



Following from its low median age, the ACT has a significantly lower proportion of its population aged 65 or over, at 9.6 per cent in June 2005, compared to the national average of 13.1 per cent.

Whilst the ACT population is ageing more quickly than the national average, by June 2010, the proportion of population aged 65 and over in the ACT, projected to be 11.2 per cent, will continue to be lower than that for the national average, projected to be 14.3 per cent.

This data indicates that the age of the population is less significant for the ACT than nationally. Its expenditure needs relating to aged people are also relatively lower than the national average.

The growth in demand for health services, however, depends on the rate of growth of aged population. Strategies exist, and need to be adopted, that reduce pressures on hospital system and provide health care in more appropriate settings.

Box 1: Meeting the Pressures on Hospital System

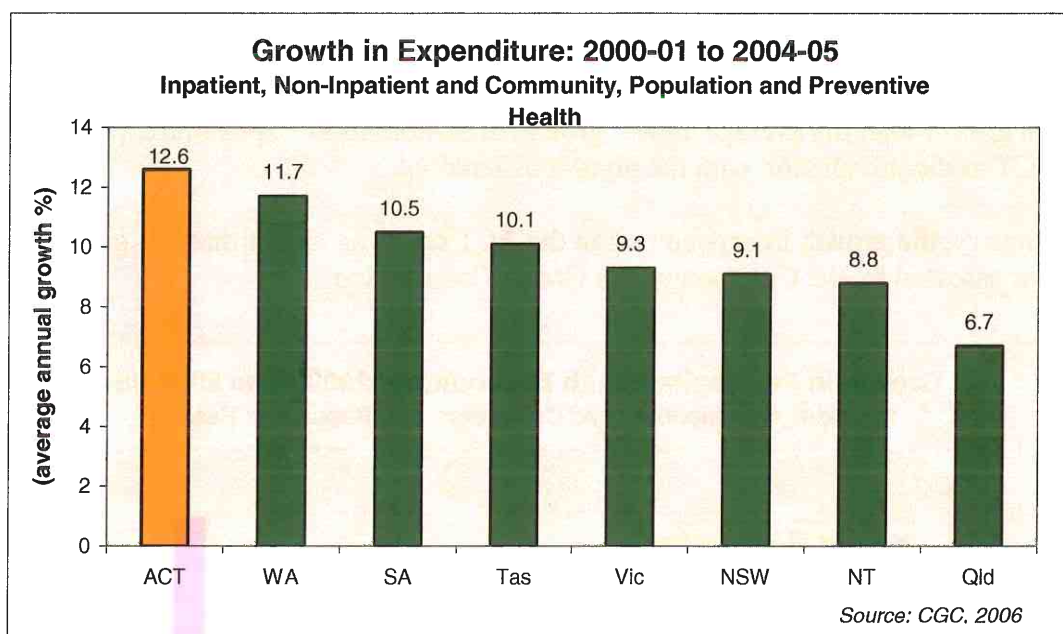
The geographic distribution and service availability would support non-hospital care pathways and that a range of innovative approaches to disease management could be considered particularly for this age group.

Given the increasing size of the population aged 65+ some further examination of admission trends and practices for this age group would be warranted before locking separation trends into the activity model. There may be no change in the resources required to provide health services to this population group, however there may well be change to the model and setting of health care provided.

Review of ACT Acute Care Activity and Growth; Bansemer, Alan (advice to the Review)

7.3.3 EXPENDITURE EFFORT

Expenditure across individual jurisdictions can be best compared using the Commonwealth Grants Commission (CGC) analysis of health expenditure. This indicates that the ACT had the highest growth in expenditure on inpatient, non-inpatient, community health and population and preventive health services of all jurisdictions, with an average annual growth of 12.6 per cent from 1999-2000 to 2003-04⁷.



The second highest expenditure over the same period occurred in WA, with an annual average growth of 11.7 per cent. Since this time, the WA Government has imposed growth targets on health expenditure, with the aim to restrict growth to 5.5 per cent per annum.

Commonwealth Grants Commission Assessments

In its 2004 Review, the Commonwealth Grants Commission (CGC or Commission) assessed the ACT's costs of providing services as being below average because it has:

- (i) low proportions of its population in groups that make extensive use of some State services or who cost more to service, including Indigenous people, people aged 65 or over, and people with low incomes; and
- (ii) a compact geographical area, with no people living in remote areas, a low length of arterial roads per capita, and relatively low use of those roads by heavy vehicles⁸.

⁷ Note that the CGC categories of inpatient services, non-inpatient and community health services and population and preventive health services do not represent the entire budget of ACT Health. For example, aged care services are not included in these CGC categories.

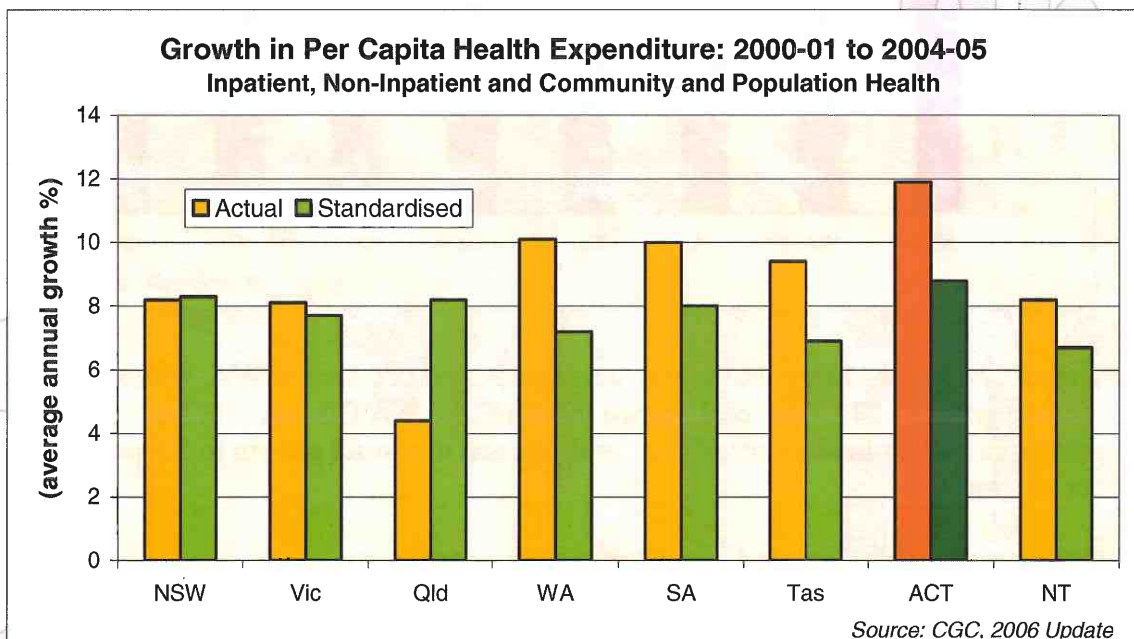
⁸ Commonwealth Grants Commission, *Report on State Revenue Sharing Relativities, 2004 Review*, Page 35.

The Commission assesses the provision of health services in three categories. These are inpatient services, non-inpatient and community health services and population and preventive health.

The Commission's assessment of Standardised Expenditure provides an indication of the cost of providing an average level of service at an average level of efficiency. The assessment takes into account the circumstances and any unique characteristics pertaining to each State and Territory.

It is to be expected that, particularly in health, the Standardised Expenditure (or expenditure need) would increase over time. However, for the ACT, the actual average annual growth in expenditure per capita has been around 3.1 per cent per annum greater than the average annual growth in Standardised Expenditure, placing the ACT as the jurisdiction with the highest differential.

