considerable backlog of maintenance has built up since the self government. Any unforeseen one-off revenue could be allocated to addressing the maintenance backlog.

In suggesting these measures, the Review proposes that maintenance funding should be quarantined from any saving measures and internal reprioritisation by departments.

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[2] ACT Auditor-Generals Report No.2/1997: *Road and Streetlight Maintenance,* Page 4.

[3] *Road Maintenance Evaluation Study*, Report to the Minister for Urban Services; 1992.

[4] National Highway Construction Standards.

[5] See for example - *The Impact of Preventative Maintenance Programs on the Condition of Roadway Networks*, 2004 Annual Conference of the Transportation Association of Canada.

[6] 2005-06 Budget Paper No. 4, Page 233 - *Annual Percentage of Municipal Roads Resurfaced 2.9 per cent.*

[7] These include roads, stormwater infrastructure, bridges, and cycle paths.

[8] A roads asset management plan was considered by Cabinet in 2001, and significant additional annual maintenance funding agreed at that time. Since then, improved data information on asset condition reflects a greater maintenance commitment being required than previously projected. A full data collection will take a further five-years to complete.

Recommendations 213 and 214:

- **base asset maintenance funding for the Department of City and Territory[9] be increased by $5 million per annum from 2006-07; and**
- **the Department of City and Territory develop a program of critical and urgent asset maintenance as a matter of priority in order to access this funding.**

Recommendations 215 and 216:

- **maintenance funding be increased by a further $5 million per annum from 2007-08, and this additional funding be allocated to agencies following the development of asset management plans; and**
- **maintenance funding be quarantined from any saving measures and internal reprioritisation by departments.**

Improving Asset Management

Significant reforms and strong leadership are required to improve asset planning and management. This should be oversighted and driven by a Chief Executive taskforce, chaired by the Chief Executive of Treasury.

Recommendation 217: a Chief Executive taskforce, chaired by the Chief Executive of Treasury, be responsible for infrastructure planning and asset management.

9.1.2 RATIONALISATION OF ASSETS

The Review has assessed a number of proposals by departments in respect of infrastructure rationalisation. These assessments, and recommendations, are set out below.

Rhodium Asset Solutions Limited

Background

In 2003, the Government decided to wind up Totalcare Industries, and to retain the fleet business as a Territory Owned Corporation (TOC)[10]. Rhodium was subsequently established on 1 January 2005.

[9] The Review has separately proposed an increase of $3 million per annum for schools' maintenance (Chapter 7.4).
[10] Four other core business units of TotalCare (Sterilisation, Road Maintenance Services, Facilities Management and Linen Services) were reintegrated into the Department of Urban Services (DUS) and ACT Health.

It provides finance and asset leasing and management services to the ACT Government, other public sector entities and the private sector. As the ACT Government fleet management services contract alone does not provide sufficient turnover, the strategic direction that Rhodium has adopted for the future is to grow its private sector business.

It currently manages approximately 3,300 vehicles under lease, with 41 per cent of its revenues generated from its ACT Government fleet management business. Rhodium's non-ACT Government business includes the ActewAGL fleet (approximately 390 vehicles), with the balance (approximately 1,650 vehicles) related to private and other government clients.

In addition, it provides leasing services for plant and equipment; laptops and computer accessories; Information Technology networks, systems and equipment; light commercial vehicles; light, medium and heavy rigid vehicles; and medical mining and linen equipment[11].

Business Plan and Risks to the Territory

A Business Plan developed by Rhodium assumes revenue growth averaging 28 per cent per annum from 2005-06. On the other hand, Treasury expressed concerns to the Review regarding the risks of Rhodium operating in a well established, mature and competitive market.

The Review sought external advice[12] on the Territory's ownership interests in Rhodium, including:

- an assessment of the risks to the Government associated with Rhodium's current structure and size, its products, its current and likely future position in the marketplace, its balance sheet (and any significant off-balance sheet financial assets and liabilities) risks, its key business development strategies, its ability to compete effectively in the marketplace;
- an assessment of Rhodium's financial performance, both actual and projected, against industry benchmarks;
- whether the projected returns to the Government on its investment in Rhodium are appropriate; and
- analysis of the actual and estimated levels of borrowings or other financial liabilities undertaken by Rhodium in the context of:
  - the possible impact on the Financial Position of the Territory; and
  - the possible impact on the Territory's credit rating.

The Review also sought an analysis of options regarding Rhodium's future, including:

- part or full divestment;
- continuation of the current ownership and business model;

[11] Rhodium Asset Solutions, 2004-05 Annual Report, Page 13.
[12] PriceWaterhouseCoopers were engaged as consultants.

- continuation using a more restricted business model (e.g., limited client base or product lines); and/or
- joint venture.

The Consultants' analysis indicates that Rhodium is a sub optimal business suffering from small scale[13]. The strategy to expand into private markets with other lease products is, however, risky. There are well established competitors in the market with economies of scale. Market share could only be captured by undercutting prices, or increasing marketing. In either case, dividends would reduce.

The Consultants concluded that currently, business related to the government fleet is subsidising the private business. Unlike vehicles, a number of lease products do not have secondary markets and this carries further risk.

The most economic option for the Government is to sell the business. This could include the management of the government fleet at a market price, or the fleet management could be tendered separately. The Review proposes the former option with no guarantee of continuation of contract beyond a fixed period sufficient for the buyer to integrate the business into its existing operations.

The contract for the management of government fleet should be at market price. The Review has identified savings of $1.1 million per annum from achieving benchmark management fees[14].

An alternative is to dissociate from the private market business over a period of time (once the leases have expired), and return the fleet management within a department. Fleet management costs are likely to remain higher due to small scale.

Recommendations 218 and 219:

- **Rhodium Asset Solutions be sold as a going concern; and**
- **the offer of sale include the management of government fleet, at benchmark fee, and for a fixed period of time, after which the contract could be put to open market tender.**

Capital Linen Service

The Capital Linen Service (CLS) has operated under a number of structures over the past ten years, ranging from a provider within government, to a statutory authority, then part of a Territory Owned Corporation, and then returned to a business unit within DUS in May 2004.

CLS provides a diversity of linen supply and laundering services, across the healthcare, tourism and hospitality sectors, and supplies incontinence products for aged care and health services.

[13] The Consultants' report is included in the background papers to the Review Report.
[14] See Chapter 5 of this Report.

The Draft Report of the Independent Competition and Regulatory Commission into the Capital Linen Service, released in January 2006, came to a view that there is growing maturity in the linen services market in the ACT[15]. The nature of the players in the market also reflects the capacity for them to assume related businesses as a going concern and continue the level of service provision required to meet the needs of ACT clients. The Commission also found that CLS is at a competitive disadvantage due to its government ownership.

Based on the Commission's inquiry, the opportunity should be taken to protect the Territory from potential future losses, as well as further capital injections in order to upgrade equipment and facilities. CLS should be sold as a going concern. However, the sale should be subject to analysis to ensure that the Government, or departments such as ACT Health, are not financially disadvantaged through the sale.

Prior to the proposed sale of the Capital Linen Service, it is suggested that the linen services be tested by ACT Health to assess the likely competitive prices in the wider private sector environment.

Recommendations 220 and 221:

- **the Capital Linen Service be sold as a going concern; and**
- **the sale be subject to a market assessment by ACT Health to determine the likely market pricing for services following the sale of CLS.**

Forestry Plantation (Kowen Forests)

Prior to the 2003 bushfires, the Territory's softwood plantation estate was approximately 16,200 hectares of *Pinus Radiata* comprising around 1 per cent of the nation's softwood plantations.

The bushfires destroyed approximately 10,500 hectares of this plantation estate with Kowen Forest the only plantation forest not destroyed. Kowen Forest has a comparatively low growth rate and the prospect for productivity improvement is negligible.

Since the bushfires, ACT Forests has established approximately 1,100 hectares of softwood plantation with the majority planted in the Territory's water supply catchment[16]. It is now Government policy not to replant within the water supply catchment.

The major customer, Integrated Forest Products, is in the process of relocating a significant component of its processing capacity to Bombala to be closer to the NSW plantation resource. The company is currently finalising a development application for that purpose.

[15] ICRC Draft Report *Competition Inquiry into Capital Linen Service,* January 2006.
[16] The cost of the replanting program was met from the bushfire insurance proceeds.

Potential investors or purchasers of the Territory's plantation assets include Managed Investment Schemes. The schemes offered by Timbercorp and Wilmot Forest Management have expressed interest in the Territory, however, neither entity has offered a prospectus.

Kowen estate is identified for development under the *Spatial Plan*. The forest is currently used for recreational activities. The Review proposes that the standing timber be sold with access rights for recreation preserved. Responsibility for managing the estate including whole of silviculture programs should also be included in the sale.

Recommendation 222: the standing timber in Kowen Forest, including the management of the estate, be taken to the market for sale with access for recreation activities preserved.

Surplus Properties

The following surplus properties have been identified by DUS for sale. These can be readily taken to market without land use limitations or other restrictions that would inhibit sale (based on their current land use policies).

Table 9.1.1: Surplus Properties for Potential Sale

Description	Suburb	Section	Block	Land Use	Block m² (part)	Valuation
2006-07						
Deakin Preschool	Deakin	64	1	Community Facility	2,886	$600,000
Macgillivray St	Yarralumla	77	2	Community Facility	1,628	$250,000
O'Connell Centre	Griffith	78	Pt 42	Community Facility	18,500	$1,000,000
former Kippax Library	Holt	51	52	Commercial	1,127	$350,000
141 Canberra Ave Parks Depot	Fyshwick	6	26	Industrial	11,952	$2,400,000
Madigan St Depot	Hackett	12	13	Community Facility	2,395	$140,000
Lower Jindalee	Narrabundah	100	45	Residential	37,443	$3,500,000
Botany St Parks Depot	Phillip	53	3	Commercial	6,178	$1,250,000
Loftus St	Yarralumla	53	2	Community Facility	677	$140,000
Total						**$9,630,000**

A number of other properties were identified for sale, but disposal would not be expected before 2008-09.

Recommendation 223: properties identified as surplus to requirement by Property ACT be sold, with estimated returns from sale of $9.63 million.

Belconnen Busway

Development of the Belconnen busway carries high capital and recurrent costs. The proposal cannot be justified at this time, given the Territory's fiscal position and outlook. Further work on the busway should not proceed.

Recommendation 224: the proposal for the Belconnen busway not proceed, given its high capital and recurrent costs.

Dragway

The dragway project cannot be realistically accommodated within the $8 million originally agreed by the Government, with full completion likely to be double this amount. Only a sub-optimal facility would be possible within $8 million.

The risks of additional public funding being required are high, and the need appears low given the proximity to the national facility in Western Sydney.

The proposed location carries significant impact risks on the land use in the Majura Valley, and these are well beyond any benefits to be gained from supporting the facility.

The further work agreed by the Government is likely to show little additional benefit, and more likely to confirm the facility's non-viability. The Territory's financial position and outlook across the medium to longer term brings into question the support for such a facility at a time when higher priorities such as health and education clearly exist.

Recommendation 225: further assessments and developmental work on the dragway, as a public cost, not proceed.

Territory Plan Draft Variation 165 Open Space Network Project

Draft Variation No 165 to the *Territory Plan* "...proposes to amend the land use policies for a number of sites to Urban Open Space and Hills Ridges and Buffers areas and to apply an Area Specific Policy to protect valuable open spaces around ACT Government schools."

The Variation significantly restricts the Government's flexibility and potential future use of government school land. As well as effecting community land, it also proposes to remove a number of suburban 'infill' sites identified for residential and commercial purposes.

The Review proposes that DV 165 not proceed, and lapse from being tabled in the Legislative Assembly. Any further variation process should involve a full analysis of costs and benefits, and all information being available for Cabinet, including the impact of loss of development opportunities for each identified site, such as current education land identified for school closure. These sites are covered in the education package proposed by the Review, and also relate to the Higgins and Holt primary schools to be closed as part of the Ginninderra District P-10 School project.

Recommendation 226: within 3 years, a comprehensive review, by a taskforce chaired by the Chief Minister's Department, of urban open spaces and other public lands within the metropolitan precincts of Canberra (including lands subject to Draft Variation 165) be undertaken in order to develop options for better utilisation of lands for primarily social purposes, including affordable housing and aged accommodation.

Chapter 9.2 CAPITAL WORKS PROGRAM

OVERVIEW

The annual capital works program is agreed as part of the Budget process and funded through appropriations. The program includes construction projects, forward design works and feasibility studies[17].

The program typically has included capital upgrades and some maintenance works. From 2005-06 Budget, notional allocations for major agencies have been provided for this purpose, allowing Cabinet to focus on consideration of new works program.

The Capital Works Program has a history of slippage and underspends, despite several attempts over the past decade to improve its performance. There are a number of aspects and points on which the program appears to be failing. These include forward planning and project readiness at the time of funding commitment, evaluation, monitoring and acquittal. There appears to be established processes and discipline regarding changes to the program. Such changes do not appear to be substantial.

The Review is proposing upfront cross agency planning, and introduction of a four-year rolling program. Stronger emphasis on evaluation and improvement in advice to Cabinet along with stronger monitoring are also proposed.

KEY CONCLUSIONS AND RECOMMENDATIONS

- The value of new capital works commitments in the General Government Sector has increased significantly over the past decade, ranging from $66 million to more than $300 million in any one year. Cash expenditure has also increased, varying between $100 million to $247 million.
- There is increasing slippage in the capital program, with up to half the program in 2005-06 to be carried over to the following years. Slippages equate to about two years of new works.
- Stronger management of the program is required, to deliver the Government's objectives and capital infrastructure on time and within budget. In particular, a cross agency approach in forward planning, improved evaluation, stronger monitoring, and introduction of acquittal processes is proposed.
- Introduction of a four-year rolling program is proposed, with annual consideration by Cabinet as part of the Budget process. The final approval prior to construction is to be subject to projects and documentation being 'tender ready'.

[17] In principle, these should be undertaken by agencies as part of their service delivery planning. Funding from capital works is provided to encourage forward planning by agencies.

9.2.1 PERFORMANCE OF CAPITAL WORKS PROGRAM

The size of the annual program for new capital works has varied significantly over the past decade, from a low base of $66 million in 1998-99 to more than $300 million in 2004-05. Annual financing (cash allocation) shows a similar trend increasing from $100 million in 1998-99 to $247 million in 2004-05.

1997-98 has been the only financial year over the last decade when the capital works expenditure was close to budget target (1 per cent variation). Since then, considerable and increasing underspends in the annual capital works program have occurred. The following table provides a comparison of budget allocation (financing) and the actual expenditure.

Table 9.2.1: Capital Works Program Value and Cash Expenditure 1998-99 to 2005-06

Financial Year	Value of New Commitments $'m	Budgeted Expenditure* $'m	Actual Cash Expenditure $'m	Underspend $'m	Completion %
1998-99	66.5	100.5	64.1	36.4	63.8
1999-2000	87.8	112.9	76.0	36.8	67.4
2000-01	99.1	107.4	89.3	18.1	83.1
2001-02	214.3	165.5	111.0	54.5	67.0
2002-03	91.2	153.0	96.9	56.2	63.3
2003-04	104.7	169.9	108.8	61.1	64.0
2004-05	329.9	247.0	129.0	118.0	52.2
2005-06 Estimate	168.0	314.2	n.a	n.a	n.a

Source: ACT Treasury
* Cash expenditure includes expenditure on new works and works in progress flowing from the previous years.

As identified above, the achieved overall expenditure of the capital program has not exceeded two-thirds of the financing available since 2000-01, and is estimated to reduce to approximately 50 per cent in the current financial year.

9.2.2 FINANCING OF WORKS

The forward estimates include provisions of $80 million for new capital works, as follows:

Table 9.2.2: Capital Works provisions 2006-07 to 2009-10

Financing	2006-07 $'m	2007-08 $'m	2008-09 $'m	2009-10 $'m
New works	44	49	49	49
Works-in-progress*	5	-	-	-
Upgrades#	31	31	31	31
Total provisions	**80**	**80**	**80**	**80**

Source: ACT Treasury
* Funding for works in progress from previous years is already incorporated in agencies budget cash-flows.
# Provision held in agency budgets.

In principle, financing of individual projects and the size of the overall annual program should be subject to business cases and the financial targets in the budget.

