STRATEGIC AND FUNCTIONAL REVIEW OF THE ACT PUBLIC SECTOR AND SERVICES

FINAL REPORT

APRIL 2006

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

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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.

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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 15^2m 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**.

[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.**

[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.

[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].

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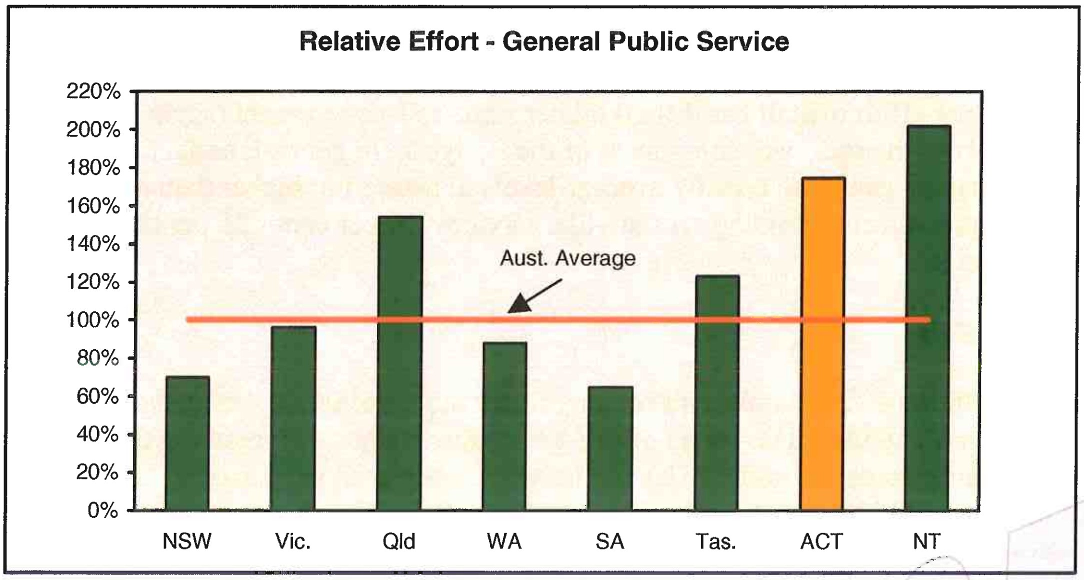
[4] *Report on State Revenue Sharing Relativities*; Commonwealth Grants Commission, 2005 Update, Page 237.



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.

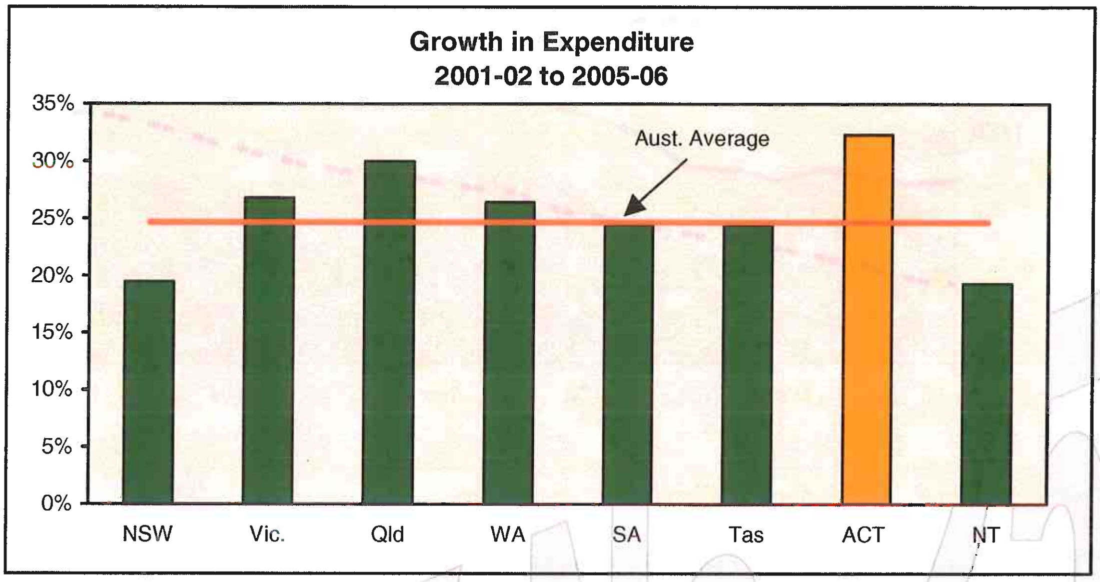
Table 2.3: Level of Service Provision by Commission Category (Population 325,000)

	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.