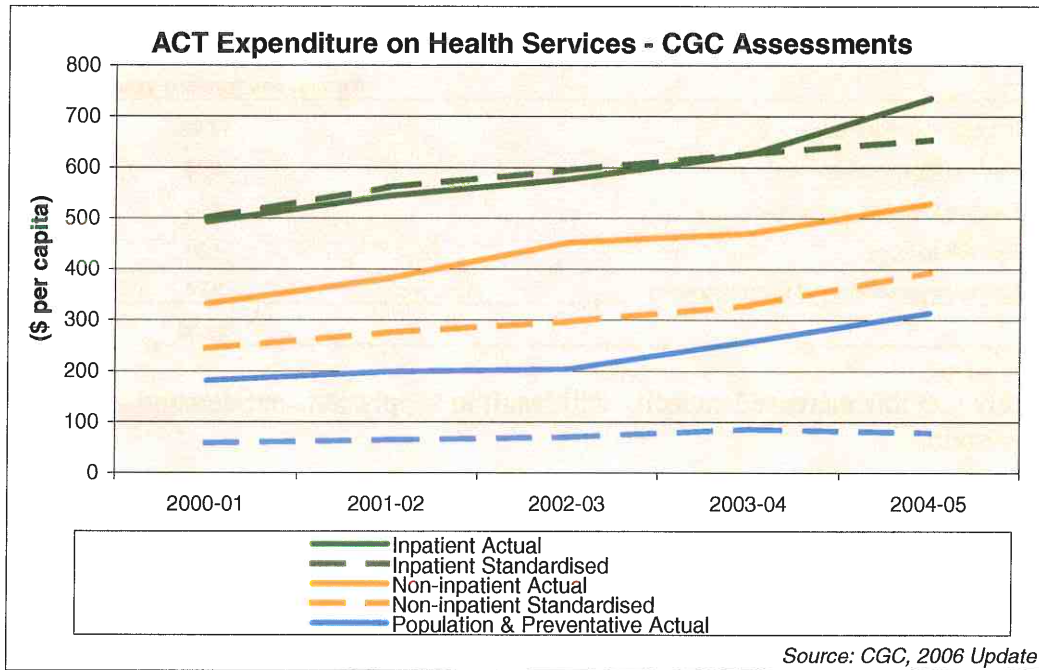
In summary, the growth in expenditure in the ACT has been higher than the growth in need as assessed by the Commonwealth Grants Commission.



WA is second (with actual average annual expenditure growth around 2.9 per cent per annum above assessed growth). In contrast, NSW and Queensland have exhibited lower actual average annual expenditure growth per capita than their assessed expenditure growth.

Looking at the components of health expenditure individually, for the ACT, whilst overall expenditure on inpatient services in recent years has been around the Standardised Expenditure, actual expenditure in 2004-05 increased sharply, so that it is now above the Standardised Expenditure as assessed by the CGC. This sudden divergence can be considered as an early warning of the need to control acute care costs in the health system.

In contrast, expenditure on non-inpatient and community health services and in particular, population and preventive health services, has been consistently above that assessed by the CGC.



Pressures on Inpatient Service Expenditure

It should be noted that 2004-05 was the first year that actual expenditure significantly diverged from parity with assessed expenditure for the ACT. It is likely that this divergence will continue.

For example, the last two budgets have significantly increased bed capacity in ACT hospitals, which will have consequent impacts on the growth in inpatient health services expenditure.

The 2004-05 budget provided for three additional intensive care beds at TCH (\$11.4 million across the budget and forward years) along with an unspecified number of additional beds to meet seasonal demand for inpatient care for medical conditions which peak during the winter period (\$1.3 million across the budget and forward years). This budget also included funding for the operation of the new sub-acute facility to be commissioned in 2005-06 (yet to be opened). This facility is a 60-bed facility to be constructed on the Calvary Hospital site, with annual operating costs once fully established of around \$10 million. As patients are moved from existing beds to beds in this facility, there will effectively be an additional 60 acute beds generated within the system once the facility is operational.

The 2005-06 budget provided explicitly for an additional 20 acute beds, 12 at Calvary Hospital to increase the capacity of the hospital to meet increased demand for services arising from population growth on the north side of Canberra and 8 additional beds at TCH for increased acute medical admissions in winter (again) and elective services in Summer.

The budget provided \$11.6 million across the forward years for this increase in capacity. In addition to increased bed capacity, other initiatives over the past two budgets have aimed at increasing inpatient capacity. These initiatives are summarised in the table below:

Table 7.3.1: Inpatient Capacity Initiatives

	Budget and forward years (\$'m)
2004-05 Increased general surgeons	17.03
2004-05 Medical inpatient services	4.15
2004-05 Elective joint and eye surgery	4.15
2005-06 Elective surgery	8.31
2005-06 Calvary maintenance of surgery activity	3.74
TOTAL	37.38

It is likely that this increased capacity will result in supply-induced demand in the health system.

These initiatives are as yet only partially reflected in the CGC assessments of inpatient services.

Expenditure and Throughput

Growth in expenditure has increased at a significantly higher level than throughput. The following table provides a comparison between expenditure increase and throughput increase across the major health outputs (note that administrative arrangement orders and changes to performance reporting restrict comparability).

In a number of throughput areas there has actually been a decline over the four year period.

Table 7.3.2: Expenditure and Throughput Growth for Health Outputs

	2000-01	2004-05	% Change	Avg annual growth (%)
Acute Services Expenditure (\$000)	261,589	448,685	71.5	17.9
Number of inpatient cws	56,645	69,240	22.2	5.6
Number of outpatient cws	199,798	242,891	21.6	5.4
Mental Health Expenditure (\$000)	24,366	45,594	87.1	21.8
Inpatient separations	2,947 (cws)	1,243 (raw seps)		
Community occasions of service	134,609	184,331	36.9	9.2
Community Health Services Expenditure (\$000)	n/a	117,636		
Aged care assessments	3,092	2,926	-5.4	-1.3
Dental adult units of service	16,488	23,098	40.1	10.0
Dental child and youth units of service	47,420	24,830	-47.6	-11.9
Breast screening clients	11,774	10,667	-9.4	-2.4
Public Health Services Expenditure (\$000)	14,999	23,080	53.9	13.5
HPS samples analysed	8,309	6,965	-16.2	-4.0
HPS inspection of premises	2,961	4,374	47.7	11.9
HPS licensing & registrations	4,240	4,448	4.9	1.2

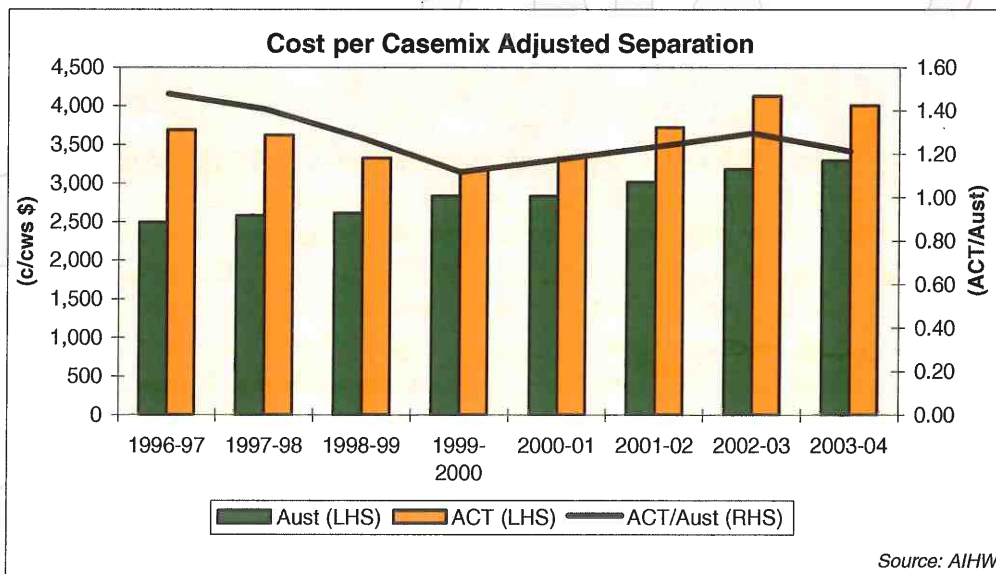
7.3.4 EFFICIENCY OF EFFORT

Efficiency of Inpatient Effort

Whilst the CGC assessments provide an indication of the level of effort undertaken by a jurisdiction, the methodology is not designed to provide an indication of the efficiency of effort – actual expenditure being higher than the Standardised Expenditure could be due to a higher level of service provision (as a policy choice by the jurisdiction) or inefficiency in service provision (or a combination of both).