While it is not unreasonable to debt finance certain specific projects, governments have also moved to financing arrangements through Public Private Partnerships (PPPs). PPPs in general have high transaction costs, and critical mass in the order of $80 million to $100 million is necessary to generate transaction efficiencies.

Transaction efficiency, however, is not the only criterion. By their very nature PPPs involve the private sector investing its funds into an infrastructure asset that has traditionally been seen to be the domain of the public sector. The success of these partnerships depends on how well the private sector manages the risk transferred to it by the public sector and importantly, the success of the public sector in managing its obligations under the arrangement.

The Procurement Board Circular *Implementing Private Provision of Public Infrastructure Projects* in the ACT has incorporated the ACT Government's policy into a procurement guideline.

The ACT policy has been prepared by ACT Treasury and approved by the Government in 2002. Treasury currently administers the policy and to date the ACT has not considered a PPP approach to new projects.

Recommendations 227 and 228:

- **the use of PPP as a procurement option for government's capital works be considered for projects over $80 million in value; and**
- **the Department of Treasury be the central agency responsible for the development and implementation of PPP procurement policy and services.**

9.2.3 FRAMEWORK FOR CAPITAL WORKS

Since 1996, a number of attempts have been made to improve planning, assessment, delivery and monitoring of capital works. Their impact on the overall delivery of the program, however, has not been significant. In general, this is due to a lack of discipline in adhering to the overall framework/guidelines. For example, a number of projects endorsed for inclusion in the capital works program do not have a functional brief, despite this being a requirement of the documentation to be provided for consideration in the Budget process. This obviously increases the risk of delay and cost over-run.

Project delays in capital works are generally symptomatic of:

- insufficient planning, in particular, lack of consideration of key planning and environmental issues prior to the endorsement of the project;
- poorly defined scope of works or developed after the project approval, in the year of planned delivery of the project; and

- lack of prior consultation with key stakeholders, for example, National Capital Authority, managers of utilities' infrastructure, and the community.

There appears to be a number of points where the existing process of capital works budgeting and delivery is failing. Despite the long lead times required within capital works, particularly in view of planning and consultation complexities in the Territory, early planning is not apparent.

The tight timeframes and requirements of the Budget process do not allow a proper assessment of the proposals and an analysis of the options. The process involves a considerable amount of information being put together by agencies, and analysed by Treasury, in a very short time frame. As a consequence, it is difficult for agencies to ensure the relevance and accuracy of the information being provided, and provides little opportunity for Treasury to provide feedback, explore options and provide general assistance in developing business cases.

It is clear that the framework for capital works requires reconsideration and strengthening. An outline of a changed framework for capital projects is provided below.

Objectives of the Framework

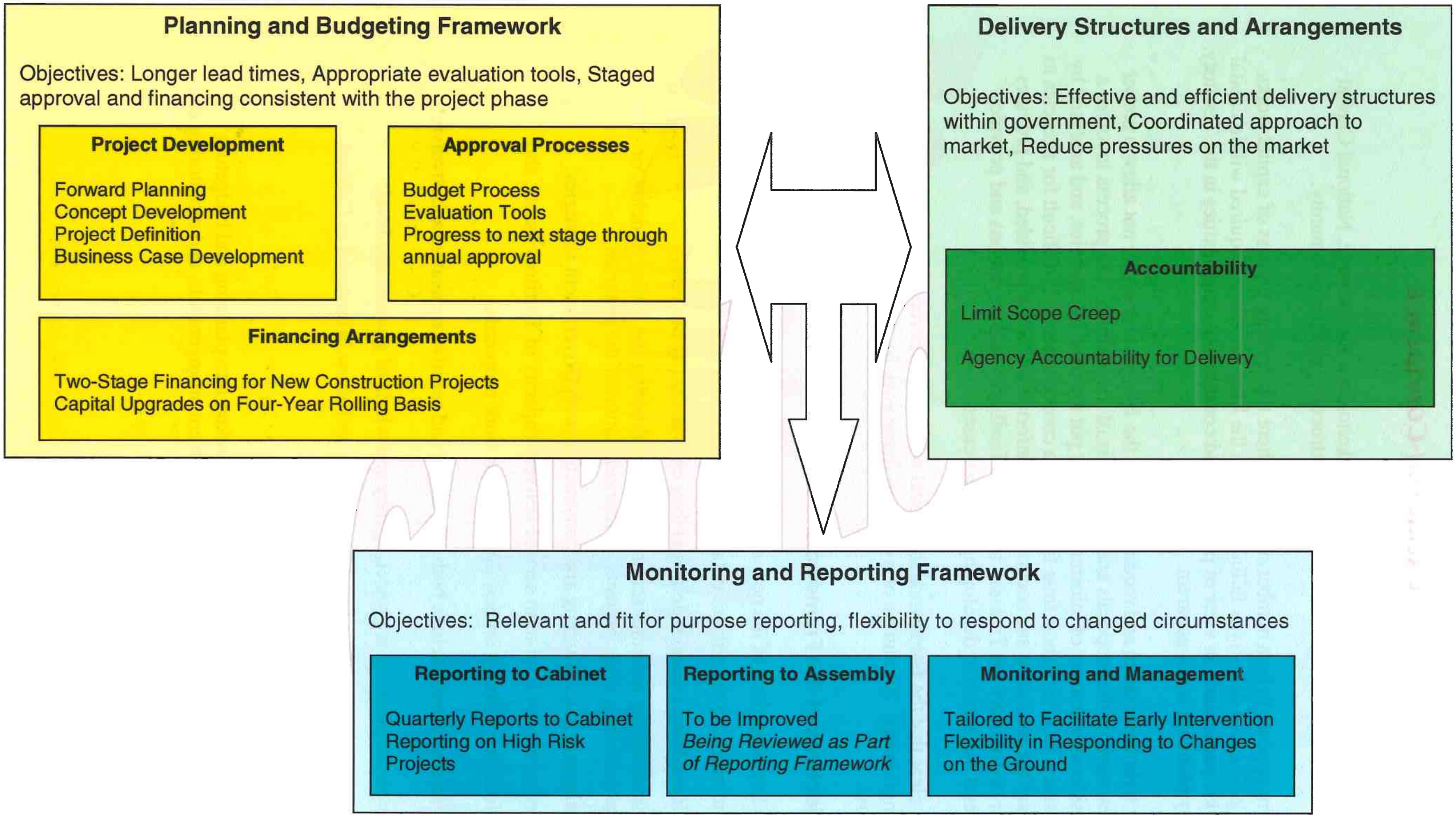
The key objectives of the new arrangements are:

- minimising the risks of delays in project delivery;
- identifying potential delays as they emerge during the year;
- undertaking remedial action in either addressing the causes of delay, or accelerating other projects, or reprioritisation of the program;
- aligning asset planning and construction with Government strategies;
- ensuring the long-term service delivery capacity of Territory assets; and
- focusing Cabinet on new construction work proposals.

The arrangements include both preventive and reactive measures, and involve:

- upfront planning at project, agency and whole of government level;
- mechanisms to detect project slippage, and allow Ministerial or Cabinet intervention; and
- a reprioritisation framework.

The framework for capital works can be broken into planning and budgeting framework, delivery and contract management arrangements, and monitoring and reporting framework.


Planning and Budgeting Framework
Objectives: Longer lead times, Appropriate evaluation tools, Staged approval and financing consistent with the project phase
Project Development
Forward Planning
Concept Development
Project Definition
Business Case Development
Approval Processes
Budget Process
Evaluation Tools
Progress to next stage through annual approval
Financing Arrangements
Two-Stage Financing for New Construction Projects
Capital Upgrades on Four-Year Rolling Basis
Delivery Structures and Arrangements
Objectives: Effective and efficient delivery structures within government, Coordinated approach to market, Reduce pressures on the market
Accountability
Limit Scope Creep
Agency Accountability for Delivery
Monitoring and Reporting Framework
Objectives: Relevant and fit for purpose reporting, flexibility to respond to changed circumstances
Reporting to Cabinet
Quarterly Reports to Cabinet
Reporting on High Risk Projects
Reporting to Assembly
To be Improved
Being Reviewed as Part of Reporting Framework
Monitoring and Management
Tailored to Facilitate Early Intervention
Flexibility in Responding to Changes on the Ground

Planning and Budgeting Framework

The current annual capital works program contains capital upgrades and projects for new or replacement assets.

Capital upgrades are defined as activities intended to extend the effective useful life of an asset, or improve the asset's service potential. Allocations to agencies are based on historical year-on-year expenditure levels, with pre-planning and approval steps in place to ensure no slippage in financing between years. Annual allocations for capital upgrades for each agency are linked to agencies' Asset Management Plans. These arrangements were introduced in 2005-06 and should continue.

With these arrangements in place, Cabinet can focus on the more significant projects relating to **new or replacement assets**.

Rolling Program

In order to strengthen forward planning, it is proposed that each department should prepare a four-year forward program. The program should be updated on a rolling basis, and considered by Cabinet as part of the annual Budget process. This program should be indicative in nature, and subject to specific government agreements.

At the beginning of a project cycle, Cabinet's approval and guidance should be sought for concept development.

Once the rolling program is established, it is envisaged that Budget Cabinet would primarily consider the program for the Budget year, i.e., construction ready projects as well as confirming projects proposed for the last forward year of planning.

This approach allows project advancements where some projects face unforeseen delays. The rolling program is to be managed within the envelope for capital expenditure.

Recommendation 229: Treasury lead the development of a rolling four-year capital works program for Cabinet consideration, taking account of the views of all other portfolios.

Concept Approval

The first approval stage (project development and justification) involves the development of the criteria for a full business case, which is to be prepared for any major capital investment proposal. This would include:

- conceptualisation and articulation of service delivery and policy direction;
- exploring alternative service delivery options;
- feasibility studies;
- financial and economic appraisal on a whole-of-life basis; and

- design work to final sketch plan stage.

Agencies will prepare Project Concept Briefs (PCBs) for concept development. The process is envisaged to be similar to the development of PCBs for IT projects.

It is recognised that development of projects may take a number of years and require funding well in advance of final authorisation and commitment of projects to construction. First stage funding for this will be targeted to:

- develop the best asset solution for service delivery requirements;
- provide a complete identification, assessment and allocation of all risks associated with the project, including economic, financial, and delivery risks;
- value management assessment against user requirements (to remove excess specifications and 'nice to have' extras); and
- develop the project to a stage where, following Government's approval, it can be programmed for construction immediately after the beginning of the financial year.

Construction Approval

The construction approval will involve final authorisation, and commitment to construction. This stage will require tender documentation to be fully ready. Cabinet will be asked to agree to costs, and be assured of a project's readiness to be committed to construction through the completion of design and full tender documentation.

An important aspect in this stage is physical management of risks in project delivery, which can lead to cost overruns and construction delays. Agencies will have primary responsibility to minimise and manage risks and be accountable for construction on time and within budget.

Recommendations 230, 231 and 232:

- **a two-stage approval process be adopted for new capital works, targeted to improving program delivery and project assessments including cost/benefit and risk assessments;**
- **stage two approval be subject to projects being fully prepared, with design and documentation at 'tender ready' stage; and**
- **capital upgrades be separated from new works and funded on a year-by-year, without carry-overs between years.**

Inter-Agency Planning

The lack of scoping, planning and consultation apparent within the existing capital works program has highlighted the need for greater emphasis on feasibility, forward design, and cost/benefit and risk analysis of projects. A cross agency Capital Planning and Development Group (CPDG) is proposed, tasked to review concept plans for capital works, make recommendations to Cabinet, the development of projects for stage two approval, and monitor program performance throughout the year.

The CPDG should be chaired by Treasury and bring together high level skills in relation to:

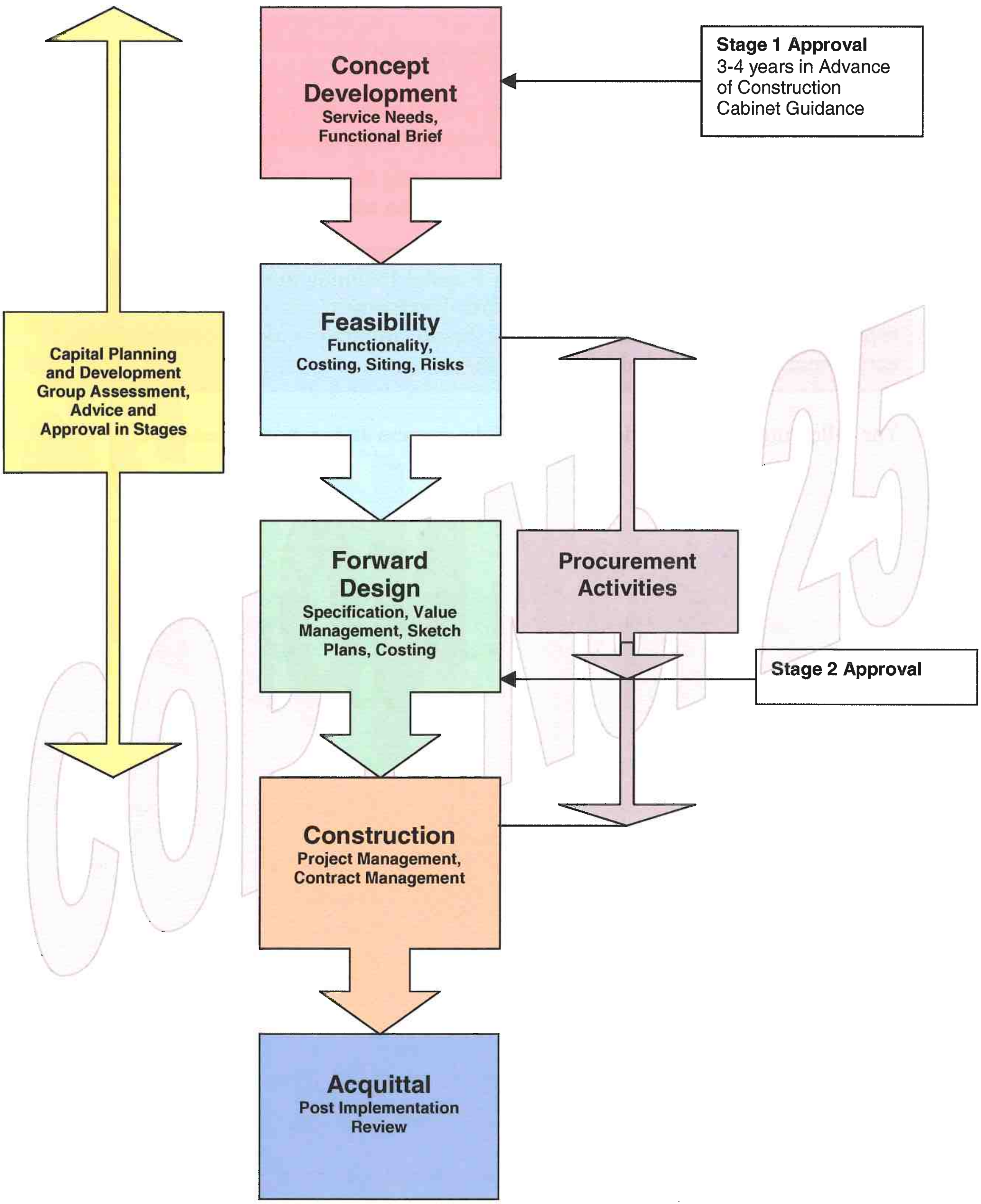
- Planning: ACT Planning and Land Authority; and
- Project development, procurement and project management: Procurement Solutions and representatives of major capital works agencies.

The CPDG's role would be advisory, and supporting the capital works programming and accountabilities. Its role should not be decision making.

Recommendation 233: an inter-agency Capital Planning and Development Group (CPDG) be established to facilitate development, monitoring and reporting of capital works. The CPDG should comprise senior executives from each department, and chaired by Treasury.

The following figure provides a layout of the process and proposed measures.

Layout of Measures – Project Cycle



Assessment Tools

A major deficiency in the current arrangements relates to the absence of cost-benefit analysis. Consideration of options and their relative costs and benefits need to be clearly highlighted for Cabinet to make informed decisions. Such decisions need to balance environmental, social and economic/financial objectives.