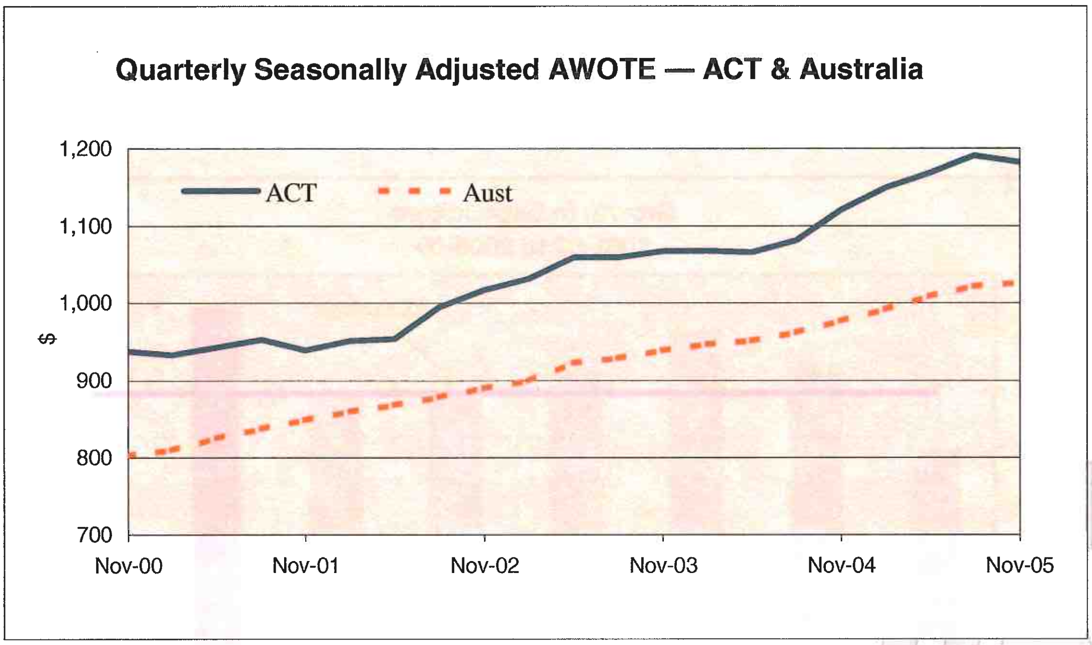
Outcomes and Value for Money

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.

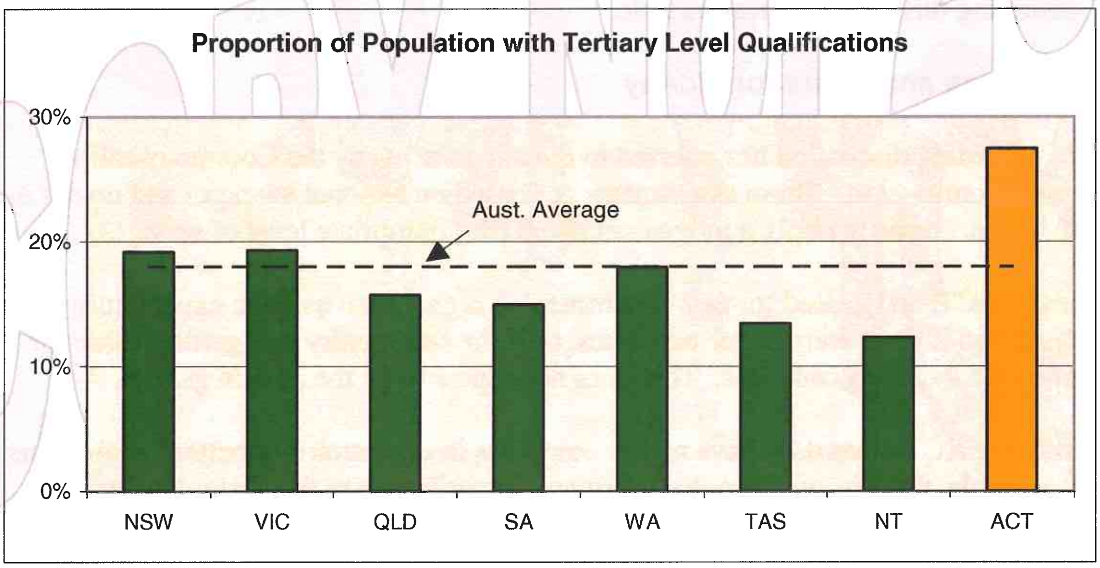
While the ACT often does have higher outcomes in education and better health status for example, there is evidence that these are primarily due to the socio-demographic profile of the population rather than due to the higher level of expenditure on government services. These issues are discussed in further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

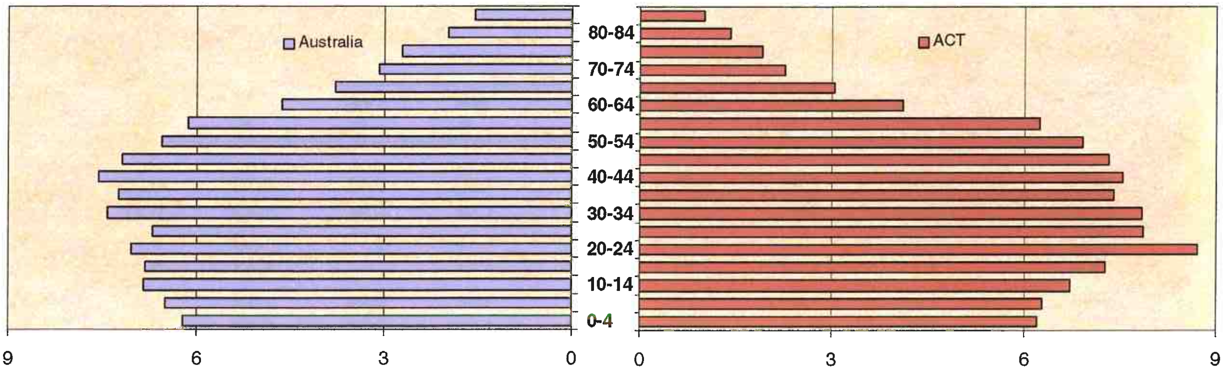


Source: ABS Cat. 6227.0, Education and Work, and ABS Cat. 3201.0, Population by Age and Sex, Australian States and Territories.

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.

[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.

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[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