For inpatient services, an indication of the efficiency of effort is provided by an analysis of the ACT costs per casemix adjusted separation⁹. The chart following highlights that the ACT cost per casemix adjusted separation has consistently been above the Australian average over the past decade.

During the period 1996-97 to 1999-2000, the gap between the ACT cost and the national average cost declined, however from 2000-01 to 2002-03 the gap began to widen again. In 2003-04, the ACT cost per casemix adjusted separation was \$4,002. This is \$709 (or 22 per cent) above the national average cost of \$3,293. This represents a decrease from 2002-03 result where the ACT was 30 per cent above national average.



The slight decline in ACT's unit cost in 2003-04 is largely attributable to the significant growth in inpatient activity¹⁰ between 2002-03 and 2003-04. Raw separations grew by 8 per cent between the two years (from 62,426 to 67,312) while casemix adjusted separations grew by 9 per cent (from 59,627 to 65,203).

It should be noted however, that whilst the ACT hospitals were able to treat patients more efficiently during 2003-04, the CGC assessments discussed earlier indicate that

⁹ The number of casemix-adjusted separations is the number of inpatient separations, or episodes, adjusted for acuity. The higher the acuity of an episode, the higher its value in casemix-adjusted terms.

¹⁰ National Hospital Cost Data Collection (NHCCD) Round 8 Report for 2003-04.

overall costs are rising. The additional capacity introduced into the system in the 2004-05 and 2005-06 Budgets would suggest that overall activity, and consequently costs, will rise accordingly.

The gap between the ACT cost and the national average cost represents a relative inefficiency of effort in the ACT. There are three main drivers of the additional cost of ACT hospitals. These are superannuation entitlements, patient overstay and nursing productivity. Superannuation entitlements are beyond the management control of ACT Health and are addressed elsewhere in this Report¹¹. It is noteworthy, however, that the higher superannuation entitlements are not recognised in wage settlements, thereby increasing the overall cost of services.

Patient overstay and nursing efficiency are addressed in the following sections.

Patient Overstay

Patient overstay is a significant contributor to higher ACT costs. The impact of patient overstay can be ascertained by benchmarking the lengths of stay for patients in ACT hospitals against the benchmark length of stay for similar procedures or interventions.

In the case of ACT hospitals, the ACT system benchmark can be considered the NHCDC Teaching peer group (although TCH and Calvary as independent entities are members of separate peer groups). Data is available to compare patients on a DRG by DRG basis¹².

An analysis of ACT and NSW resident patients' length of stay in TCH during the period 1995-96 to 2000-01 indicates that both groups exhibited overstay characteristics. While NSW residents tended to have higher acuity levels, and therefore be expected to stay longer than the ACT residents, they still remained in hospital for longer than the benchmark for their procedure or intervention. Averaged over the six year period, ACT residents on average stayed 30 per cent longer than the benchmark, whilst NSW residents stayed 28 per cent longer than the benchmark. This ratio of actual length of stay to benchmark length of stay is referred to as the Relative Stay Index (RSI)¹³.

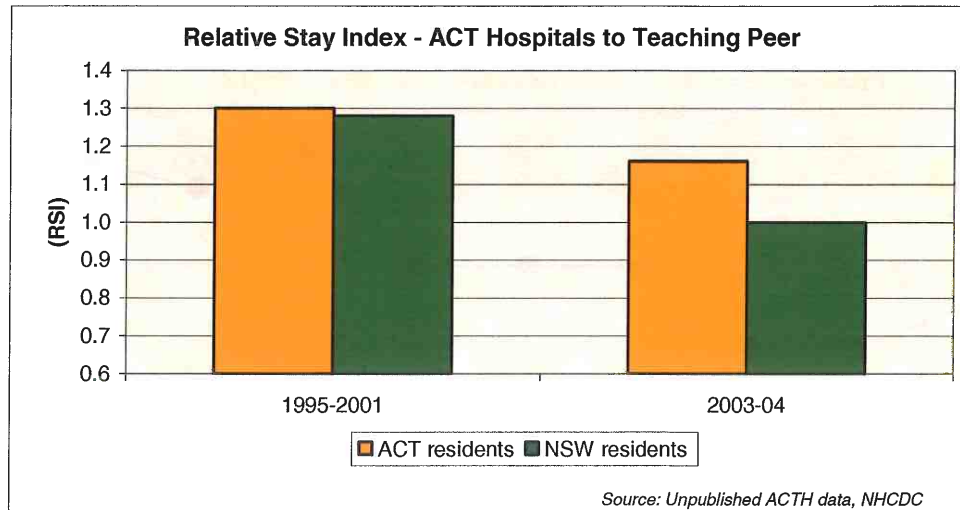
In contrast to the result over the six years to 2000-01, for the 2003-04 year ACT resident overstay had reduced to around 16 per cent longer than benchmark. However, in the same year, NSW resident patients' length of stay matched the benchmark.

¹¹ The Review has recommended in Chapter 5.1 to adopt employer contribution rates as in other States.

¹² Diagnostic Related Group, or DRG – a category of similar procedures or interventions. The services in TCH cover over 600 DRGs.

¹³ Relative Stay Index higher than '1' indicates an average length of stay which is more than the benchmark, while RSI less than '1' indicates an average length of stay which is less than the benchmark.

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The 2003-04 result implies that discharge practices for NSW resident patients are now similar to those in peer hospitals, and that the discharge practices differ for ACT residents.

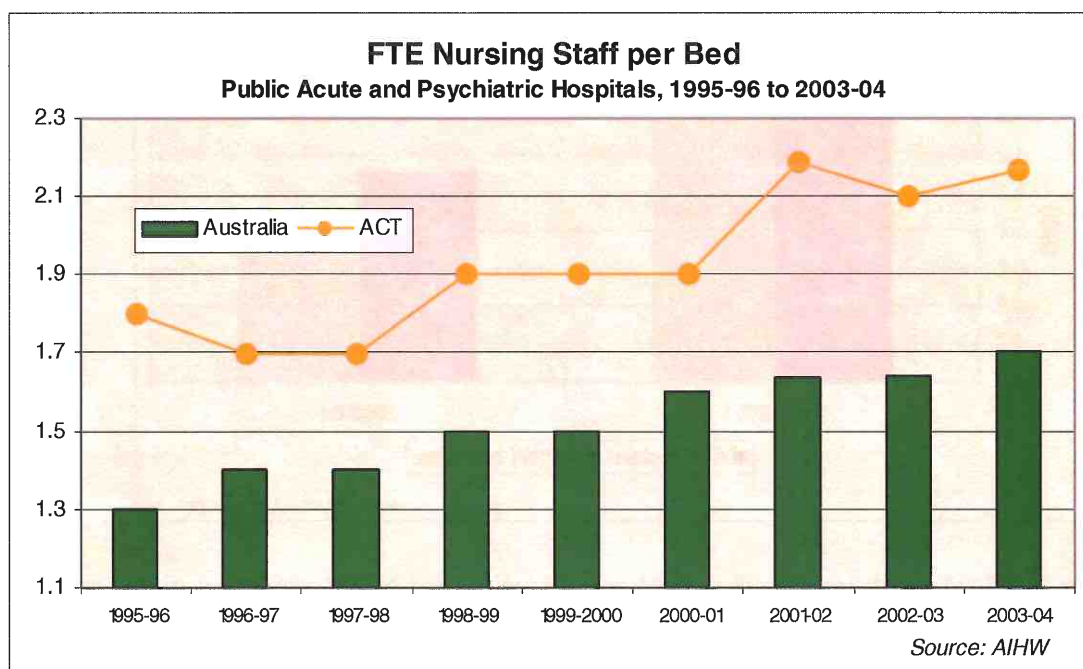
A further consequence of this result is that NSW resident patients, despite having higher acuity levels (with an average cost weight of 1.07 compared to 0.84 for ACT resident patients) have a lower average length of stay, at 3.15 days compared to 3.45 days for ACT resident patients.