An evaluation framework that takes into account these aspects is being developed as part of implementing Triple Bottom Line/Sustainability budgeting. The framework is to include assessment tools such as Triple Bottom Line Cost/Benefit Analysis and *Ex Poste* Evaluation

Monitoring, Reporting and Evaluation

Treasury should continue its monitoring and reporting role, in association with, and support of, advice from CPDG. A quarterly progress report should be provided to Cabinet, based on an exceptions approach highlighting issues of significance. This should be structured as both a management and financial report, and include advice on possible early interventions.

A formal year-end review should be built into the process to re-evaluate projects against which no significant activity has been undertaken. Similarly, an end-of-year acquittal process should be formalised to ensure surplus funds, as agreed between Treasury and departments, are returned to Government.

Recommendation 234: monitoring, reporting and evaluation of the capital works program, and individual projects, be undertaken by Treasury, with assistance and advice from CPDG.

Guidance to Agencies

At this stage, guidance to agencies on various aspects of capital works such as project development, assessment, budgeting, procurement, monitoring and variations is spread across a variety of documents and memoranda issued over time. It is proposed that Treasury consolidate these documents into a single guidance paper and will make it available on the Treasury website.

Recommendation 235: Treasury consolidate all policy documentation, procurement, operational and budget memoranda into a single point of reference on the Treasury website.

Implementation of the Framework

The capital works program for 2006-07 is currently being developed with the Budget. Given this status of the budget process, any new arrangements should apply to the 2007-08 capital works program. Transitional arrangements for moving to the new arrangement could, however, commence before the start of 2007-08.

Part

10

COMMUNITY GRANTS AND SERVICE AGREEMENTS

CHAPTER 10 COMMUNITY GRANTS AND SERVICE AGREEMENTS

OVERVIEW

Most government departments administer community grants in various forms, and service agreements with the non-government sector. Expenditure across the government on community grants totals approximately $15.7 million per annum. Service agreements cost about $104 million per annum. These figures do not cover business grants, which are separately covered in Chapter 7.9.

Community grants are separately managed by the Chief Minister's Department ($6.9 million), the Department of Economic Development ($2.4 million for sport and recreation grants), Department of Disability Housing and Community Services ($2.3 million) and ACT Health ($2.2 million). The cost of administering these grants in 2004-05 was $1.7 million - between 3 per cent to 67 per cent of the grant funding.

Service agreements are primarily multi-year, managed by DHCS ($61.3 million) and Health ($42 million). Together these two departments accounted for around 99.5 per cent of all service agreements in 2004-05. The additional cost of managing service agreements is estimated at $2.8 million.

KEY CONCLUSIONS AND RECOMMENDATIONS

- There are multiple community grant arrangements within and across departments. There are opportunities for these to be streamlined, standardised and consolidated. Similarly, service agreement arrangements should be more strengthened and streamlined.
- A key differential between community grants and service agreements relates to their multi-year application and commitments by Government. Approximately half of current community grants should be more correctly classified as service agreements. All programs should be reviewed and classified accordingly.
- The Review is proposing that community grants programs be consolidated and streamlined through the establishment of two main grant programs called *Health and Community Services Grants* and *City and Territory Services Grants.* Arts grants funding should remain in CMD.
- Net savings of $2.6 million per annum are proposed from administration of grants and service agreements, through consolidated and better co-ordinated structures.
- The Review has proposed $0.1 million for the establishment and maintenance of an ACT Government grants portal and whole of government register of grants.

10.1 FUNDING FRAMEWORK FOR COMMUNITY GRANTS AND SERVICE AGREEMENTS

Many community grants are for a discrete purpose and period (i.e., time limited), while service agreements with the community sector are multi-year and targeted to specified outcomes. However, there is overlap and lack of clarity regarding the distinction between community grants and service agreements and the associated accountability requirements.

The Review found that about half of community grants could be considered more appropriately service agreements, due to their nature and timeframes. Departments should reassess individual programs and redefine community grants to service agreements where the arrangements commit the Territory to multi-year contracts.

Recommendation 236: community grants be reviewed and reclassified to service agreements where they relate to multi-year commitments.

10.2 ADMINISTRATION OF COMMUNITY GRANTS

Currently, each grant program is separately administered, and each has its own guidelines and acquittal procedures. This disparity in arrangements is compounded through having no central point of administration or mechanism to either monitor the awarding of grants or provide guidance to potential recipients on accessing grants from the Government.

Community grant allocations over the forward estimates range from $15.7 million in 2005-06 to $12.7 million in 2008-09. A summary of the programs is shown below.

Table 10.1: Summary of Community Grants Programs

Agency	2005-06 $'000	No of Grant Programs	Community Grant Recipients
CMD	6,853	8	Arts, Environment Community Inclusion Fund, Festival, Women, Seniors
DED	2,409	1	Sport and Recreation
DHCS	2,273	13	Multicultural, Canberra Community Grants, Carer Recognition
Health	2,210	2	Health promotion
ACTC	950	3	Tourism, Events, Science
DET	766	7	Parents Associations, Industry Training
DUS	250	1	Community Partnerships
ACTPLA	27	1	Community Councils
TOTAL	**15,738**	**36**	

Grant administration processes are not standardised across government agencies, although some informal liaison does occur between grant administrators.

The cost of administering grants varies from 3 per cent to 67 per cent per program, totalling approximately $1.7 million in 2004-05. Some grant programs have clear guiding principles and others do not. A public submission to the Review indicated that the *'current system is unsatisfactory to many Canberra community organisations and would appear to be inefficient and therefore expensive to administer'*.

Standardisation of grant administration should include the following key elements:

- a whole of government set of guidelines, application processes, grant agreements and accountability procedures;
- a register of recipients for monitoring the grant program and to avoid gaps or overlaps; and
- a website portal to facilitate community access to Government assistance.

Consolidation of Grant Programs

Grant administration should be streamlined through the establishment of two main grant administration units within the Department(s) of Health and Community Services, and the Department of City and Territory.

Two integrated grant programs are proposed, called *Health and Community Wellbeing Grants* for the Department(s) of Health and Community Services, and *City and Territory Services Grants* for the Department of City and Territory.

The *Health and Community Wellbeing Grants* should cover people with disabilities, carers, Indigenous people, women, seniors, health promotion (equivalent to current Health**pact** grants[1]) and addressing disadvantage (Community Inclusion Fund). Similarly the *City and Territory Services Grants* should cover sport and recreation, heritage and environment.

Integrating and consolidating grant programs into two key programs should provide efficiencies from improved administration, with estimated savings of $0.5 million in 2006-07, rising to $0.940 million per annum indexed annually. This equates to operating administration at 3 per cent of grants. Evaluation of programs should be undertaken as part of policy assessments.

Recommendations 237, 238, 239, 240 and 241:

- **two primary community grant programs be established, namely *Health and Community Wellbeing Grants* and *City and Territory Service Grants*;**
- **grant administration be streamlined within the Department(s) of Health and Community Services and the Department of City and Territory;**
- **community grants be reviewed with those grants relating to multi-year commitments to be reclassified as service agreements;**
- **a benchmark for administering community grants be established at 3 per cent of grant funding, providing estimated savings of $0.5 million in 2006-07 rising to $0.940 million per annum indexed annually; and**
- **funding of $0.1 million be allocated towards the establishment of an ACT GrantLink portal and whole of government register of grants within the Department of Community Services.**

[1] Note Health**pact** legislation would need to be amended.

Community Grants Forward Estimates

The forward estimates for community grants are as follows:

Table 10.2: Current and Proposed Forward Estimates for Grant Funding

	2006-07 $000	2007-08 $000	2008-09 $000	2009-10 $000
Current Forward Estimates for Grants	15,029	15,434	12,703	12,703

The forward estimates show a decrease of $2.7 million in aggregate grants programs in 2008-09 compared with the previous years. This reflects decisions in previous budgets to provide time limited funding for certain grants programs[2] (particularly the Community Inclusion Fund and Canberra Community Grants Program).

The Review proposes that no additional funding be provided after 2007-08 for these programs, and the forward estimates for total community grants estimates remain unchanged.

Recommendation 242: no additional funding be provided after 2007-08 for the Community Inclusion Fund and the Canberra Community Grants Program, consistent with the current forward estimates.

10.3 SERVICE AGREEMENTS

A summary of service agreements, by department, is as follows:

Table 10.3: Service Agreements

Agency	$'m	No of Providers	FTE Administration Staff
CMD	0.34	3	
Health	42.0	83	8.3
DHCS	61.3	125	22.3
JACS	0.2	2	0.1
Total	**103.8**	**213**	**30.7**

Note: the total number of providers exceeds the actual number of providers as a provider may have service agreements with more than one agency.

Of the service agreements put in place by departments:

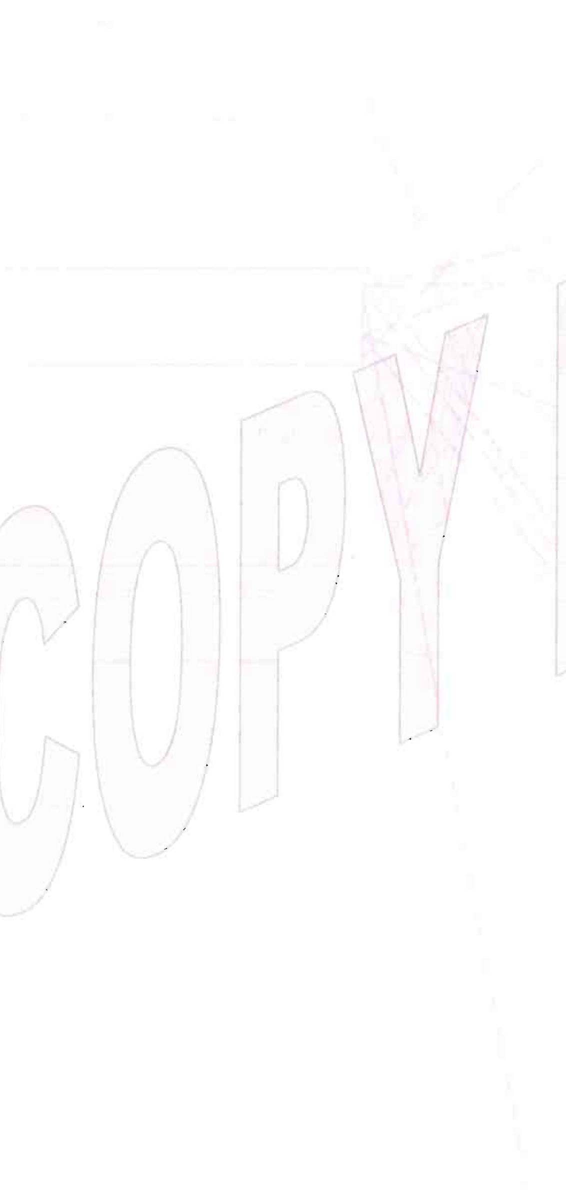
- 15 providers receive more than $2 million each, accounting for 42 per cent of total expenditure;
- 62 providers (or 30 per cent) receive less than $100,000;

[2] The approach was adopted to allow a review of the effectiveness of the programs and if appropriate adopt those programs under service agreement funding arrangements.

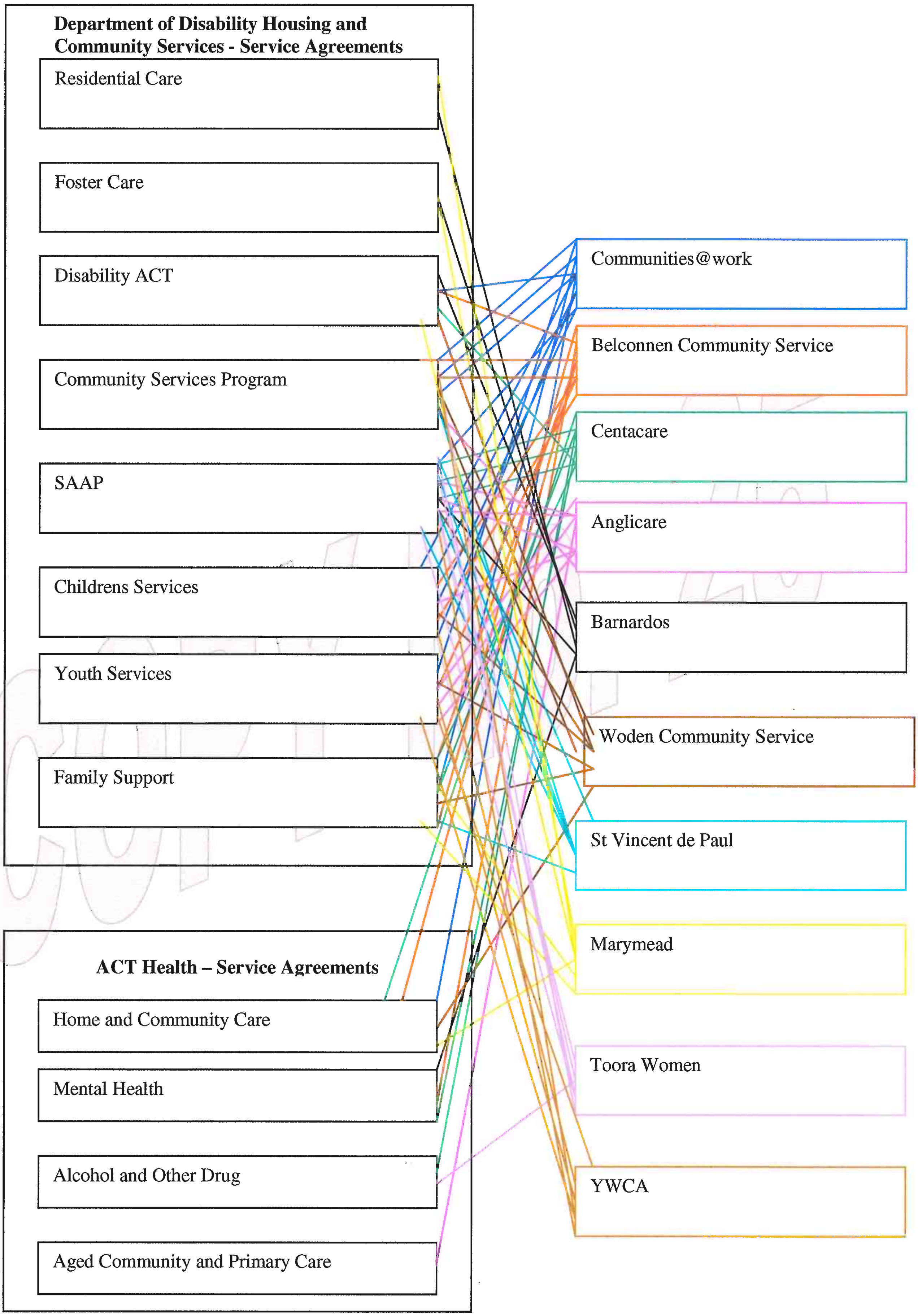
- almost 70 per cent, or 123 providers, have only one service agreement;
- 14 per cent, or 26 providers, have two service agreements; and
- two providers have 10 or more service agreements with one or more agencies.

A further complexity for service agreements relates to the multiplicity of points of contacts between government departments and providers. There are two providers that have 10 or more service agreements with one or more agencies.

The diagram below shows the contractual links, at program level, with the 10 community organisations that have the most service agreements.



Multiplicity of Services by Service Type



Whilst some of these are larger agencies, there are significant transaction costs for both the government and the community groups in maintaining multiple contracts with the one agency. Proactive management of these agreements is also difficult, given that they operate across different service delivery areas of government and/or departments.

The level of funding directed to administration functions within community organisations can vary from 10 per cent to 30 per cent of total funding. Some large organisations appear to contribute significantly to their national organisations through their administrative costs.

Service agreements should be managed more strategically through centralising this role within a designated unit in each department. For the Department of Community Services and the Department of City and Territory, further benefits should be achieved through service agreement management also being integrated with community grant administration units.

Further opportunities exist for consolidation and more streamlined management of community grants and service agreements between Department(s) of Health and Community Services. Should the two Departments remain separate, management structures (for example, a shared administration unit) should be put in place to manage community grants and service agreements across the two Departments.

It is estimated that a core cell of 12 FTEs within the centralised service agreement area would be sufficient to manage service agreements. This would result in savings of 19 FTEs, or $1.7 million per annum.

Effort should be made to simplify contractual arrangements with the community sector, through the development of appropriate contracts and performance measures. The Review proposes that $0.250 million of the savings in 2006-07 be directed to this purpose.