The relatively longer length of stay for ACT patients can be attributed to a combination of the lack of downstream facilities in the ACT, lack of medical and nursing support in existing aged care facilities leading to aged patients being admitted to hospital and a lack of residential options for those requiring long term care, for example Acquired Brain Injury sufferers.

Efficiency of Nursing Resources

Throughput indicators for nursing suggest that the ACT has a higher level of nursing resources than the national average.

For example, FTE Nurses per Bed were 27 per cent higher than the national average in 2003-04 and have been consistently higher historically as shown in the graph below.



A more direct indicator of nursing effort is FTE Nurses per 1,000 Patient Days¹⁴. FTE Nurses per 1,000 Patient Days have also been consistently higher than the national average, standing at around 14 per cent higher for 2003-04.

An analysis of information on costs per casemix adjusted separation indicates similar variance in nursing costs. Nursing cost per casemix adjusted separation in 2003-04 were around 15 per cent higher than the national average.

It is important to note that nursing resources include all nurses associated with health services in the ACT, not merely ward nurses, and therefore includes community nursing resources.

Notwithstanding the nursing cost per casemix adjusted separation result, the significant variance between actual and standardised expenditure identified in the CGC assessments for expenditure on non-inpatient and community health services and in particular, population and preventive health services, suggests that in the first instance, excess nursing resources should be identified within these sectors before ward nursing numbers are addressed.

7.3.5 A NEW STRATEGIC APPROACH

General Philosophy

As discussed in Chapter 4.2, the Review is proposing a greater integration of policy and services across health and community services Departments by either merging them or establishing closer working relationships. The philosophy behind this approach is in recognition of the continuum of care, enabling improved coordination

¹⁴ This would take into account a comparatively higher level of same day episodes in the ACT.

of care for those with high and complex needs. The aim should be to prevent avoidable hospital admissions - keeping people out of the hospital system who do not need to be there. This will be achieved through:

- engaging people in their health, through health awareness and self management programs for people with chronic disease (e.g., diabetes and congestive heart failure);
- preventing unnecessary admissions;
- discharging patients from acute care settings as quickly as possible; and
- ensuring that the appropriate supports are available in the community setting upon discharge.

Box 2: Chronic Disease Case Management

A number of programs, developed in the US, but being trialled in some Australian states and territories are using a case management approach to identify and respond to people at risk of frequent unnecessary (potentially) acute and subacute health episodes.

These programs use a combination of interventions including condition screening, monitoring, coaching, prompting, service referrals, improving self-management skills, rehabilitation and health promotion. Coupled with call-centre technology and web-based encrypted e-health records a large cohort of people can be intensively managed by a relatively small workforce.

Detailed algorithms incorporating evidence-based interventions assist in the development of detailed individual management plans with resources/interventions being scaled up based on risk of unplanned service contacts.

Review of ACT Acute Care Activity and Growth; Alan Bansemmer (advice to the Review)

Managing Costs

Apart from managing demand on acute care, the cost and quality of hospital services need to be managed actively.

Box 3: Service Schedules-Quality, Price and Volume

Demand management of a population which is informed by a clear investment schedule reflecting disease surveillance and control, health promotion, best-practice treatment and targeted sub-acute services must be articulated into an agreement with suppliers, public and private, about what services are being purchased and how this relates to the strategic agenda.

To effectively understand and control costs in the inpatient system and ensure the delivery of the volume of services...the ACT should consider a case mix framework which utilises microeconomic levers at the cost-centre level to achieve the system reforms required. Fundamentally the price of each cost-weighted separation needs to be reduced in the ACT, but without some form of casemix and accountability system which explicitly defines the total price, costing elements and volumes ACT service managers are impaired in their ability to fulfil future service agreements.

Review of ACT Acute Care Activity and Growth; Alan Bansemer (advice to the Review)

In order to achieve the desired financial outcomes from the new strategic approach, it is critical that wages growth is restrained across the entire ACT Health salaries and wages portfolio to 3 per cent per annum. Further productivity improvements will be necessary to meet the financial targets being set.

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

Private Patient and Third Party Revenue

Higher levels of third party revenues for cross-border activity and private patient related revenues should also be pursued.

Over the last few years perceptions about the impact of private revenue on base funding and medical indemnity cover have also resulted in health service managers adopting different administrative procedures in relation to how insurance status was determined at the time of admission in some jurisdictions.

Clear guidelines should be determined about how Medicare eligibility, insurance status and chargeable status are elicited and exercised during an episode of care.

Hospital Services - Role Delineation

The high level of acute care costs compared with national averages indicates that, within the ACT health system, care is being provided in inappropriate, often high cost, settings. An effective hospital system will ensure that:

- people needing to access to high cost intervention can do so;
- people needing general hospital care can do so in an appropriate setting; and
- people not needing hospitalisation receive the appropriate care in the community setting.

The ACT, with a population of around 320,000 can only support a maximum of one high technology, teaching facility type hospital, without potentially compromising on issues of safety and quality, which best practice demands have minimum throughput volumes. The hospital that is best placed to be the high level facility in the ACT is clearly TCH. Calvary Hospital then becomes a support hospital providing a range of general hospital services, for example rehabilitation.

Calvary Hospital

The situation at Calvary Public Hospital is a complex one, with the Little Company of Mary having effective management control over the public hospital, although encumbered by public service wages and conditions. This has led to unit costs at Calvary being around 29 per cent higher than its peer group average¹⁵, making it one of the most expensive hospitals in its peer group.

The Review has considered two options with regard to achieving efficiencies at Calvary.

Advice from the ACT Government Solicitor is that the ACT Government does not 'own' Calvary Hospital. However, under the existing contractual arrangements with Calvary Public Hospital, it has the ability to alter the scope of public hospital services provided by Calvary and the pricing for those services.

Therefore, one option is to strengthen and enforce the current contractual arrangements. However, as the ACT does not own Calvary Public Hospital, it is unlikely that this approach would provide better outcomes. With public servants remaining in Calvary Hospital, there is limited capacity for flexibility, for example in achieving staff allocation changes, and increased likelihood that Calvary would be unable to deliver on efficiency improvements.

The alternative, recognising the effective ownership that the Little Company of Mary (LCM) has over Calvary, is to hand over the public hospital to the LCM.

The second option is that preferred by the Review. Following this approach, the Review recommends a two-stage strategy with Calvary:

¹⁵ NHCDC Round 8, 2003-04. Calvary cost per separation \$3,735 compared to the B1 peer group average of \$2,906.

Stage One: Clarifying the Ownership Arrangement

This would involve the Little Company of Mary assuming full management of health services at the Calvary site, with the ACT Government then purchasing health services on a fee-for-service basis.

Management at Calvary has indicated that under this model, considered the 'private model', it could introduce industrial relations reforms that would lower costs compared to the current arrangement where the Calvary workforce is covered by public sector EBAs. For example, Calvary has indicated that improved staff allocation management could reduce nursing costs by 10 per cent.

Under this approach, the expectation would be that after a transition period, of say two years, services would be purchased from Calvary by the ACT at the benchmark rate.