Recommendations 243, 244, 245 and 246:

- **service agreements/contracts be managed more strategically through centralising this role within a designated unit within each portfolio;**
- **irrespective of the departmental structures, management structures should be established to manage community grants and service agreements across the areas of responsibility of Health and Community Services;**
- **savings of $1.0 million in 2006-07, rising to $1.7 million per annum be made through rationalising service agreement administration within a centralised area of the Department of Community Services (and managing both service agreements and community grants); and**
- **$0.250 million be directed in 2006-07 towards establishing improved management and contractual arrangements with the community sector.**

10.4 ENSURING VALUE FOR MONEY FROM COMMUNITY SECTOR EXPENDITURE

Over the past decade, governments worldwide have been working with community organisations to deliver services, particularly those human services previously delivered wholly by Government. Most jurisdictions across Australia have outlined reforms over the last five years to strengthen the community sector and its working relationships with Government.

The *Report of Government Services 2006* and internal data indicate that the community sector can deliver community services, including support and accommodations services, more cost effectively than Government.

Whilst the Government will always need to retain some capacity, particularly as the provider of last resort, greater use of the community sector should be targeted.

With the majority of three-year service agreements up for renewal (or otherwise) in mid 2007, it is opportune to strategically reassess the nature of funding to the community sector and to ensure the Government is getting value for money through adequate quality and system controls.

In 2005, the Government established a Community Sector Taskforce to investigate issues relating to the ongoing viability of the community sector including industrial relations issues. The Taskforce Report *Towards a Sustainable Community Services Sector in the ACT* will be provided to the Minister for Industrial Relations in mid March 2006. The draft report makes recommendations focussed on funding (including progressing Strategy 3 of the Community Sector Funding Policy as a matter of urgency: that is the development of core pricing principles for different types of community sector services), pay parity, industrial relations advice, occupational health and safety, community sector workforce development and long service leave.

The Government's response to the Taskforce Report should encompass measures outlined in this chapter, and support to the community sector within the fiscal constraints faced by the Government over the forward estimates.

Recommendations 247, 248 and 249:

- **greater use of community service providers should be targeted as a measure to achieving improved cost effective services;**
- **use of community services should be achieved within department's existing funding envelopes, or through reprioritisation of those funds; and**
- **the Government's Response to Towards a Sustainable Community Services Sector in the ACT be based on achieving cost effective services within the financial constraints faced across the forward estimates.**

10.5 SUMMARY OF SAVINGS AND STAFFING IMPACTS

Savings Measure	2006-07 $'m	2007-08 $'m	2008-09 $'m	2009-10 $'m	Total FTE impacts
Introduction of 3% Benchmark for Grant Administration	0.500	0.940	0.964	0.988	9
Grant Portal and Register	-0.100	-0.100	-0.100	-0.100	
Streamlined Service Agreement Management	1.000	1.743	1.786	1.831	19
Community Sector Interface Investment (Redirection of Funds)	-0.250	0	0	0	
TOTAL	**1.150**	**2.583**	**2.650**	**2.719**	**29**

Note: $0.1 million per annum of savings to be invested to Health and Community Services for grant portal and register.

Appendix 10.1

Value of Grants Reclassified as Service Agreements

Service Agreements	2006-07 $'000	2007-08 $'000	2008-09 $'000
CMD			
Occupational Health and Safety Liaison Officer	80	87	94
Arts multi-year	3,300	3,400	3,500
Total CMD	***3,380***	***3,487***	***3,594***
Canberra City and Territory			
Sport and Recreation multi-year	1,355	1,400	1,450
National Capital Education Tourism Project	254	254	254
Community Council Assistance	27	27	27
Aust. Science Festival	246	246	246
Total Canberra City and Territory	***1,882***	***1,927***	***1,9777***
Health and Community Services			
Out of Home Care Support Services	435	446	457
Youth InterACT	22	23	23
Schools as Communities	59	62	65
***Total* Health and Community Services**	***516***	***531***	***545***
DET			
ACT Council of Parents and Citizens Associations Grants	74	75	77
Association of Parents and Friends Grants for Non-Govt Schools	38	39	40
ACT Industry Training and Advisory Service	0	0	0
The Green Machine Science Education Centre	60	60	0
Community Languages Program ACT Ethnic Schools	39	0	0
Music Viva Program	0	0	0
Total DET	***211***	***174***	***177***
TOTAL	**5,989**	**6,119**	**6,293**

Part

11

REVENUE OPPORTUNITIES

CHAPTER 11 REVENUE OPPORTUNITIES

OVERVIEW

The Review's Term of Reference required it to make recommendations on specific options for increasing non-taxation revenues (part Term of Reference 5).

On 22 March 2006, the Chief Minister wrote to the Review Chair, expanding the Terms of the Reference and asking the Review to "investigate and report on options in relation to taxation revenue". This part accordingly covers both taxation and non-taxation revenues.

Forecast total revenue in 2005-06 has been revised upwards by $106.2 million since the 2005-06 Budget to a total of $2,822 million at the time of the mid-year review. This rise is mainly attributable to positive gains in superannuation investments, improved interest returns, and asset revaluations[1] offset by significant decreases in land revenues and grants from the Commonwealth.

Table 11.1: Components of General Government Revenue

	2005-06 Original Budget $'000	2005-06 Revised Budget $'000	2006-07 Revised Estimate $'000	2007-08 Revised Estimate $'000	2008-09 Revised Estimate $'000
REVENUE					
Taxes	728,989	711,309	737,607	792,389	844,640
Fees	128,543	138,730	134,098	137,382	140,917
Fines	23,138	22,508	23,695	24,227	24,772
User Charges - Non ACT Government	216,328	215,802	234,988	242,486	253,011
User Charges - ACT Government	10,812	12,768	13,544	13,692	13,984
Grants from the Commonwealth	1,148,171	1,139,396	1,183,407	1,237,571	1,289,003
Interest	69,020	74,849	57,057	50,065	51,687
Dividend Revenue	60,318	60,318	70,522	76,351	79,297
Other Revenue[2]	220,457	360,281	232,826	234,422	251,841
Government Land Development Sales	110,182	86,262	113,507	138,485	152,500
Resources Received Free of Charge	0	0	39	39	39
Total Revenue	**2,715,958**	**2,822,223**	**2,801,290**	**2,947,109**	**3,101,691**

Source: 2005-06 ACT Budget and Mid-Year Review

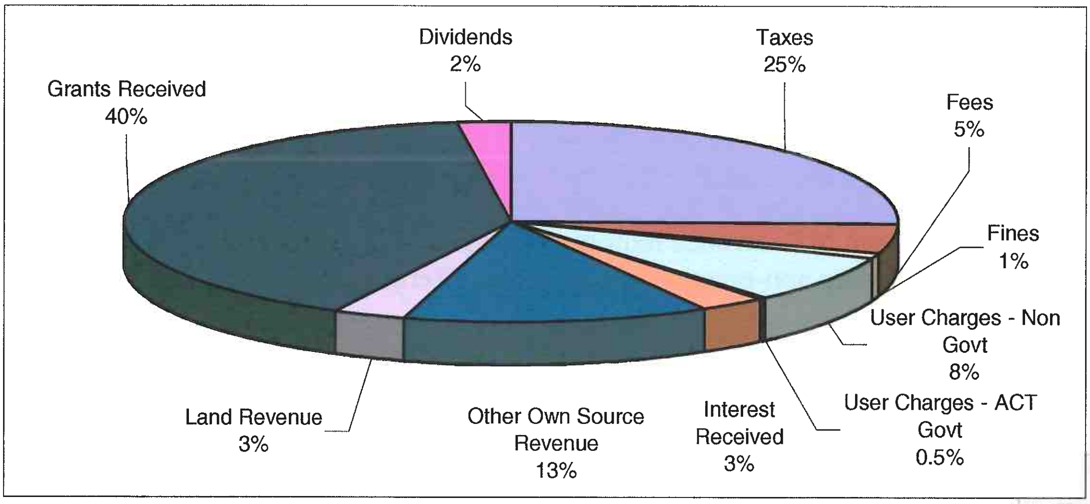
In the ACT approximately 31 per cent of total general government revenue is derived from taxes, fees and fines, with the remainder from grants, other own source revenue, land revenue, user charges, dividends and interest received.

The components of general government revenue are highlighted in the figure below.

[1] Recognition of the Convention Centre Asset by the Department of Economic Development.

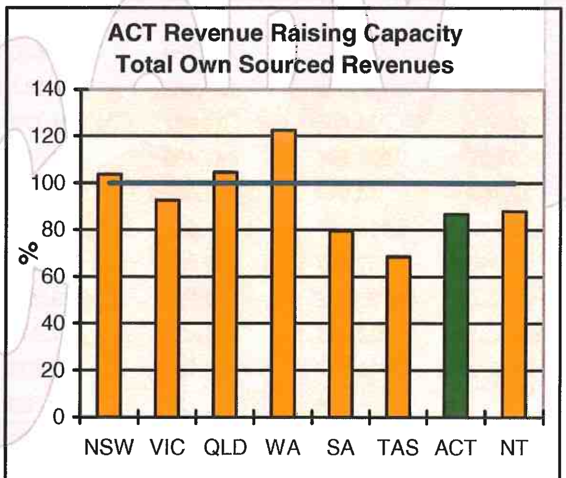
[2] Large variation on Other Revenue from 2005-06 Original Budget and 2005-06 Revised Budget mainly related to Revaluation of Convention Centre of $24 million and Gains on Superannuation Investments of $95 million.

Figure 11.1.1
2005-06 Mid Year Review - Components of General Government Revenue

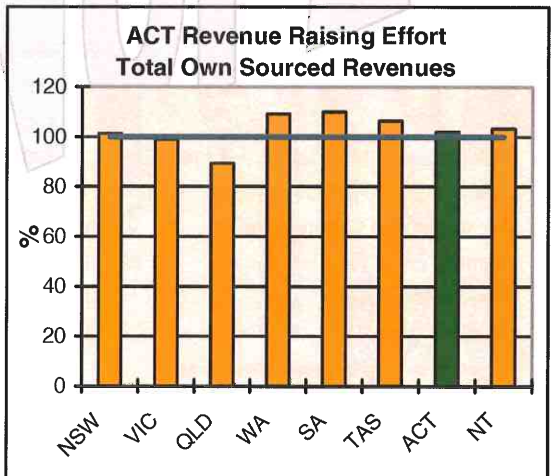


The ACT's revenue raising capacity[3] is relatively low, due to its inability to impose payroll tax on a major employer (Commonwealth) and the absence of any natural resource tax base. The Commonwealth Grants Commission's assessment provides compensation for this disability.

The ACT's revenue raising effort[4] is slightly above the Australian average (by around 2 per cent). The revenue rasing capacity and effort relative to other jurisdictions are highlighted in the charts below.



Source: Commonwealth Grants Commission 2006 Update



Source: Commonwealth Grants Commission 2006 Update

As discussed in Chapter 2, the ACT has a considerably higher level of expenditure effort, i.e., its expenditure is in excess of its assessed need.

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[3] **Revenue Raising Capacity Ratio** - A ratio which indicates the capacity of a State to raise revenue relative to the Australian average. It reflects the size of a State's revenue base per capita relative to the Australian average and is measured by dividing assessed revenue per capita by adjusted revenue per capita. A ratio below 1.000 indicated below average capacity to raise revenue.

[4] **Revenue Raising Effort Ratio** – The ratio of the State's actual revenue per capita to its assesd revenue per capita. A ratio greater than 1.0000 indicated that a State is making an effort to raise revenue above the Australian average. A ratio below 1.0000 indicates below average effort.

Due to the quantum of mismatch between the revenue and expenditure efforts, the Review has had to look at possible new sources of revenue, revenue alignment with other jurisdictions and/or increases to ensure recognition of the increasing growth in costs associated with service delivery and cost recovery.

Given the limited time, an assessment of all the fees and user charges has not been possible. The Review has focussed on significant items only. The Review has noted, however, that in large number of instances, determinations date back to 1990s.

There does not appear to be central policy and guidance on setting fees and charges. This work should be undertaken prior to the 2007-08 Budget.

11.1 TAXATION REVENUE

11.1.1 Municipal Services – General Rates

Policy decisions on municipal matters are made on the same basis as decisions on territorial matters, with no formal distinction being made between them. However, making the distinction has some policy value in considering revenue policy options. The Review has sought to assess the extent to which municipal revenues cover the cost of municipal services.

The annual financial statements for each agency record total revenue and expenses and do not distinguish between municipal and territorial activities. In the absence of separate audited financial statements, the most appropriate way of measuring the proportion of the ACT's finances devoted to municipal functions would be to extract information from returns submitted by the Territory to the Commonwealth Grants Commission (CGC)[5]. However, some agencies have traditionally provided a nil return, despite performing a number of municipal services, or reported lower expenditure[6]. In addition, in the 2005-06 Budget, there were significant changes in both revenue and expenditure relating to municipal services.

The approach adopted by the Review to develop a statement of revenues and expenses for municipal activities for 2005-06 is to:

- adjust the 2004-05 CGC return for significant omissions;
- update it for any decisions taken in the 2005-06 Budget in relation to revenue and expenditure; and
- draw on the information provided by agencies on their activities.

Local governments across Australia deliver a variety of services in addition to some common services. For this reason, it is difficult to establish a 'standard' set of

[5] The Commission excludes municipal functions in assessing Standardised Expenditures across the States and Territories.

[6] For example, the Department of Economic Development provided a nil return. The return from ACT Planning and Land Authority only identified $0.433 million in expenditure on municipal functions, although more than 80 per cent of its activities relate to municipal services. Treasury has reported the collection of General Rates to be municipal in nature, but no expenses have been apportioned to this activity.

functions. Determining the cost of municipal services in the Territory is somewhat further complicated as state and local government functions are highly integrated in some areas, for example, land and planning. The following statement, therefore, is likely to represent conservative estimates of expenditure.

The revenue items relating to municipal services on the other hand are more clearly defined.

The operating deficit in the statement summarised in the table following is indicative only.

Table 11.2: Revenue and Expenses – Municipal Services

	2005-06 $'000
REVENUE	
ACT Planning and Land Authority	
Land Rents	3,983
Development Application Fees	2,041
Certified Plans for Buildings	2,943
Plumbing and Drainage Fee	1,151
Other	980
Department of Urban Services	
Road Transport	32,425
Customer Services & Information	1,276
Waste and Recycling	2,564
Canberra Urban Parks and Places	1,900
ACT NoWaste	6,948
Other	2,479
Department of Treasury	
General Rates	133,000
Grants	57,000
Other Agencies	*911*
TOTAL	**249,601**
EXPENSES	
ACT Planning and Land Authority	
Development Applications	5,813
Infrastructure Planning	1,658
Structure Planning	1,857
Land Strategy and Assets	1,647
Urban Design and Projects	2,115
Spatial Plan Implementation	1,716
Leasing	3,595
ACT Land Information Centre	2,808
Customer Services Shopfronts	3,485
Other	1,076
Corporate Support	3,586
Department of Urban Services	
Customer Service and Information	30,918
Roads and Infrastructure	93,145
Waste	16,626
Canberra Urban Parks	51,846
Road Transport Regulation	4,429
Government Services	4,851
Other Agencies	*25,128*
TOTAL	**256,299**
DEFICIT	**-6,698**

Source: Agency data provided to the Review

Rating factors in the ACT have been relatively lower than in bordering NSW. The following table provides a comparison of the average rates in Queanbeyan with the average rates in the ACT[7]. It also indicates the rates in Queanbeyan if the ACT rating factor were applied in Queanbeyan, and conversely, the rates in ACT if the Queanbeyan rating factor were applied in the ACT.

Table 11.3: Comparison of rates – ACT and Queanbeyan

	Average Weekly Household Income ($) (2001 Census)	Average Unimproved Value ($)	General Rates ($)	
			Canberra	Queanbeyan
Canberra	1,151	198,835	1,032	1,361
Queanbeyan	961	126,000	769	945

Source: ACT Treasury – Revenue Office

The operating deficit established on a conservative basis, the relatively lower rating factor compare with neighbouring Queanbeyan, and the relatively higher financial capacity of the ACT residents provide a case for an increase in General Rates. The Review proposes a base increase of 6 per cent in 2006-07.