A consequence of returning Calvary to the full management of the Little Company of Mary would be improved integration with Calvary Private Hospital, thus encouraging and enabling increased development of the private hospital sector, leading to increasing usage of private hospital services. This is an appropriate outcome given the high rates of private health insurance coverage in the ACT¹⁶ and would have the added benefit of reducing pressure on the public system.

Stage Two: Benchmark Price and Role delineation

Once the transition process is completed, the ACT can then develop a contract with Calvary to purchase the health services necessary to maintain optimal health services for the ACT, on a fee-for-service basis, at the benchmark rate.

The ACT would specify services that complement, not duplicate, services offered elsewhere in the health system.

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

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

¹⁶ Data published by PHIAC indicates that in 2005, the ACT had 52.5 per cent of its population covered by private health insurance, compared to the national average of 43.1 per cent. The ACT result was the highest of all jurisdictions.

Community Health

In conjunction with achieving greater clarity in the relationship with Calvary and in the role delineation within the hospital system, there is scope within the community and population and preventive health sectors for an aggressive reprioritisation of effort. This reprioritisation should have two goals:

- to prevent unnecessary admissions to the hospital system, in particular through having appropriate support systems in place targeting those people at risk of multiple hospital admissions; and
- to have support systems in place upon discharge from the hospital system. This will be necessary in order to be able to tackle a reduction in in-patient overstay being experienced by ACT residents. Patient overstay will also be reduced as technology improvements allow for more same day surgery and through more drug and other treatments regimes being provided in a community setting.

Nationally, health systems are aiming to provide care in the right place at the right time and at the right cost. For many jurisdictions, for example WA, this has resulted in the need to make a significant investment in their community health sectors. The ACT is well placed in this regard, as it already has a well-resourced community health sector. What is required in the ACT is a refocusing of the community health sector to concentrate on the two goals outlined above.

One of the reasons that ACT expenditure on community health services is higher than the standard is that the ACT continues to provide free universal access to a range of community health programs that in other States are either means tested or have fee regimes in place. Key strategies that will enable community health resources to be refocused on reducing demand in the hospital system is to restrict access to some services through means testing, and by increasing revenue by introducing fees to services that are currently free of charge. In both instances, it will be necessary to ensure that low-income and at risk people are still able to access services.

Improving support for people on discharge from hospital will also need to include focusing and streamlining resources currently provided to the non-government sector for support of older people. There are currently many small organisations providing services with no centralised intake, and this results in delays as discharge planners attempt to identify available services. More effective coordination and efficient delivery of these services would enable more people to be discharged early from hospital.

In addition, demand for community services could be reduced through better use of GPs. For example, currently in the ACT 37 per cent of children under 7 years of age are immunised by GPs, compared to a national average of 70 per cent¹⁷.

The Commonwealth has over recent years introduced a number of incentives to encourage increased GP immunisation, and these incentives should be leveraged as much as possible.

¹⁷ Report on Government Services 2006, page 10.41

Use of GPs would increase through policy changes that allow for the introduction of co-payments (or means testing) for non-Health Care Card holders into service lines such as women's health, HACC services, continuing care services and diabetes services, and by the introduction of Health Care Card only restricted access in immunisation clinics.

Recommendation 92:

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

Mental Health and Cancer Services

Mental health and cancer services are recognised pressure areas. In recognition of this, additional growth funding should be provided to these two areas. The details of the package under the COAG reforms are as yet not available, however, States and Territories would be expected to make some matching contributions to the Commonwealth's expenditure commitments. The Review has separately made a provision of \$2m per annum (Table 2.1, Chapter 2).

7.3.6 OUTCOMES

By realigning the health system to follow the new strategic approach described above, clients of the ACT health system will be provided with the appropriate care in the appropriate place, ensuring high quality care at a price affordable for the ACT.

A practical consequence of the new approach will be the ability for the ACT to achieve costs per cost-weighted separations within 10 per cent of the peer group averages over the next five years (by 2010-11), thereby facilitating overall growth in health services of around 6 per cent per annum over the forward years.

It should be noted that a growth rate of 6 per cent still represents health expenditure growing at a faster rate than revenues, which are growing in line with the economy, at a rate of around 5 per cent per annum. A consequence of this is that health expenditure, as a proportion of total government expenditure, will increase.

Projected Health Expenditure

Agreed Revised Forward Projections

As a first step, the Review determined, in conjunction with ACT Health, an agreed common set of growth rates across the various health outputs. In establishing these growth rates, the Review has referred to average price growth across Australia, and patterns of increase in demand in the ACT and the surrounding region.

The Review also engaged experts to test the modelling of demand and to seek general advice. The agreed underlying growth rates are as follows:

Table 7.3.3: Growth Rates for ACT Health Outputs

Output	Service	Growth Rate
Output 1.1	Acute Services	8.0%
Output 1.2	Mental Health	6.0%
Output 1.3	Community Health / HACC	2.5% / 9.0%
Output 1.4	Public Health	3.0%
Output 1.5	Cancer Services	8.0%
Output 1.6	Aged Care and Rehabilitation	3.0%
Output 1.7	Early Intervention	3.0%
OVERALL		6.7%

The principal determinants underlying these growth rates are described below.

From 1996-97 to 2003-04, the Australian average cost per cost-weighted separation increased at an average annual rate of 4.1 per cent. The expected demand growth for acute care services is 3.7 per cent per annum. Combining these cost and demand growth factors leads to a projected growth in acute care expenditure of around 8 per cent per annum¹⁸.

Mental Health has been identified as a priority area. Based upon recent announcements from COAG, an allowance for an estimated increase of 6 per cent per annum has been assumed for Mental Health, allowing for any matching requirements from the ACT for Commonwealth funding. It should be noted that it is planned that expenditure on the high security adult facility should be counted as the 'new money' for matching purposes.

Commonwealth Grants Commission data indicates that the ACT's expenditure for community health, and population and preventive health services is significantly above the standardised level¹⁹, at 134 per cent and 402 per cent respectively in 2004-05. For this reason, no additional expenditure need be committed in these areas, and growth can be projected at a base indexation rate (with the exception of HACC services).

The slightly lower rate for Community Health services reflects the high level of expenditure currently in community health, with the expectation that the refocusing exercise will identify efficiencies that can be redirected to other outputs. As aged care in the home is a growth sector, with matching requirements being imposed by the Commonwealth for receipt of additional Home and Community Care (HACC) funding. For this reason a growth rate of 9 per cent (reflecting past years' increases) has been applied to HACC expenditure, within the community services output.

¹⁸ The ACTH Acute Services Output consists of both inpatient and outpatient services. For the purposes of this paper, inpatient services cost and demand growth factors have been assumed to apply to the entire Acute Services Output expenditure. This may overstate projected expenditure. For example, ED admissions are estimated to grow at 2.8 per cent pa, less than the 3.7 per cent pa estimated growth in cost weighted separations.

¹⁹ Standardised Expenditure – is the expenditure required to provide an average (of all States and Territories) level of service at average of efficiency.

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Increased demand for Cancer Services is assumed to lead to a growth of 8 per cent per annum for Cancer Services.

Aged care and rehabilitation is assumed to grow at the rate of indexation.

These growth rates were applied to the estimated output expenditures for 2005-06, less items such as depreciation (not expected to grow at the same rate as the projected growth rates), high cost drugs (fully reimbursed by the Commonwealth) and business activities (expenditure matched by revenues). Depreciation costs have not been indexed (in recognition of a separate capital replacement program), whilst high cost drugs and business activities have been indexed at the price growth rate of 4 per cent.

In addition, items already included in the Budget, for example \$5.8 million in additional insurance expenses and the sub-acute facility, were allocated to the acute and aged care outputs respectively. The impact of the sub-acute facility explains the high growth rate for aged care.