General Rates have been capped at CPI. The cost of services, however, increases at a higher rate due to real increase in wages. To maintain parity between revenues and expenses going forward, the Review proposes that annual increase in General Rates be based on the labour price index[8].

The following table provides forecast revenue based on a 6 per cent increase in 2006-07, and 3.8 per cent per annum increase across the forward years[9].

Table 11.4: Impact of Base Increase and Wage Growth Factor on General Rates

General Rates	2006-07 $'m	2007-08 $'m	2008-09 $'m	2009-10 $'m
Current Forward Estimates	**151.6**	**157.6**	**163.8**	**169.7**
Increase Rates by 6% in 2006-07	8.7	8.9	9.1	9.7
Increase Growth to Wage Growth Rate	1.7	3.7	5.8	8.6
Revised Forward Estimates	**162.0**	**170.2**	**178.7**	**188.0**
Additional Revenue	**10.4**	**12.6**	**14.9**	**18.3**

Recommendations 250 and 251:

- **that base General Rates be increased by 6 per cent in 2006-07; and**
- **that from 2006-07, General Rates be indexed at the Labour Price Index.**

[7] General Rates notice in Queanbeyan includes water and sewerage payments. Those have been excluded for the purpose of comparability.

[8] ABS Catalogue No. 6345.0, Labour Price Index, Australia.

[9] A weighted average of rate of wage rises and CPI is used.

11.1.2 Fire Levy

Most jurisdictions in Australia impose a fire or emergency services levy. This may be either administered and/or collected at the state or local government level.

The levy generally funds the delivery of fire and/or emergency service functions to the community and may be used to fund urban fire brigades and rescue services, rural fire services, bushfire services, state emergency services, volunteer fire and/or emergency services.

Apart from the ACT and the Northern Territory, fire levies are the primary source of funding for the States for the provision fire services. Generally, NSW and Victoria raised their levies through insurance companies, whilst all other States raised their levies from property owners. The table below summarises the various arrangements by jurisdiction:

Table 11.5: Fire and Emergency Services Levies in Other Jurisdictions

Jurisdiction	Levy	Imposition	Est. Revenue 2005-06
NSW	Fire Brigades Levy Bush Fire Services Levy	Insurance Based	\$343m \$103m
Victoria	Fire Levy	12.5% State Government 12.5% Municipal Council (Rates) 75% Insurance Companies (Premiums)	\$337.2m
Queensland	Fire Levy	Local Council (collection through Rates)	\$232m
Western Australia	Emergency Services Levy	Property Based	\$137.7m
South Australia	Emergency Services Levy	Property Based	\$174.3m
Tasmania	Fire Service Levies	Fire Services contribution on property (collected by Councils) Motor Vehicle Fire Levy Fire Levy on prescribed cases of insurance	\$41m

Source: Jurisdictional Emergency Services Websites and Budgets

In general, the levies recover approximately 75 per cent of the cost of fire brigade services. The cost of fire services in the ACT is considerably higher than the national average, and the Review has proposed a decrease in overhead costs[10]. A rate of around 60 per cent is therefore proposed. This would equate to around \$20 million per annum[11].

The Review proposes that a levy be imposed on property owners rather than insurance companies (as not all properties are insured)[12]. For ease of administration, the levy would be included as part of the annual General Rates notices. The one-off cost of changes to system are minimal (estimated at \$10,000) and would be absorbed by

[10] Chapter 7.11 provides a comparison of ACT costs with the national average.

[11] This estimate excludes the funding provided by the Commonwealth for Fire Brigade services.

[12] In addition, fire insurance levy on insurance companies is treated as State based tax by the Commonwealth Grants Commission, as part of its Insurance Taxation assessment. Such a levy will increase a State's assessed revenue raising capacity, and therefore impact adversely on its relativity. A levy on property through General Rates on the other hand is treated as a municipal based tax, and does not impact on a State's revenue raising capacity.

Treasury. It is proposed that the revenue be recovered equally from residential and commercial properties.

The ACT has approximately 126,000 residential leases. It is proposed that the levy for residential properties should be a flat annual charge. There are approximately 26,300 people receiving pensioner concessions. The following table indicates the levy per property depending upon whether pensioners are included or excluded.

Table 11.6: Options on Fire Levy per Residential Property

Fire Levy –Revenue $13.5m per annum	Levy per Property	Levy on Pensioners
Pensioner Exempted	$100	0
50% Levy for Pensioners	$88	$44
100% Levy for Pensioners	$79	$79

The Review proposes that concessions should apply to pensioners and disadvantaged households. This should be set at 50 per cent of the annual levy rate.

For commercial leases, in principle, the levy should be charged on the basis of risk, and the weight of response required in the case of a fire. Such an assessment has not been undertaken in the Territory. The Review proposes that the levy be based on the unimproved value of land, as a proxy.

The ACT has approximately 5,030 commercial properties. On this basis, it is estimated that an average rate of 0.46 per cent on the unimproved value of land would yield revenue in the order of $10 million per annum. As an example, for a large shopping centre, this would equate to around $160,000 per annum in levy.

Recommendations 252, 253, 254 and 255:

- **a Fire Levy be introduced against all rateable properties in the ACT;**
- **the charge be set at $88 per annum for residential properties, to generate $10 million per annum in revenue;**
- **pensioners and disadvantaged household be charged 50 per cent levy; and**
- **for commercial properties, the levy be based on the unimproved value of land, to generate $10 million per annum in revenue.**

11.1.3 Ambulance Levy

The Ambulance Service Levy is imposed under the *Emergency Management Act 1999* on health benefits organisations to offset the cost of providing ambulance services in the Territory[13]. The fee paid through the health funds is approximately $107 per family and $54 per individual. About 56 per cent of ACT residents are members of a health fund.

[13] The ACT collects levies from health funds for each insured family and individual resident in the ACT. Currently, this is consistent with NSW although NSW is reviewing its current regime.

The revenue in 2005-06 is estimated at $6.860 million per annum. The cost of ambulance services is around $11 million per annum.

Except for pensioners, all other residents are charged for ambulance transport. The ACT has the second lowest charge for ambulance transport of all jurisdictions, at an average of approximately $317 per trip for emergency transport, and $167 per trip for non-emergency transport. The average cost to ESA is, however, $671 per trip for emergency transport, and $479 per trip for non-emergency transport. The cost of collecting ambulance transport fees is considerably high at $0.3 million (4 FTEs) for revenue of $0.5 million[14].

The national average charge is approximately $770 for emergency and $278 for non-emergency trips[15]. It is proposed that the current levy (on the health funds) be retained, and the ambulance transport fees be increased to the national average.

It is proposed that the Ambulance levy on health fund be increased to a level that recovers the full cost of the ambulance service. In addition, it is recommended that the administrative process for collecting ambulance transport fees be improved with the aim of reducing collection costs.

Queensland collects an ambulance levy through its electricity accounts, amounting to $90.20 per residential electricity connection per year. It continues to charge ambulance fees for interstate residents, inter-hospital transfers and DVA cardholders.

It is proposed that a 50 per cent concession be provided to pensioners. The additional revenue is estimated at proximately $3.3 million.

The arrangements for interstate ambulance costs would need further investigation, and possible negotiation on a state-by-state basis with other jurisdictions.

Recommendations 256, 257 and 258:

- **the current Ambulance Levy on health funds be retained, with the levy set to a level that recovers the full cost of the ambulance service;**
- **the Ambulance Transport Fees be increased to align with national benchmarks; and**
- **the administrative processes for collecting ambulance transport fees be improved with the aim of reducing collection costs.**

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[14] This is due to invoices being raised for pensioners, which after an involved process, are cancelled. Simplification of this process is likely to have workflow impacts on Emergency Department staff in the hospital.

[15] *Ambulance Service of NSW Funding Model: A Comparison With Other National and International Ambulance Services*; IPART (NSW), 2005.

11.1.4 Stamp Duty – Home Buyer Concession

The cost of Home Buyer Concession Scheme (HBCS) is estimated at $11.5 million in revenue foregone. The concession is provided to first home buyers and re-entrants into the market who disposed of their home due to family breakdown or financial hardship reasons.

The eligibility is determined through the following criteria:

- income test: household income of $100,000 with allowances for children based on *Family Tax Benefit* criteria; and
- price test: full concession for properties purchased within the bottom quartile of all purchases, and partial concession (on a sliding scale) for properties between the 25th percentile and 65th percentile. The property value thresholds are updated every six months.

The eligibility criteria supports a group much wider than low income, first home buyers. It is proposed that the criteria be adjusted as follows:

- income test: household income of $80,000 (mean household income) with allowances for children based on *Family Tax Benefit* criteria; and
- price test: full concession for the bottom quintile (20 per cent), and partial concession up to the median price.

The proposed changes would reduce the revenue foregone by an estimated $4.5 million.

Recommendation 259: the eligibility criteria for the Home Buyer Concession Scheme be adjusted to:

- **maximum household income of $80,000 with the current allowances for children; and**
- **full concession for house prices in the bottom quintile, and partial concession up to the median price.**

11.2 FEES AND USER CHARGES

'User charges' are revenues directly related to the sale of goods or provision of services to other entities, which may include other ACT Government entities. User charges are generated by consumer demand, are market-related and have a commercial nature. They are non-regulatory in nature, in that they are not a policy instrument that Government uses to regulate an activity. Examples of user charges include parking fees, inpatient fees, sales, service receipts and cross border health receipts.

'Fees' (also known as regulatory fees) are usually associated with the granting of a permit or privilege, or with the regulation of an activity. Fees are a compulsory payment with an identifiable benefit attached. Fees are an instrument of public policy that Government uses to regulate certain activities. Examples of fees are motor vehicle registrations, drivers licences, water pollution licences, weapons licences, and public weighbridge fees. Regulatory Fees do not include audit fees, which are a user charge.

Revenues of a non-taxation nature that are directly controlled by the ACT Government, (namely fees, fines and user charges) equate to 14 per cent of the revenue base.

Table 11.7: General Government Fees, Fines and User Charges

	2005-06 Original Budget $'000	2005-06 Revised Budget $'000	2006-07 Revised Estimate $'000	2007-08 Revised Estimate $'000	2008-09 Revised Estimate $'000
Motor Vehicle Registration	61,977	63,977	65,517	67,104	68,732
Drivers Licences	6,260	6,560	6,717	6,877	7,041
Change of Use Charge	4,212	10,712	4,318	4,425	4,536
Casino Licence Fees	716	716	734	752	771
Fees for Regulatory Services	40,348	41,735	41,631	42,664	43,888
Water Abstraction Charge	15,030	15,030	15,181	15,560	15,949
Fees	**128,543**	**138,730**	**134,098**	**137,382**	**140,917**
Traffic Fines	13,769	13,069	14,058	14,356	14,661
Court Fines	250	250	250	250	250
Parking Fines	8,852	8,852	9,073	9,300	9,533
Other Fines	267	337	314	321	328
Fines	**23,138**	**22,508**	**23,695**	**24,227**	**24,772**
Parking Fees	14,980	14,480	15,019	15,375	15,732
Inpatient Fees	20,700	21,822	22,289	22,768	23,161
Cross Border Receipts	52,816	52,816	55,350	55,218	55,479
Sales (inc Service Receipts)	114,338	113,104	128,467	135,036	144,297
Miscellaneous	13,494	13,580	13,863	14,089	14,342
User Charges - Non ACT Government	**216,328**	**215,802**	**234,988**	**242,486**	**253,011**
User Charges - ACT Government	**10,812**	**12,768**	**13,544**	**13,692**	**13,984**
Total Fees, Fines and User Charges	**378,821**	**389,808**	**406,325**	**417,787**	**432,684**

Source: 2005-06 ACT Budget and Mid-Year Review

11.2.1 Current Policy and Practice

There are varying practices across Territory agencies for setting and reviewing fees and user charges. Some agencies review and update their fee determinations on an annual basis. Others have not reviewed their fees for some time, although the cost of service provision may have increased significantly.

As an example, the general principle adopted by ACTPLA is that fees and charges are set at full cost recovery. However, the Authority does not undertake any activity based costing to determine the costs of performing specific functions. It has not undertaken any benchmarking of comparable revenues with other jurisdictions.

Determinations for fees and charges are generally made under legislation. In a number of instances information on agency websites has not been updated, or vice versa, determinations have not been updated to reflect fee variations[16].

There is no central policy or guidance provided to agencies that outlines the principles to follow and the issues to consider in setting fees and charges.

Recommendations 260 and 261:

- **Treasury develop a policy and guidance for agencies on setting and reviewing fees and user charges; and**
- **all user charges be reviewed every three years to ensure comparability with other jurisdictions and like services.**

Given the limited time, the Review was not in a position to assess all fees and charges against agreed core principles. This work should be undertaken by agencies in conjunction with Treasury once a policy has been developed. The Review has instead focussed on some key areas.

11.2.2 Proposals for New Fees and Charges

False Alarm Fee

Over the last 3 years, 50 per cent of Fire Brigade responses have been for system initiated false alarms. The Brigade has no alternative but to respond to a fire alarm. Currently, an average of 13 system-initiated false alarms occur per day.

In other jurisdictions, charges are levied for multiple call outs to the same property, due to the same fault. It is proposed that similar policies be put in place in the Territory.

The charge should be based on subsequent callouts to a property, and continue to apply until the fault is rectified.

The charge should be set at a level to act as an incentive to property owners to undertake urgent remedial works. It should also recover administrative costs.

A fee of $200 for residential and community sites and $500 for commercial and industrial sites for the 3rd and each subsequent system initiated false alarm is proposed. Estimated revenues from the fees are $0.3 million per year. More importantly, benefits result from a reduction in service call outs.

Recommendation 262: a false alarm call out fee be introduced for 3rd and subsequent call outs to properties by the Fire Brigade due to the same system fault. The fee should be set at $200 for residential and community sites and $500 for commercial buildings.

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[16] For example - CIT Fee determination has not been updated on the legislation website to correctly reflected updated fee schedules.

ACT WorkCover Fees and Charges

Proposal 1 – New Charges

Under the *Dangerous Substances Act 2004*, there are a number of activities undertaken by ACT WorkCover for parts of the ACT community where no fees currently are charged. Opportunities exist for introduction of a charging regime that would achieve full cost recovery in the areas of:

- registration and authorisation of explosive articles;
- registration of consumer firework permits; and
- response to requests for information on environmental or dangerous substances encumbrances in relation to development of land.

It is estimated that a full cost recovery fee regime in 2004-05 would have returned a further $0.180 million to the Territory, based on activity in that year. Estimated revenue from 2006-07 onwards is $0.117 million per annum indexed.

Recommendation 263: full cost recovery be implemented for ACT WorkCover's activities under the *Dangerous Substances Act 2004* relating to:

- **registration and authorisation of explosive articles;**
- **registration of consumer firework permits; and**
- **response to requests for information on environmental or dangerous substances encumbrances in relation to development of land.**

Proposal 2 – Investigation Cost Recovery

This proposal relates to the introduction of cost recovery for investigations undertaken by ACT WorkCover where successful prosecutions have resulted. Currently, successful prosecutions may result in the application of fines, which are on-passed to the Territory but not the recovery of costs involved in mounting the successful prosecution.

The costs of investigating incidents, which become the subject of prosecutions, create a significant financial impost and divert resources from other key activities normally undertaken by the organisation. This proposal seeks to introduce full cost recovery for these activities, payable upon successful prosecution, and at the courts discretion.

Given the nature of the issue, revenue targets are not available and will be based on the number, type and success of prosecutions undertaken.

Recommendation 264: necessary amendments to legislation be made to seek cost recovery for successful prosecutions following ACT WorkCover's investigations.

Water License Fee

The Government has set targets[17] to reduce per capita potable water use by 12 per cent by 2013 and by 25 per cent by 2023. A study commissioned by ACTEW Corporation concluded that, based on the demand response to previous water pricing reforms in the ACT, there is a role for pricing in achieving the targets[18].

The Study also concluded that the water tariff required to meet the 2013 target would have a top step price (including Water Abstraction Charge) of around $2.00/kL. The 2023 target would be achieved by a top step price of around $2.60/kL.

Any further increase in Water Abstraction Charge is likely to be subject to challenge on the basis of it being a tariff. It is possible to impose a Water License Fee on ACTEW as a demand management measure, to be on passed to consumers. A license fee of $15 million is proposed.