Finally, the impact of the commitment to benchmark costs for cost per cost-weighted separation, with the exception of superannuation, was applied. The practical outcome of this is for ACT Health to reach within 10 per cent of the peer group average over the next five years for cost per casemix-adjusted separation.

To achieve this, the ACT cost per casemix-adjusted separation will need to grow more slowly than that for the Australian average. Modelling suggests that the cost growth for the ACT will be 2.9 per cent down from 4.1 per cent for the national average. When combined with the demand growth of 3.7 per cent, this results in an overall growth rate of 6.7 per cent per annum. This growth rate was applied to Acute Services expenditure.

The projected health expenditure across the forward years, by output, is shown in the table below. The impact of the transfer of resources to the Shared Services entity is shown separately.

Table 7.3.4: Health Expenditure Projections

Total Expenses	2005-06 \$'000	2006-07 \$'000	2007-08 \$'000	2008-09 \$'000	2009-10 \$'000	Average annual growth
Acute Services	457,588	492,881	524,336	557,883	593,662	6.7%
Mental Health	48,336	51,214	54,263	57,495	60,921	6.0%
Community Health	99,674	103,493	107,530	111,800	116,322	3.9%
Public Health	22,277	22,939	23,620	24,322	25,045	3.0%
Cancer Services	18,578	19,986	21,506	23,148	24,922	7.6%
Aged Care	21,800	27,919	30,334	31,245	32,184	10.7%
Early Intervention	16,747	17,252	17,772	18,307	18,859	3.0%
TOTAL	685,000	735,683	779,361	824,201	871,915	6.2%
<i>Annual growth</i>		7.4%	5.9%	5.8%	5.8%	
Less transfer to Shared Services		(4,260)	(10,357)	(10,492)	(10,628)	
Net TOTAL	685,000	731,423	769,004	813,709	861,287	5.9%
Plant and Equipment	4,599	4,783	4,974	5,173	5,380	4.0%

A staged transition of gradually declining growth until arrival at the desired level allows sufficient capacity whilst the new approaches are bedded down.

New policy initiatives, such as a third linear accelerator, have not been included in the expenditure projections. The aim of the expenditure projections is to identify the quantum of funds available for health expenditure over the forward years. The expectation is that for any new initiatives identified, offsetting savings will be identified within the overall quantum of funding to allow for their implementation. Consistent with this, the growth rates across the outputs are a guide only, and health expenditure will not be held rigorously to the levels identified for each output. In this way, the health system will be sufficiently flexible to quickly allocate resources to areas of need as they are identified.

A capital program allowing replacement of plant and equipment has also been included, with a growth rate reflecting the cost growth rate of 4 per cent per annum.

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

A comparison of these projected health expenditures, with the currently published forward estimates and with the full impact of an 8 per cent growth rate for Acute Services is shown below.

Table 7.3.5: Comparison of Health Expenditure Estimates

\$'000	2005-06	2006-07	2007-08	2008-09	2009-10
Current Growth Path (10% per annum) – (a)	685,000	751,445	824,335	904,296	992,012
Review's Baseline (Acute Care at 8%) – (b)	685,000	741,301	791,422	843,623	899,714
Review Projections for Health Expenditure - (c)	685,000	735,683	779,361	824,201	871,915
Forward Estimates at Mid Year Review -(d)	685,000	707,913	734,747	760,559	789,940
<i>Efficiency Savings – Benchmark Cost for Acute (c-b)</i>	<i>(0)</i>	<i>(5,618)</i>	<i>(12,061)</i>	<i>(19,422)</i>	<i>(27,799)</i>
<i>Total Efficiencies Against Growth Path (c-a)</i>	<i>(0)</i>	<i>(15,762)</i>	<i>(44,974)</i>	<i>(80,094)</i>	<i>(120,098)</i>
<i>Difference – Review to Budget (c-d)</i>	<i>0</i>	<i>27,770</i>	<i>44,614</i>	<i>63,642</i>	<i>81,975</i>

The above table highlights the extent of 'real' efficiencies required to achieve the estimates proposed by the Review. In the absence of any strategies in place, health expenditure is likely to follow the trajectory of the past five years (at an average growth rate of 10 per cent). To meet the targets proposed by the Review, efficiencies in the order of \$120 million in 2009-10 will be required.

The difference between the Review projections and the published forward estimates does not reflect the overall impact on the General Government Sector operating result. This is because some movements have already been accounted for in the Mid Year Review. Provisions currently exist centrally for EBA outcomes and insurance, and

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some of the variance will be met through offsetting revenues or Commonwealth payments. The table below describes the impact on the General Government Sector operating result. Savings relating to Health from changes to government procurement practices are shown separately.

Table 7.3.6: Impact on General Government Sector Operating Result

	2005-06 \$'000	2006-07 \$'000	2007-08 \$'000	2008-09 \$'000	2009-10 \$'000	FTE Impacts
Review Projections	685,000	735,683	779,361	824,201	871,915	
Forward Estimates at Mid Year Review	685,000	707,913	734,747	760,559	789,940	
<i>Difference</i>		27,770	44,614	63,642	81,975	
<i>Less</i>						
EBA Central Provisions		6,665	13,831	20,318	27,004	
Insurance Central Provisions		6,800	6,970	7,150	7,330	
Cost of Goods Sold (Revenue)		361	737	1,128	1,534	
High Cost Drugs (from Commonwealth)		300	612	936	1,274	
HACC growth (from Commonwealth)		912	1,907	2,990	4,171	
Sub-total		20,763	30,002	38,467	76,639	
Net Impact on GGS Operating Result		12,732	20,557	31,120	40,662	
Other Health Portfolio Adjustments						
Machinery of Government (Healthpact)		592	607	610	620	5.8
Procurement (Tender Box) Savings		1,318	2,702	2,770	2,840	-
Procurement (ERC) Savings		398	597	597	597	-
IT (Review and ERC) Savings		2,417	3,411	3,411	3,411	-
Transfer to Shared Services		4,260	10,357	10,492	10,628	117.85

7.3.7 HEALTH AND COMMUNITY SERVICES FINANCIAL STRATEGY

The Review has sought to define a sustainable growth path for health expenditure underpinned by a strategy that should maintain (in fact improve) the quality of care.

The growth parameters proposed by the Review are premised on any wage increases above 3 per cent being funded from productivity offsets. In some particular area, demand pressures may emerge that are in excess of the forward estimates parameters.

In order to ensure that health expenditure remains sustainable, the Review proposes that the financial strategy is updated on a rolling basis.

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

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

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EDUCATION AND TRAINING

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CHAPTER 7.4.1 GOVERNMENT SCHOOLS

OVERVIEW

Government schools and preschools in the ACT provide quality education with a strong focus on catering for the varying needs of all students to assist each to reach their potential. Within the ACT system, most schools deliver a consistently sound standard of education at, in most respects, creditable levels of efficiency and cost effectiveness.

At the same time, the government school system in the ACT continues to operate under considerable pressure from changing circumstances and community expectations. In particular, it is losing students to the non-government sector much more rapidly than in other States, making it ever increasingly difficult to maintain in every school the highest standards of educational facilities and services. In current circumstances and with current approaches, the sound performance benchmark reached in many ACT schools is not able to be delivered by all.

Across Australia, there has been a shift of students from the public school system to non-government schools over the past decade. In the ACT, the shift has been at a faster rate than the national average¹. Although reasons for parents choosing non-government schools over a public school are quite complex, it is clear that if this trend continues, the public system will cater for less than half of students within the next decade. The government school system in the ACT is rapidly approaching a cross-road which demands a much more substantive response than has been taken to date.

Demographic shifts and an overall decline in government school enrolments have already led to increasing surplus capacity. The total surplus capacity across the preschool, primary and high schools and colleges sectors of ACT government schools is 31 per cent (17,811 surplus places)².