Further expert legal advice would be required to ensure the constitutionality of the fee.

Recommendation 265: Water License Fee of $15 million per annum be imposed on ACTEW to be on passed to consumers as a demand management measure.

Land Rent for Utility Infrastructure (Sewerage, Electricity and Gas)

Utility providers in the ACT currently receive benefits from the ACT Government free of charge. These benefits include:

- the provision of Territory land and land held under leasehold title by other parties, for the laying of cables and pipes; and
- the upkeep and maintenance of Territory land carried out by the ACT Government.

The Review is proposing to impose a charge that compensates the ACT Government for these benefits provided to utility providers. Other jurisdictions have successfully applied similar changes to utility providers to recover these costs.

The ACT currently has no power under existing legislation to implement this charge, therefore, a new Act or new provision with an existing Act would be required to implement the charge. The wording of such provision could be based in part upon the NSW provision and must keep in mind the following principles:

- in constructing the liability for the charge it will be imposed on utility distribution networks and must be referred to as a charge and not a tax; and

[17] *Think water, act water – a strategy for sustainable water resources management*; 2004.

[18] Pricing in response to ACT Government's per capita demand management targets; Barrett G; University of Canberra, 2005.

- the amount to be charged should be based on the benefit received by utility providers through their use of land and its subsequent maintenance by the Territory.

For ease of administration, it is proposed to levy the charge on a reasonable estimate of the length of piping or cabling in use, as this would make the charge proportionate to the benefits enjoyed by the companies.

It is important to note that an annual charge on electricity and gas distribution and sewerage utilities is a policy and not a legal consideration. This also applies to the telecommunications sector.

The table below provides an outline of the estimated revenue to be achieved through implementation of the regime for electricity, gas and sewerage, at a charge of $1,000 per kilometre for underground utility mains installations, and $1,000 per kilometre for overhead utility mains.

Table 11.8: Estimated Revenue Land Rent for Utility Infrastructure

	Charge (p/km)	Kilometre of Installations	Estimated Revenue $m	No. of Customers	Avg Cost to Customer pa.
Electricity (Overhead Mains)	$1,000	2,459	2.459	149,575	$16.45
Electricity (Underground Mains)	$1,000	2,217	2.217	149,575	$14.80
Gas (Gas Mains)	$1,000	3,841	3.841	107,470	$36.00
Sewerage (Sewerage Mains)	$1,000	2,948	2.948	130,355	$22.00
TOTAL	**N/A**	**N/A**	**11.465**	**N/A**	**$89.25**
Telecommunications[19]	$1,000	~ 4,000	~4.000	TBC	TBC

Recommendations 266, 267 and 268:

- **introduce a Land Rental charge for utility infrastructure against Sewerage, Gas, Electricity and Telecommunication utilities in the ACT;**
- **the charge be set at a rate of $1,000 per kilometre for aboveground and underground electricity, gas and installations, yielding approximately $11.5 million in revenue; and**
- **the charge be set at a rate of $1,000 per kilometre for telecommunication installations, yielding an estimated $4.0 million in revenue.**

[19] The rent from telecommunication companies is a broad estimate, as length (or area) occupied by telecommunication infrastructure was not available. Some further work will be required to develop a reasonable methodology to impose the charge.

11.2.3 Adjustments to Existing Fees and Charges

Canberra Institute of Technology Fees

Fees in CIT have remained unchanged since 1999. The Review has proposed an increase to be phased over a period of three years. This issue is further discussed in Chapter 7.4.

Parking Fees

The Government has a policy to reduce reliance on car and increase the use of alternative transport modes, such as, buses, bicycle and walking.

Parking fees in Canberra are quite low compared with other capital cities, and there is scope to increase these fees. It is proposed that parking fees be increased by 10 per cent.

Table 11.9: Impact of Increase in Parking Fees

Parking Fees	2006-07 $'m	2007-08 $'m	2008-09 $'m	2009-10 $'m
Current Forward Estimates	**15.5**	**15.9**	**16.2**	**16.6**
Increase Fees by 10% in 2006-07	1.5	1.6	1.6	1.7

The above estimates are not adjusted for price elasticity. Available research indicates that car drivers are basically inelastic with respect to parking price in the short run. It can be expected that the long-run elasticity is substantially higher thereby making parking price increases a more useful tool for demand management in the longer term.

The proposed increase is consistent with Government's Sustainable Transport Plan which seeks to increase bus use in the long term.

Recommendation 269: Parking Fees be increased by 10 per cent in 2006-07.

Development Application Fees

Although there had been no significant amendments to Development Application (DA) fees in recent times, other than the application of CPI increases, in 2005-06 DA fees were increase by 8 per cent (in addition to CPI), to recognise the increased cost associated with administration. However, the fees associated with development applications are still considerably lower than NSW.

A comparison of the fees charges in select local councils in NSW is provided in the table below:

Table 11.10: Comparison of Development Application Fees

Development Value	ACT	Queanbeyan	Yass Valley	Gosford	Wollongong City	Sydney Harbour	Manly	North Sydney	Newcastle
$1,500	$78	$110	$110	$110	$110	$110	$110	$110	$110
$5,001	$85	$185	$185	$185	$185	$185	$185	$185	$185
$20,001	$113	$230	$230	$230	$230	$230	$230	$230	$230
$50,001	$169	$352	$352	$352	$352	$352	$352	$320	$320
$100,001	$271	$502	$534	$534	$534	$534	$534	$470	$470
$150,001	$349	$652	$716	$716	$716	$716	$716	$620	$620
$250,001	$494	$1,160	$1,160	$1,160	$1,160	$1,160	$1,160	$1,000	$1,000
$350,001	$644	$1,330	$1,394	$1,394	$1,394	$1,394	$1,394	$1,170	$1,170
$500,001	$898	$1,745	$1,745	$1,745	$1,745	$1,745	$1,745	$1,425	$1,425
$1,000,001	$1,526	$2,615	$2,615	$2,615	$2,615	$2,615	$2,615	$1,975	$1,975
$5,000,001	$4,526	$5,815	$8,375	$8,375	$8,375	$8,375	$8,375	$5,175	$5,175
$10,000,001	$8,583	$15,875	$15,875	$15,875	$15,875	$15,875	$15,875	$9,475	$9,475

As highlighted in the table above, the development application fees in the ACT are considerably lower than those in the adjoining local councils. There is an opportunity for ACTPLA to align its development application fee schedule to NSW, in particular the adjoining local councils.

ACTPLA provided the Review high-level estimates of the additional revenue if DA fees were adjusted to NSW parity.

Table 11.11: Estimates Development Application Fee Revenue (NSW Parity)

Year	Current Projection	Estimated total in line with parity to NSW	Difference
2005-06	1,600,000	2,800,000	1,200,000
2006-07	1,650,000	2,870,000	1,220,000
2007-08	1,700,000	2,940,000	1,240,000
2008-09	1,750,000	3,020,000	1,270,000

Recommendation 270: ACTPLA development application fees be adjusted to achieve parity with the adjoining local councils (namely Yass, which is consistent with other NSW jurisdictions).

Indexation of Fees and User Charges

Fees and charges have generally been indexed at CPI. The increase in cost of service provision, however, is mainly dependent on the increase in wages. The Review proposes that all fees and charges be indexed at a labour price index[20].

Recommendation 271: all fee and user charges be indexed annually at the Labour Price Index, rather than CPI.

[20] See ABS Catalogue No. 6345.0, Labour Price Index, Australia.

Application of this index to forward estimates for fees and charges, excluding those discussed above, provides additional revenue in the order of $1.8 million per annum.

11.3 OTHER REVENUE

Other revenue consists mainly of dividends received from public trading enterprises and revenues associated with joint ventures, investments and other contributions.

Largely, the revenue in these areas is out of the direct control of the Government and is dependent on market fluctuations and the estimated business returns of Government Business Enterprises. However, there may be some mechanisms available to increase dividends, through suggested expenditure reductions or revenue increases within these enterprises.

11.4 SUMMARY OF REVENUE MEASURES

	2006-07 $'m	2007-08 $'m	2008-09 $'m	2009-10 $'m
General Rates - 6% Increase	8.700	8.900	9.100	9.700
General Rates -Increase by WCI	1.700	3.700	5.800	8.600
Fire and Emergency Services Levy	20.000	20.740	21.507	22.303
Ambulance Levy on Health Funds	3.320	3.707	4.108	4.525
Increase Ambulance Transport Fee to National Average	0.650	0.650	0.650	0.650
Efficiencies in Ambulance Transport Collection Costs	0.100	0.102	0.105	0.108
Home Buyer Concession Eligibility	4.500	4.500	4.500	4.500
False Alarm Fee	0.300	0.300	0.300	0.300
WorkCover – Dangerous Substances Charging Regime	0.117	0.120	0.123	0.126
WorkCover – Cost Recovery for Successful Prosecutions[21]	0	0	0	0
Water License Fee	15.000	15.000	15.000	15.000
Land Rent for Utility Infrastructure (Electricity, Gas and Sewerage)	11.465	11.752	12.045	12.347
Land Rent for Utility Infrastructure (Telecommunications)[22]	4.000	4.100	4.203	4.308
Parking Fees	1.500	1.600	1.600	1.700
Indexation of Fees and Charges	1.800	1.900	1.900	2.000
Development Application Fees[23]	1.200	1.220	1.240	1.270
SUB-TOTAL REVENUE MEASURES	**74.352**	**78.291**	**82.181**	**87.437**
Other Revenue Increases	0	0	0	0
CIT Fees (see chapter 7.4.1)	0.300	0.600	1.000	1.000
Increased Interest Returns (see chapter 5)	4.700	4.500	4.400	4.400
TOTAL REVENUE MEASURES	**79.352**	**83.391**	**87.581**	**92.837**

[21] Given the nature of the issue, revenue targets are not available and would be based on the number, type and success of prosecutions undertaken by ACT WorkCover.

[22] Estimated revenue, confirmation of length of telecommunication installations still to be provided.

[23] High level estimates of increased revenue provided by ACTPLA 9 March 2006, based on achieving parity with NSW fees.

Appendix

1

CHIEF MINISTER'S PRESS RELEASE

Jon Stanhope MLA
CHIEF MINISTER
ATTORNEY GENERAL MINISTER FOR THE ENVIRONMENT
MINISTER FOR ARTS, HERITAGE & INDIGENOUS AFFAIRS
MEMBER FOR GINNINDERRA

MEDIA RELEASE

455/05 **9 November 2005**

TEAM TO REVIEW GOVERNMENT STRUCTURES, SPENDING

Every area of government expenditure in the ACT would be put under the microscope over the coming months, as part of a broad-ranging functional review of government structures and programs, Chief Minister Jon Stanhope announced today.

"Four years after Labor came to power in the ACT, it is time to take stock, to get an objective analysis of whether resources are flowing smoothly to areas of highest priority and greatest community need," Mr Stanhope said.

The review will be headed by the managing director of Actew Corporation, Michael Costello, who headed a similar, well-received review for the Government of Western Australia in 2002. Mr Costello will be assisted by former Australian Treasury officer Greg Smith, the Adjunct Professor of Economics and Social Policy at the Australian Catholic University.

"Australian governments are entering a new and challenging period," Mr Stanhope said today. "Populations are ageing and demands on essential services like health are shifting. All governments need to periodically review their structures and programs, to see whether there might be better ways of addressing the core priorities, better ways of serving the community. And while governments are engaged in a constant process of internal review and minute realignment, every now and then it helps to have another perspective of the big picture, and of the detailed brushstrokes that make up that big picture.

"The first responsibility of any government is sound financial management, and this review will sharpen our capacity to deliver to all Canberrans the kind of world-class services to which they are accustomed, while ensuring that our systems are flexible enough and robust enough to accommodate change and meet unforseen contingencies."

Mr Stanhope said no area of government activity would be insulated from the review, and the scrutiny would drill right down to the level of individual programs. "We are keen to identify those areas where we are doing things right, where we are delivering to the people of Canberra effectively and efficiently," he said. "But we also want to identify those areas where we could be doing better, where we need to concentrate greater resources or reduce red tape or improve our responsiveness."

Mr Stanhope said the review would not replace regular expenditure review processes, but would provide a valuable perspective on government programs and structures.

He said Mr Costello brought considerable expertise and financial acumen to the review team. A former Deputy Managing Director of the Australian Stock Exchange and a former Director of both the Australian Trade Commission and the Export Finance Insurance Corporation, Mr Costello had been Secretary of both the Commonwealth Department of Foreign Affairs and Trade and the Commonwealth Department of Industrial Relations.

Mr Smith has conducted research on taxation policy for the Business Council of Australia and is on the board of the Australian Taxation Research Foundation. He is a former head of the Revenue Group in the Federal Treasury.

The Chief Executive of the Department of Economic Development, Shane Gilbert, has been transferred to provide assistance to the review team, Mr Stanhope said, a measure of the seriousness with which the Government regarded the review.

It is anticipated that the review team will present monthly progress reports to the Chief Minister and the Treasurer before presenting a final report to the ACT Cabinet in late March 2006.

The terms of reference for the review are attached.

Statement Ends

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Appendix 2

TERMS OF REFERENCE

STRATEGIC AND FUNCTIONAL REVIEW OF THE ACT PUBLIC SECTOR AND SERVICES TERMS OF REFERENCE

Sound management requires that all government administrative arrangements and programs be reviewed periodically, to ensure that they are effectively meeting their objectives. This also helps ensure that expenditure is targeted at high priority needs, and the budget is balanced over time.

As the Government approaches its fifth anniversary in 2006, it is timely to conduct a full strategic and functional review of the ACT Public Sector and services to review the efficiency and effectiveness of major programs. The Government has appointed Mr Michael Costello as the expert reviewer to undertake the review.

Terms of reference

Having regard to agreed Government priorities the Strategic and Functional Review will:

1. review the outlook for the ACT budget and identify the major medium term fiscal risks;

2. undertake a high level benchmarking of government expenditure in the ACT relative to other jurisdictions in Australia, drawing on available data (including data published by the Commonwealth Grants Commission and the Steering Committee for the Review of Government Service Provision);

3. consider all major areas of government expenditure and identify programs that could be delivered more efficiently or could be scaled back to more effectively meet whole of government objectives;

4. identify options to improve efficiency through more effective structures for government operations; and

5. make recommendations on specific options for reducing expenditures or increasing non-taxation revenues.

Mr Michael Costello as the expert reviewer will be supported by an ACT Government secretariat. A Cabinet-in-Confidence report will be provided to Cabinet to allow recommendations from the review to be considered in the 2006-07 Budget process.

Appendix

3

LETTER FROM THE CHIEF MINISTER TO MINISTERS

Jon Stanhope MLA
CHIEF MINISTER
ATTORNEY GENERAL MINISTER FOR THE ENVIRONMENT
MINISTER FOR ARTS, HERITAGE & INDIGENOUS AFFAIRS
MEMBER FOR GINNINDERRA

«Title» «FirstName» «LastName» MLA
«MinisterialTitle1»
«MinisterialTitle2»
«MinisterialTitle3»
«MinisterialTitle4»
«MinisterialTitle5»
«Address1»
«Address2»
«City» «State» «PostalCode»

Dear Minister

I am writing to you in relation to the *Strategic and Functional Review of the ACT Public Sector and Services*, agreed by Cabinet recently and which I announced on 9 November 2005.

The Review is to be lead by Mr Michael Costello, with Mr Greg Smith as the second member of the review panel. Both the reviewers have extensive experience in public policy, resource allocation and public sector reform.

The Review will provide a valuable assessment as to whether resources are flowing to our highest priorities and in the most effective way. It will also provide an objective analysis of the Territory's financial performance and capacity for moving forward and meeting future challenges, such as the changing demographic environment in the ACT.

Our Government is committed to providing high quality services which meet the legitimate expectations of the community. If we are to do this, we must first and foremost maintain rigorous, high quality economic and fiscal management. We need to ensure that our resources are focussed on priority areas such as health and education, but that even within those priority areas, we deliver services in the most efficient and effective way.

For the ACT, the Review provides a timely opportunity to assess all programs, including those carried over from earlier times. The Review will also assess the machinery of government, management framework and structures, and key policy development and decision-making processes. The way the public service undertakes its business is also to be analysed.

None of this will be easy. Our already narrow revenue base is coming under increasing pressure as activity in the property market has slowed and in the face of a Commonwealth government that is markedly ungenerous to the ACT.

This will require of us difficult choices. We will often have to choose not just between a valuable program and an out-dated program, but between a valuable program and another worthwhile program that is of lesser priority. But I am determined, as I know are you all, that the Territory's economic management and financial resources are on a strong footing with the resilience to meet changing demand for services.

The timing for the Review is tight, with its report due in early April 2006, to allow recommendations to be incorporated into the 2006-07 Budget. Mr Costello is writing to all Chief Executives seeking full co-operation of their departments and associated bodies, and seeking essential data and other information to allow the Review to effectively undertake its task.

Given the Government's high priority for the Review, I am seeking your assistance in helping to define your portfolio priorities and ensuring that your agencies provide the maximum assistance to the Reviewers. The Review panel will consult closely with you and your agencies throughout its work

With your support, I am confident that the Review will prove invaluable to the Government in ensuring that together we continue to build a strong and sustainable future for the Territory.

Yours sincerely

Jon Stanhope MLA
Chief Minister

6 DEC 2005

Appendix

4

LETTER FROM THE CHIEF MINISTER TO THE REVIEW CHAIRMAN

Jon Stanhope MLA
CHIEF MINISTER
ATTORNEY GENERAL MINISTER FOR THE ENVIRONMENT
MINISTER FOR ARTS, HERITAGE & INDIGENOUS AFFAIRS
MEMBER FOR GINNINDERRA

Mr Michael Costello
Managing Director
ACTEW Corporation Limited
GPO Box 366
CANBERRA CITY ACT 2601

Dear Mr Costello

Strategic and Functional Review of the ACT Public Sector and Services

I am writing to confirm the Government's decision to undertake a broad Strategic and Functional Review of the ACT Public Sector and services, and to formally welcome your agreement to lead the review.

I understand that the ACTEW Board has agreed to your role in undertaking the review in addition to your existing responsibilities.

In summary, it is proposed that the review will address the outlook for the ACT and will include a high-level benchmarking of government expenditure, consider the effectiveness of government policies and programs and assess the structure of government operations.

The Government has agreed to the Terms of Reference for the review and these are provided at **Attachment A**.

To assist with the review and to ensure appropriate resources are provided, a dedicated secretariat function will be provided by the ACT Government.

As you are aware, the Government has also agreed to appoint Mr Greg Smith to the review team.

Once again, I very much welcome your agreement to lead this important review.

Yours sincerely

Jon Stanhope MLA
Chief Minister

30 NOV 2005

Appendix

5

ADDITIONAL TERM OF REFERENCE

Jon Stanhope MLA
CHIEF MINISTER
ATTORNEY GENERAL MINISTER FOR THE ENVIRONMENT
MINISTER FOR ARTS, HERITAGE & INDIGENOUS AFFAIRS
MEMBER FOR GINNINDERRA

Mr Michael Costello
Chair
Strategic and Functional Review
GPO Box 158
CANBERRA ACT 2601

Dear Mr Costello

Further to our meeting on 17 March 2006, I am writing to request the Strategic and Functional Review ("the Review") to consider an additional term of reference.

The terms of reference for the Review require the Review inter alia to make recommendations on specific options relating to non-taxation revenues.

However, as discussed at our meeting, I would find it beneficial if the Review could report more broadly on revenue matters. Accordingly, I have agreed to expand the terms of reference to incorporate an additional item:

"6. investigate and report on options in relation to taxation revenues."

I would be grateful if the Review could address this additional matter in its report to Cabinet.

Yours sincerely

Jon Stanhope MLA
Chief Minister

22 MAR 2006

ACT LEGISLATIVE ASSEMBLY
London Circuit, Canberra ACT 2601 GPO Box 1020, Canberra ACT 2601
Phone (02) 6205 0104 Fax (02) 6205 0433

Appendix

6

SCHEDULE OF REVIEW MEETINGS WITH MINISTERS

MINISTER'S MEETINGS

Date	Meeting / Agency	Attendee
17 November 05	Chief Minister (Preliminary Reviewers Meeting)	Jon Stanhope MLA
12 December 05	Chief Minister, Attorney General, Minister for the Environment, Minister for Arts, Heritage and Indigenous Affairs with the Minister for Education and Training, Children, Youth and Family Support, Minister for Women, Minister for Industrial Relations to discuss Education	Jon Stanhope MLA Katy Gallagher MLA
16 December 05	Minister of Health, Minister for Planning - Functional Review	Simon Corbell MLA
20 December 05	Minister for Urban Services, Minister for Disability, Housing and Community Services, Minister for Police and Emergency Services-	John Hargreaves MLA
10 January 06	Deputy Chief Minister, Treasurer, Minister for Economic Development Business and Tourism, Minister for Sport, Gaming and Racing	Ted Quinlan MLA
3 February 06	Functional Review Chief Minister's Update	Jon Stanhope MLA
21 February 06	Functional Review – Emergency Services Authority	John Hargreaves MLA
21 February 06	Update on Issues	Simon Corbell MLA
21 February 06	Functional Review Chief Minister's Update	Jon Stanhope MLA
28 February 06	Minister for Education	Katy Gallagher MLA
17 March 06	Functional Review Chief Minister's Update	Jon Stanhope MLA
23 March 06	Ministerial Planning Day	Review Committee Attendance & Presentation
24 March 06	Minister for Health and Planning	Simon Corbell MLA
3 April 06	Functional Review Chief Minister's Update	Jon Stanhope MLA

Appendix

7

LETTER FROM REVIEW CHAIRMAN TO ALL AGENCIES

FUNCTIONAL REVIEW OF THE ACT GOVERNMENT BUDGET AND SERVICES

Mr Mike Harris
Chief Executive
Chief Ministers Department

Mr Mike Zissler
Chief Executive
Department of Urban Services

Ms Elizabeth Kelly
A/g Chief Executive
Department of Justice and Community Safety

Dr Michele Bruniges
Chief Executive
Department of Education and Training

Mr Lincoln Hawkins
A/g Chief Executive
Department of Economic Development

Mr Peter Veenker
Chief Executive
Canberra Institute of Technology

Dr Paul Grimes
Chief Executive
Department of Treasury

Dr Tony Sherbon
Chief Executive
ACT Health

Ms Sandra Lambert
Chief Executive
Department of Disability, Housing and Community Services

Mr Neil Savery
Chief Planning Executive
ACT Planning and Land Authority

Mr Peter Dunn
Commissioner
Emergency Services Authority

Ms Anne Skewes
Chief Executive Officer
Land Development Agency

Dear Chief Executive

FUNCTIONAL REVIEW OF THE ACT GOVERNMENT BUDGET AND SERVICES

You will be aware that on 9 November 2005 the Chief Minister announced a broad ranging *Functional Review of the ACT Government Budget and Services.* A copy of the media release and terms of reference are attached.

In announcing the review, the Chief Minister said that "it is time to get an objective analysis of whether resources are flowing smoothly to areas of highest priority and greatest community need". The Chief Minister also stressed the need to achieve this in an environment of sound financial management.

I have been asked to lead the Review, with the assistance of Mr Greg Smith, formerly a Deputy Secretary in the Commonwealth Treasury responsible in recent years for budget and revenue policies.

The task is to support the Government's commitment to quality services to the community into the longer-term, including in health and education, and to ensure that resources are efficiently and effectively directed to the Government's key priorities in a long-term and continuing basis. This involves making sure that public sector activities are consistent and aligned with Government priorities, as well as ensuring that service delivery is as cost effective as possible.

As you know, the list of good things governments can do is endless but the resources available to do them are limited. Thus the choices a government has to make more often are not between good and outdated activities, but between activities that are all good and beneficial in some degree.

The Review is not limited in scope, and all areas of administration, structure, management and service delivery are open for consideration. The Review will consider the machinery of government, management framework and structures, key policy development and decision-making processes, and organisational structures and frameworks in place for delivering outcomes.

The Chief Minister has stressed that the Review has very high priority. Accordingly I seek your personal cooperation in its conduct and in the timely provision of information as set out below.

Portfolio Priorities

Within each portfolio, there needs to be a clear sense of Government priorities. This requires a detailed explanation of outputs, at a sufficient level of detail, to inform choices between alternative activities. On this basis, I request that a list of detailed priorities signed off by both you and your Minister be prepared and submitted to the Review to ensure the panel and Government have a clear awareness of each portfolio's highest priorities and areas of greatest need.

In providing this information, I suggest the focus should be on a limited number of key priorities for your Department, and major expectations from your Minister. The Review will not be assisted by an indiscriminate listing - genuine choice has to be available. As I mentioned earlier, the Review will need to recommend to the Government choices between activities, all of which may be worthwhile.

This information is required to be provided to the Secretariat by ***Monday 19 December 2005.***

Review Process and Data Requirements

As you may be aware from the attached terms of reference, the key areas outlined for review include:

- the budget outlook and fiscal risks;
- all areas of government expenditures by agency (including benchmarking);
- the structure and operations of the government; and
- options for reducing expenditure and/or increasing non-taxation revenues.

The review team faces a formidable task that must be completed in extraordinarily short timeframes. The objective is to have the bulk of the data collection and analysis work completed by January 2006. While it is our responsibility to make judgements and recommendations to the Government, the quality and accuracy of our work depends heavily on the quality, relevance, accuracy and timeliness of the data and other assistance we are requesting of each agency (see below).

The Government has confirmed that this is to be a review of the entire ACT public sector and not just the 12 Departments and Authorities to which this letter is addressed. Our work is clearly intended to encompass all agencies, including statutory authorities. It would be appreciated if you would forward this request to all other agencies and relevant areas within your portfolio grouping (with the exception of Territory Owned Corporations, which will be contacted separately), and ask them to forward their responses direct to the Secretariat.

Outputs and Activities

Ultimately, the ownership of the data, and responsibility for advice and knowledge of the services provided to the Review is with each agency. The quality of the information provided will be reflected in the final report and outcomes.

That said, the review team would like to drill down below the broad information available from budget and annual reporting documentation, so we can identify:

- what exactly does your agency do in detail, i.e., what activities are undertaken to support your outputs and outcomes? For this you should differentiate front line services to the community, the ancillary services component of front line services, corporate services and executive and policy services.
- why does the agency undertake a particular activity, i.e., what particular needs does it meet and who benefits?
- the priority explicitly attached to the activities by the Government.
- how much does each activity cost, what revenues are received from the activity and what staffing (FTE) resources, and/or consultancies are utilised in carrying out the activity?

A proforma data request (attached) has been prepared to identify what is needed from each agency in a manner that can address each of these points, however, any additional information that may further assist in the assessment and analysis of this information, such as the following, would be very welcome:

- what benchmarks do you use to measure performance, how were these benchmarks derived, and do these activities rank with Government priorities?
- what has been done to assure that the activities are the most cost-effective means available to achieve intended outcomes?

I stress again that your personal contribution to the provision of information in the proforma is necessary if we are to work with the highest quality information that might be available.

This information and data request is required to be provided to the Secretariat by ***Monday 16 January 2006.***

Non Taxation Revenues
The Terms of Reference for the Review requires assessment and analysis of all non-taxation revenues and options for new sources of revenues.

To assist the Review, information on all non-taxation revenues collected by your agency is sought, as well as assessment of the cost effectiveness of achieving these revenues.

Your advice on additional non-tax revenue opportunities would also be helpful, as well as any other suggestions for consolidating and/or expanding the Territory's revenue base.

This information, where applicable, is required to be provided to the Secretariat by ***Monday 16 January 2006.***

Asset Management
An important aspect of the review is the balance sheet operations of agencies including asset management policies and practices, investment and cash management issues.

For this exercise the Review requires information on the nature of the assets that your agency has or controls and the uses to which those assets are put (for instance, how they contribute to the agency's outcome/outputs). Information is also sought on current asset management plans for various categories of assets held or administered by your agency. Attached is a proforma for providing this information.

Given the significant amount of information being sought on the activity and recurrent operations of each agency, we understand that the balance sheet and asset management information of agencies may not be immediately available and request that this information be provided to the Secretariat by ***Monday 16 January 2006.***

Co-Existing Reviews
We appreciate that the business of government is premised on continuous change and understand that much work may have already been done within agencies in the past, and/or may be presently in train. In undertaking our work, it will be important that we have a full understanding of all the reviews, reforms and other structural changes previously completed, or currently in train. Of particular interest will be advice on those reviews generated through the life of the current Government and the status of those reviews in terms of implementation. It would be appreciated if any information or available reports can be provided to the Secretariat.

This information, where applicable, is required to be provided to the Secretariat by ***Monday 19 December 2005.***

Forums and Committees
Of special interest to the Review is the range of consultative mechanisms across the Government, and with the community. This includes all consultative forums, management planning and co-ordination committees, inter-departmental committees, and community forums etc. It will be important for the Review to understand the lead

agency, level of representations, their occurrence, governance arrangements, the costs involved and the benefits to meeting government priorities.

This information, where applicable, is required to be provided to the Secretariat by ***Monday 19 December 2005.***

Opportunities for Input

In commencing our work, we are also keen to have your views and suggestions on critical options and opportunities that exist across your portfolio, and for the service as a whole. It will be most helpful if you could critically assess your operations and bring forward any opportunities that you consider worthwhile to be pursued.

The Review is to be discussed at the next Ministerial Advisory Group (MAG) meeting, scheduled for 28 November 2005. In the meantime, Mr Greg Smith and I will also arrange to meet with you to outline the Review's approach and our requirements.

Public Submissions and Consultation

As part of the Review, we will seek public input to the issues within the Terms of Reference. Given the tight timeframes public comment is expected to be sought in December 2005 / January 2006. Further advice will be provided to you and your agency as these arrangements are firmed-up and advertised in *The Canberra Times* and other publicity sources.

Timing

The timing of the Review is tight, with a final report to the Government in early April 2006. The Government gives this Review high priority, and I am seeking full co-operation to the Reviewers and Secretariat by all executives and managers across your portfolio, and associated bodies.

Contact with Agencies

The Review Secretariat comprises Treasury officers, and agency seconded senior executives.

In moving forward, the Secretariat will contact your department (through the agency representatives on the Review where available) and seek advice, information and data as required. The Secretariat will also assist to settle any difficulties in respect of data requests.

All information can be provided by either:

- Electronic email to: functionalreview@act.gov.au
  Mail or courier to: Attention: Khalid Ahmed
  Functional Review Secretariat
  Level 3
  Canberra Nara Centre
  GPO Box 158
  CANBERRA ACT 2601

Where possible it would be appreciated if material could be provided via electronic mail.

I would be happy to meet and discuss the work required, and I thank you in anticipation of the receipt of information from your agency. The Review Panel proposes to maintain active consultation with you at all stages of the Review and looks forward to a continuing effective engagement with your agency.

Yours sincerely

Michael Costello
Chair
ACT Government Functional Review

23 November 2005

cc. All territory authorities

SUMMARY OF INFORMATION REQUESTED FROM AGENCIES

Information Requested	Date Information Required
Portfolio Priorities	19 December 2005
Co-Existing Reviews	19 December 2005
Forums and Committees	19 December 2005
Community Grants Information	13 January 2006
Activities and Output Data	16 January 2006
Non-Taxation Revenues and Options	16 January 2006
Asset Management Information	16 January 2006
Service Agreements and Sub Sector Funding Plans	25 January 2006
Shared Services (Corporate Support) Information on Facilities Management, Financial Services and Human Resource Services time allocation	25 January 2006
Legal Services Information on Legal Service Costs	1 February 2006
Aboriginal and Torres Strait Islander Programs and Policies	10 February 2006
Shared Services (Corporate Support) – Additional Information regarding Financial, Human Resources and Fleet activity levels including copies of invoices for advertisements and stationery items	20 February 2006
Regulatory Function – details of regulated Acts and operational units, Regulatory Activity and Processes	20 February 2006

Additionally, some agencies provided specific information as requested by the review.

Appendix

8

ADVERTISEMENT CALLING FOR PUBLIC SUBMISSIONS

building our city
building our community

ACT Government

Strategic and Functional Review of the ACT Public Sector and Services

Invitation to make Submissions

Members of the public, unions, community and business organisations are invited to make submissions to the Strategic and Functional Review of the ACT Public Sector and Services (the Review).