Maintaining surplus capacity at such levels is costly, and the quality of school infrastructure has eroded. At the same time, schools which have declined to small student numbers can deliver only limited curriculum options which can compromise student achievement. Greater student choice and peer support are potential gains from any changes put in place. None of the Review's recommendations for government schools need lower student outcomes. Measures are aimed at maintaining the Territory's high standing against other jurisdictions, and this will be achieved through well managed structural and infrastructure changes.

The ACT has relatively high costs when compared with other jurisdictions. Recurrent expenditure per student in the ACT is the second highest in the country at around

¹ Over the past five years alone, the number of students in ACT Government schools has declined by 7 per cent while the number of students in non-government schools has increased by 9 per cent.

² DET unpublished data 2005.

17.4 per cent³ higher than the national average. Out of school government expenditure per FTE student is 57 per cent above the national average and second highest in Australia⁴.

Prima facie, learning outcomes for ACT students are relatively very good. Higher attainments of the ACT students, however, must take into account their generally higher socio-economic backgrounds, which can have significant positive effects on measures of average student performance. Indeed, leading researchers have indicated that ACT results for the literacy and numeracy assessment program are unremarkable once account is taken of socio-economic factors, and do not provide evidence that the high levels of expenditure in the ACT are, overall, generating higher educational outcomes.

In an environment of decreasing enrolments, both costs and teacher numbers have been increasing significantly. Between 2000-01 and 2004-05, teacher numbers increased by 6 per cent when student numbers declined by 7 per cent⁵. The total cost of all government school education in the ACT increased by 27 per cent⁶.

Teachers in the ACT have the lowest contact hours with students, while remuneration levels are the highest in the country across all sectors.

In summary, the ACT public school system overall can be described as suffering declining support and not delivering adequate value for money. Higher expenditures overall seem more likely to be supporting areas of inefficiency than higher educational outcomes. These inefficiencies include the maintenance of heavy excess capacity in many schools and underutilisation of potential teaching time across the system. At the same time, these costs have come partly at the expense of new investment in school facilities and technologies.

Together, these are among the most important factors that will need to be addressed if public confidence in the government school system is to be fully restored (along with the equally vital efforts of teachers and school communities that will be needed to build excellence in government education).

Responding to them, with new investment, restructuring of schools and more effective utilisation of high quality teaching resources, is the opportunity that the Review recommends now be vigorously pursued.

³ Report on Government Services 2006.

⁴ Report on Government Services 2006.

⁵ DET unpublished data and ABS Catalogue No 4221.0, Schools Australia 2004.

⁶ DET Annual Reports.

KEY CONCLUSIONS AND RECOMMENDATIONS

- This is the only area of government expenditure where demand has declined while costs have increased significantly.
- Total recurrent expenditure has increased by 23 per cent from \$334.2 million in 2001-02 to \$411.7 million 2004-05 – an average of 7 per cent per year.
- Teacher numbers have increased by 6 per cent, from 2,765 in 2000-01 to 2,919 in 2004-05.
- Administrative staff in schools have increased by 18 per cent, from 623 in 2000-01 to 735 in 2004-05.
- Central office expenditure has increased by 9 per cent, from \$63 million in 2002-03 to \$68.8 million in 2004-05.
- Out of school expenditure per student has moved from being on the national average in 2000-01 to being 57 per cent above the national average in 2003-04.

However:

- Student numbers have fallen by 7 per cent, from 38,401 in 2000-01 to 35,821 in 2004-05 - and continue to fall by around 1 per cent per annum.
- Surplus infrastructure capacity is 31 per cent in 2005-06 and based on the Department's projections, will continue to rise.
- With full implementation of the Review's education package, recurrent expenditure per student in Government schools would still remain around 9 per cent per student above the national average.

In Summary:

- Recognising the high priority that the ACT Government affords to education as a foundation for the intellectual, physical and social development of young Canberrans, the Review proposes to further strengthen and revitalise the Government school and preschool systems to:
 - achieve at least the same or better educational outcomes for students;
 - improve confidence in the public school system and make it a more attractive choice for parents and students;
 - deliver government schooling in more efficient and cost effective ways; and
 - meet Government's commitments to education policy.

The Proposed Response

Box 1: The proposed response seeks to ensure:

- public schools are able to provide a breadth and diversity of programs for students;
- the learning environment (in the school and in the classroom) is improved;
- teachers' time on teaching is increased; and
- the overall cost effectiveness of the education system is increased.

The Government has previously made investments in education to improve learning outcomes, for example, in reducing class sizes in early years. However, there is need for structural change and improvement.

Learning environments in which education is delivered – in the school, and in the classroom – make a significant difference in students' achievements. Quality infrastructure, however, is an essential but by no means the only element of a good school (Box 2).

Box 2: What Makes a Good School?

- Quality teachers, and support for teachers in their profession;
- Critical mass of staff, encouraging mentoring, peer learning and support;
- Social diversity and scale to get the right balance of peer interaction;
- Program breadth to give students choice, increasing their engagement in learning;
- Professional development focused on assessed school needs;
- Professional appraisal;
- Ability to adapt curriculum to student needs and apply flexible approaches; and
- School improvement plans.

Professor Richard Teese; Reader in Education; Director, Centre for Post Compulsory Education and Life Long Learning, University of Melbourne.

Educational Outcomes

At the *prima facie* level, learning outcomes for ACT students are relatively good which could be viewed as some justification for the higher cost of the public education system. It is important, however, to understand the reasons for differences in educational achievements between various systems.

There are difficulties in comparing outcomes between States⁷. Educational outcomes and qualitative inputs such as curriculum offerings, staff quality and school

⁷ For example, due to differing proportion of Indigenous and rural populations, the different ages at which a child may start school in various States, the presence of a preparatory year in some States etc.

environment are difficult to define and strength of relationships between them difficult to measure.

Some researchers suggest that variation in educational outcomes is largely dependent on qualitative factors such as standard of teaching in schools, and quality of teachers, with socio-demographic composition of the school population having a minor impact (around 10 per cent)⁸. Other studies conclude that while there is no single factor that explains why some schools gain better results than others, social intake is an important element⁹.

Irrespective of the relative contribution of various factors, what is important to note is that the relatively higher educational outcomes in the ACT compared to other States are likely attributed to the higher socio-economic background of the students. This conclusion is based on the research under the OECD Programme for International Student Assessment (Box 3).

Box 3: Differences in Student Achievements

In the context of a move towards greater uniformity in the delivery of education services across Australia, State differences in achievements are non trivial especially when socio-demographic and educational differences between the States are taken into account.....It appears that the higher attainment of ACT students can be attributed to their generally higher socio-economic backgrounds....When taking into account grade levels, New South Wales students show significantly higher average scores than five other States and Territories in reading and mathematics and three other States and Territories in science.

Source: *State differences in achievement among secondary school students in Australia*; Marks G N and Cresswell J; Australian Journal of Education, Vol. 49, No. 2 (2005).