The key aim of the Review is to assess the appropriateness, effectiveness and efficiency of services delivered to the people of the ACT and the structures and funding to support those services.

Broadly, having regard to key Government priorities, the Review will

1. review the outlook for the ACT budget and major medium term fiscal risks;
2. undertake a high level benchmarking of government expenditure in the ACT relative to other jurisdictions in Australia;
3. consider all major areas of government expenditure and also consider the efficient and effective delivery of programs;
4. assess the structures of government operations; and
5. identify options for reducing expenditures or increasing non-taxation revenues.

The Review team will report to Government in April 2006.

Submissions should address the broad areas outlined above. The Chief Minister's media release and detailed terms of reference can be found at **www.chiefminister.act.gov.au**

The closing date for submissions is: Friday 17 February 2006.

Submissions can be provided by either:

Email to: **functional_review@act.gov.au**

Mail or courier to: Executive Director
Strategic and Functional Review Secretariat
Level 3 - Canberra Nara Centre
GPO Box 158
CANBERRA ACT 2601

hmaA007317

Appendix

9

SUMMARY OF PUBLIC SUBMISSIONS

No.	Public Submission Received From	Key Issues	Date Submission Received
1.	Dr Chris Aulich Associate Professor & Director Centre for Research in Public Sector Management University of Canberra	Government Structure	31 January 2006
2.	Professor Roger Wettenhall Visiting Professor Centre for Research in Public Sector Management University of Canberra	Government Structure	3 February 2006
3.	Infrastructure Partnerships Australia Director - Public Affairs	PPP Opportunities in the delivery of Government Services or Infrastructure	1 February 2006
4.	Something Ventured Pty Ltd (Business Facilitators CanBAS) Director	Business Services Delivery and Arrangements	2 February 2006
5.	Australian Education Union Branch Secretary	Provision of documents relating to: performance, funding, school size, and teacher remuneration	17 February 2006
6.	Rhodium Asset Solutions Chief Executive Officer	Business Considerations for the future of Rhodium Asset Solutions	February 2006
7.	Canberra Taxi Proprietors Association Limited Chairman	Need for a Transport Advisory Committee	17 February 2006
8.	ASF Limited Executive Director	Maintenance of ASF Grant Funding	17 February 2006
9.	ACTSport Chief Executive Officer	Cohesion and Synergy between the Sport & Recreation Industry and Government	17 February 2006
10.	YMCA of Canberra Older Adult Program Manager	ACT Government Grant System	17 February 2006
11.	City Heart Canberra President Canberra City Heart Business Association Inc.	- Area Benefit Levy - Ministerial Portfolios - Infrastructure Bonds to financial capital works	17 February 2006
12.	Citizens Advice Bureau Manager	Centralisation and outsourcing of Government Directory and Information Management functions	17 February 2006
13.	Tourism Industry Council (ACT & Region) Executive Director	Tourism and Events Issues	17 February 2006
14.	COTA (ACT) Policy Officer Hughes Community Centre	Range of suggestions regarding health and aged care, housing, accommodation and community services	17 February 2006
15.	ACTCOSS Director	- Role of Government - Government Fiscal Policy - Community Sector Service Delivery - Capacity and Viability of the Community Sector	17 February 2006

No.	Public Submission Received From	Key Issues	Date Submission Received
16.	Canberra Business Council Executive Director	- Economic Growth - Territory Owned Assets - Land Development and Planning - Business Programs - Tourism - Capital Infrastructure - Capital Works & Procurement - Education - Public Sector Size - The Region	17 February 2006
17.	Conservation Council of the Southern Region and Canberra	- No savings be applied to Environment - Community Sector partnership - Environmental revenue options and cost savings - Tourism Duplication	19 February 2006
18.	Canberra Institute Director	Government Structure	20 February 2006
19.	Property Council of Australia Catherine Cater ACT Executive Director	Suggestions for cost efficiencies (planning and land) Government Structure	22 February 2006
20.	ACT Human Rights and Discrimination Commissioner Dr Helen Watchirs	Functions & Legislative requirements of Commission and options for savings	14 February 2006
21.	Community and Health Services Complaints Commissioner Roxanne Shaw	Functions & legislative requirements of Commission and options for savings	17 February 2006
22.	Office of the Small Business Commissioner Dr Michael Schaper Small Business Commissioner	Activities and role of the Commission	7 February 2006
23.	Elections ACT ACT Electoral Commission	Functions & legislative requirements of Commission and options for savings or alternative governance arrangements	10 February 2006
24.	Australian Hotels Association	Tourism related funding and expenditure increased	18 February 2006
25.	Brian H Roberts	- Centralised E Document Library - In-house Research Institute & Strategic Thinkers - WofG Education and Professional Development Fund	6 March 2006

Appendix

10

COMMUNITY AND INDUSTRY FORUMS AND MEETINGS

REVIEW FORUMS AND MEETINGS WITH THE PUBLIC

13 January 06	Business and Industry	- Canberra Business Council - ACT and Region Chamber of Commerce and Industry - Property Council of the ACT - Master Builders Association of the ACT - Housing Industry Association ACT
17 January 06	Unions	- Unions ACT - CPSU - Australian Nursing Federation - Australian Education Union
20 January 06	Peak Community Groups	- ACTCOSS - ACROD ACT Division - Conservation Council of the South East Region and Canberra
3 February 06	Commissioners	- Small Business Commissioner - Health Services Commissioner - Commissioner for the Environment - Electoral Commissioner - ACT Human Rights and Discrimination Commissioner
28 February 06	Canberra Tourism Board	Chair Canberra Tourism Board
24 March 06	actsport – Joan Perry	Chief Executive Officer – actsport
24 March 06	Professor Ian Chubb	Australian National University (ANU)

Appendix 11

MEETINGS AND INTERVIEWS

CHIEF EXECUTIVE MEETINGS

Date	Meeting / Agency	Attendee[1]
29 November 05	Initial Review Meeting with the Chief Minister's Department	Chief Executive – Chief Minister's Department
29 November 05	Initial Review Meeting with the Department of Treasury	Chief Executive – Department of Treasury
5 December 05	Initial Review Meeting with the Department of Justice and Community Safety	Acting Chief Executive – Justice and Community Safety
7 December 05	Initial Review Meeting with ACT Health	Chief Executive – ACT Health
9 December 05	Initial Review Meeting with the Department Education and Training	Chief Executive – Education and Training
12 December 05	Initial Review Meeting with the Emergency Services Authority	Commissioner – ESA
12 December 05	Initial Review Meeting with the Department of Urban Services	Chief Executive – Urban Services
12 December 05	Initial Review Meeting with the ACT Planning and Land Authority	Chief Executive – ACTPLA
13 December 05	Initial Review Meeting with the Land Development Agency	Chief Executive Officer- LDA
13 December 05	Initial Review Meeting with the Canberra Institute of Technology	Chief Executive Officer- CIT
14 December 05	Initial Review Meeting with the Department of Economic Development	Chief Executive – Economic Development
19 December 05	Initial Review Meeting with the Department of Disability, Housing and Community Services	Chief Executive – Disability, Housing and Community Safety Services
18 January 06	Follow up meeting with Disability, Housing and Community Services	Chief Executive – Disability, Housing and Community Safety Services
19 January 06	Initial Meeting with Department of Justice and Community Safety	Deputy Chief Executive – Justice and Community Safety
25 January 06	Initial Meeting with Cultural Facilities Corporation	Chief Executive Officer – Cultural Facilities Corporation
25 January 06	Disability, Housing and Community Services – Further discussions	Chief Executive – Disability, Housing and Community Services
1 February 06	Education Package Discussion	Chief Executive - Education and Training
1 February 06	Initial Review Meeting with ACTION	Chief Executive Officer - ACTION
3 February 06	Justice and Community Safety	Chief Executive – Justice and Community Safety
8 February 06	Review and Ambulance Pricing Issues	Chief Executive Officer – ICRC
8 February 06	Functional Review Meeting and Discussion	Chief Executives of CMD and Treasury
20 February 06	Disability, Housing and Community Services – Structure discussions	Chief Executive – Disability, Housing and Community Services
20 February 06	Initial Meeting with Auditor General	Auditor General
23 February 06	ACT Health – Growth Issues	Chief Executive – ACT Health
24 February 06	Strategic Asset Management and Infrastructure Matters – Presentation	Chief Executive – Urban Services

[1] Agency Chief Executive's may have invited other attendees at their discretion.

Date	Meeting / Agency	Attendee[1]
	from Department of Urban Services	
24 February 06	Arts, Heritage and Environment	Executive Director - Environment
24 February 06	Department of Economic Development	Chief Executive – Economic Development
24 February 06	Discussion on Shared Services with Department of Urban Services	Chief Executive – Urban Services
9 March 06	Discuss Shared Services with Department of Treasury	Chief Executive - Treasury
24 March 06	ACT Health – Expenditure Growth Issues	Chief Executive – ACT Health
24 March 06	Land Development Agency	Chief Executive Officer and Chairman – LDA
27 March 06	Department of Education and Training	Chief Executive – Education and Training
30 March 06	ACT Planning and Land Authority	Chief Executive – ACTPLA
31 March 06	ACTION Authority	Acting Chief Executive Officer – ACTION
31 March 06	Emergency Services Authority	Commissioner - ESA
31 March 06	Department of Education and Training	A/g Chief Executive – Education and Training
31 March 06	Department of Economic Development	Chief Executive – DED

Appendix

12

EXPERT ADVICE AND SPECIALIST CONSULTATION

EXPERT ADVICE AND SPECIALIST CONSULTATION

CONSULTANT	AREA OF EXPERTISE
Professor Richard Teece The University of Melbourne Department of Education Policy and Management	Education
Professor Gerald Burke Of (Monash University) Dr Chris Selby-Smith	ACER Centre for the Economic and Education and Training (CEET)
Dr Ken Rowe Dr Phillip McKenzie	ACER – Australian Council for Educational Research
Clem Doherty and Terry Hillsberg	Machinery of Government
John Langoulant	Extensive Public Sector Management including WA Functional Review and Procurement Reforms
Alan Bansemer and Bernie McKay	Health
Prudence Ford	WA Functional Review including Implementation of WA Shared Service Arrangements
Ian Thomson	Professional Accounting Services
Jack Radik - Valuesourcing	Information Technology
Price Waterhouse Coopers	Independent Assessment of Rhodium Asset Solutions
EXPERT ADVICE	
Professor Mick Reid	Health
EG Property Group	Planning and Land Development
Jim Soorley / ABNAmro	Public Private Partnerships (PPP)
Jim Soorley / UCMS Capita	Shared Service Arrangements

Appendix

13

ABBREVIATIONS AND ACRONYMS USED IN THE REPORT

ABBREVIATIONS AND ACRONYMS

ABS	Australian Bureau of Statistics
ACCC	Australian Competition and Consumer Commission
ACROD	The disability service providers' national peak body (ACT division)
ACTAS	ACT Academy of Sport
ACTAWE	ACT Average Weekly Earnings
ACTC	Australian Capital Tourism Corporation
ACTCOSS	ACT Council of Social Service
ACTEW	ACT Electricity and Water Corporation
ACTG&R	ACT Gambling and Racing Commission
ACTIA	ACT Insurance Authority
ACTITAA	ACT Industry Training Advisory Association
ACTPLA	ACT Planning and Land Authority
ACTPS	ACT Public Service
AEP	Alternative Education Program
AEU	Australian Education Union
AFP	Australian Federal Police
ACHAs	Australian Health Care Agreements
AHURI	Australian Housing and Urban Research Institute
AIE	Academy of Interactive Entertainment
ANAO	Australian National Audit Office
ANTA	Australian National Training Authority
ANTS	A New Tax System
ACVL	Australian Capital Ventures Ltd
ANU	Australian National University
ATO	Australian Taxation Office
ATSI	Aboriginal and Torres Strait Islander
AUV	Average Unimproved Land Value
AWE	Average Weekly Earnings
AWOTE	Average Weekly Ordinary Time Earnings
CBC	Canberra Business Council
CCSERC	Conservation Council of the South-East Region and Canberra
CEO	Chief Executive Officer
CFC	Cultural Facilities Corporation
CFU	Central Financing Unit
CGC	Commonwealth Grants Commission
CHC	Community Housing Canberra
CHRIS21	Human Resources System Solution Project
CIT	Canberra Institute of Technology
CMD	Chief Minister's Department
COAG	Council of Australian Governments
COTA	Council On The Ageing
CPA	Competition Principles agreement
CPDG	Capital Planning and Development Group
CPI	Consumer Price Index
CSHA	Commonwealth State Housing Agreement
CSS	Commonwealth Superannuation Scheme
CSO	Community Service Obligations

CSTDA	Commonwealth State/Territory Disability Agreement
CUPP	Canberra Urban Parks and Places
CYFS	Children's, Youth and Family Services
DED	Department of Economic Development
DET	Department of Education and Training
DHCS	Disability, Housing and Community Services
DPP	Director of Public Prosecutions
DRG	Diagnostic Related Group
DUS	Department of Urban Services
DT	Department of Treasury
EBA	Enterprise Bargaining Agreement
EBT	Expense(s) on Behalf of the Territory
EDMS	Electronic Document Management System
EEO	Equal Employment Opportunity
EPIC	Exhibition Park In Canberra
ERC	Expenditure Review Committee
ESA	Emergency Services Authority
ESD	Electronic Service Delivery
FHOG	First Home Owner Grant Scheme
FMA	*Financial Management Act 1996*
FOI	Freedom of Information
FTE	Full-time Equivalent (in relation to staff positions)
GAAP	Generally Accepted Accounting Principles
GBEMU	Government Business Enterprise Monitoring Unit
GDP	Gross Domestic Product
GFS	Government Finance Statistics
GGS	General Government Sector
GMA	Guaranteed Minimum Amount
GPO	Government Payment for Output
GPs	General Practitioners
GSP	Gross State Product
GSO	Government Solicitor's Office
GST	Goods and Services Tax
HACC	Home and Community Care
HBCS	Home Buyer Concession Scheme
HFE	Horizontal Fiscal Equalisation
HRMS	Human Resource Management System
ICRC	Independent Competition and Regulatory Commission
ICT	Information and Communications Technology
IDMS	Integrated Document Management System
IEC	Introductory English Centres
IGA	Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations
IMF	International Monetary Fund
InTACT	Information Technology in the ACT
IR	Industrial Relations
IT	Information Technology
JACS	Justice and Community Safety
LAMS	Legislative Assembly Ministerial Staff
LCA	Loan Council Allocation

LCM	Little Company of Mary
LDA	Land Development Agency
LHS	Left Hand Side
MAP	Management Assessment Panel
MBA	Master Builders Association
MNW	Minor New Works
MYEFO	Mid-Year Economic and Fiscal Outlook
NCA	National Capital Authority
NCC	National Competition Council
NGO	Non-Government Organisation
NHCDC	National Hospital Cost Data Collection
OBDT	Office of Business Development and Tourism
OCYFS	Office of Children, Youth and Family Services
OECD	Organisation for Economic Co-operation and Development
OGF	Oracle Government Financials
OH&S	Occupational Health and Safety
OSPA	Office of Strategy and Public Administration
PAFA	Purchasing and Funding Agreement
PCB	Project Concept Brief
PHIAC	Private Health Insurance Administration Council
PRHP	Public Rental Housing Program
PSS	Public Sector Superannuation Scheme
PSSAP	Public Sector Superannuation Accumulation Plan
PTE	Public Trading Enterprise
RGO	Registrar General's Office
RHS	Right Hand Side
RIS	Regulatory Impact Statement
ROGS	Report on Government Services
RSI	Relative Stay Index
RSPCA	Royal Society for the Prevention of Cruelty to Animals
RTO's	Registered Training Organisations
SAAP	Supported Accommodation Assistance Program
SAAPV	Supported Accommodation Assistance Program Five
SACS	Social and Community Service Award
SFD	State Final Demand
SFN	Special Fiscal Needs
SLA	Service Level Agreement
SPA	Superannuation Provision Account
SPPs	Specific Purpose Payments
TAE	Training and Adult Education
TAFE	Technical and Further Education
TCH	The Canberra Hospital
TRA	Territory Records Act
TUC	Territory Unencumbered Cash
UPF	Uniform Presentation Framework
VET	Vocational Education and Training
VETA	Vocational Education and Training Authority
VMO	Visiting Medical Officer