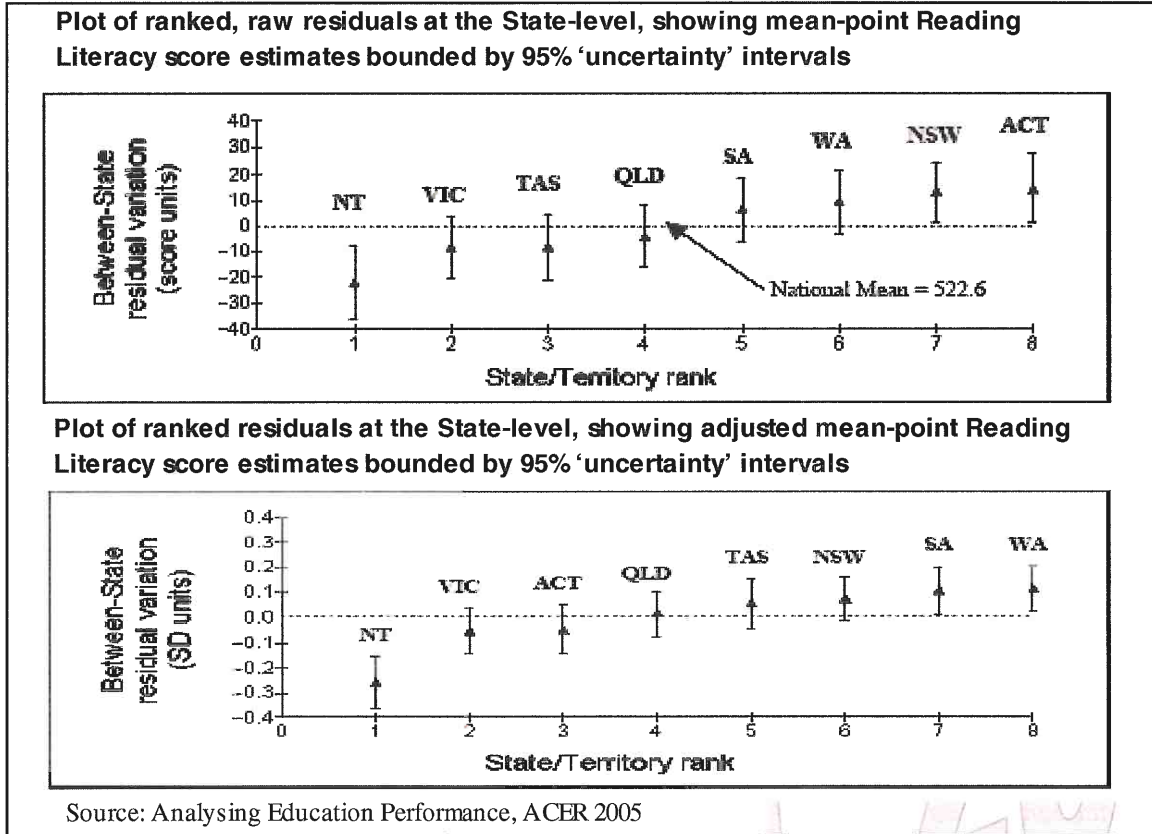
In relation to the outcomes measured through the ACT Assessment Program, the benchmarks are set at minimum standards and again given the socio-demographic backgrounds of many of ACT students and the education and development resources they bring from home, the benchmarks do not indicate a great deal about the value added by schools. This point is acknowledged by education researchers. The Review was advised by leading researchers that ACT results for the literacy and numeracy assessment program are unremarkable and do not provide evidence to suggest that the high level of expenditure in the ACT is adding value above the intake characteristics of ACT students¹⁰.

⁸ *What Matters Most: Evidence-Based Findings of key Factors Affecting the Educational Experience and Outcomes for Girls and Boys Throughout their Primary and Secondary Schooling*, Kenneth Rowe and Katherine Row; Supplementary Submission to House of Representatives Standing Committee on Education and Training: *Inquiry into Education of Boys*. May 2002. Also see research related to the *Victorian Quality Schools Project*.

⁹ *School Performance in Australia: results from analyses of school effectiveness*; S Lamb, R Rumberger, D Jesson, and R Teese; Centre for Post Compulsory Education and Life Learning, The University of Melbourne; August 2004.

¹⁰ *Analysing and Reporting Performance Indicator Data: 'Caress' the data and beware!*; Ken Rowe, Australian Council for Educational Research; Invited address at the 2004 Public Sector Performance and Reporting Conference; Sydney 2004. The Review was advised that data for PISA was provided under a protocol that did not allow disaggregation between public and private and schools systems.

Figure 7.4.1: Comparisons of Literacy Scores: Before and After Socio-Demographic Adjustments



These results suggest that it can not be shown, from the evidence available, whether or not the public and the Government is getting value for money for the high level of expenditure on ACT Government schools.

The focus of the proposed package is on establishing good schools on a cost effective basis. This requires a smaller number of more viable schools in the ACT system.

Government’s Commitment to Education

The proposed package maintains Government’s commitment to education. Goal student to teacher ratios are not adversely impacted. Funding to education will be maintained in aggregate terms (Box 4).

Box 4: Government’s Commitment to Education

- Over the next four years, the proposed measures will result in savings of \$98 million. At the same time, an investment of \$110 million in the public education is being made.
- The student to teacher ratio in 2001 was 13.6¹¹. Following the full implementation of the package, the ratio is projected to remain the same.
- The Government’s commitment to smaller class sizes for K-3 will be maintained.
- Funding for public education will be maintained in real terms from the time the Government came to office.
- Funding per student will still be higher compared with that in 2001.

KEY ISSUES FOR PUBLIC EDUCATION

The total expenditure on all ACT Government schools in 2004-05 was \$411.8 million, with a Government Payment for Outputs (recurrent appropriation) of \$358 million¹². A summary of expenditure by sector is provided below.

Table 7.4.1: Composition of Government School Expenditure

	Direct Expenditure ¹³ \$'m	Indirect Expenditure ¹⁴ \$'m	Overhead Expenditure ¹⁵ \$'m	Externally Funded ¹⁶ \$'m
Primary Schools	140.3	16.0	22.4	5.3
High Schools	83.8	13.1	12.3	2.3
Colleges	52.1	7.5	8.3	3.6
Preschools*	12.1	1.4	2.7	0.8
Special Schools	12.8	5.6	4.3	2.0
Total Expenditure	301.1	43.6	50.0	14.0
% of Total	74%	11%	12%	3%

* The Early Intervention Unit is included in preschool totals.

Source: Department of Education and Training ERC Information 2004-05

The following table provides the number of students and cost per student in each sector.

Table 7.4.2: Number of Students and Cost per Student by Sector

	Number of Students	Total Costs \$'m	Funding \$'m	Cost per Student (\$)
Primary Schools	18,354	170.2	148.2	9,272
High Schools	9,919	108.1	95.7	10,899
Colleges	5,781	73.6	62.4	12,732
Preschools	3,622	15.3	13.7	4,223
Students with Disabilities		44.6	38.0	
- Special Schools	340			45,364
- Mainstream	1,327			20,784

Source: DET Annual Report 2004-05

Escalating Costs

The ACT has relatively high costs of government school education compared with other jurisdictions. In 2003-04, recurrent expenditure per student in the ACT was the second highest in the country at \$11,748 per student and around 17 per cent higher than the national average¹⁷.

¹¹ Treasury calculations based on DET ERC information 2005.

¹² 2004-05 Annual Report, Department of Education and Training.

¹³ Direct expenditure in mainstream ACT Government schools includes salaries, superannuation, School Based Management payments and expenditure from own sourced revenue.

¹⁴ Includes school education support administered by the Central Office and depreciation.

¹⁵ Includes costs associated with managing human resources and corporate expenses.

¹⁶ Includes funding received from external bodies such as international education payments, Commonwealth Government departments for particular programs and revenue from other agencies external to the ACT Government.

¹⁷ Report on Government Services; 2006.

In school primary government expenditure per FTE student was 3 per cent above the national average and the third highest in Australia. In school secondary government expenditure per FTE student was 11 per cent higher than the national average and second highest in Australia. Out of school government expenditure per FTE student was 57 per cent above the national average and second highest in Australia. Overall, between 2000-01 and 2004-05, the total cost of all government school education in the ACT increased by 27 per cent¹⁸.

Declining Student Enrolments

The share of public school education in the Territory has been decreasing over time, with a shift to non-government school systems. The decline is evident in all the sectors of the public education system (Box 4).

Box 4: Change in enrolments by sector over the past five years

- The number of students in government primary schools decreased by 8 per cent. The number of students in non-government primary schools increased by 8 per cent.
- The number of students in government high schools decreased by 1 per cent. The number of students in non-government high schools increased by 9 per cent.
- The number of students in government colleges decreased by 11 per cent. The number of students in non-government senior secondary classes increased by 18 per cent¹⁹.

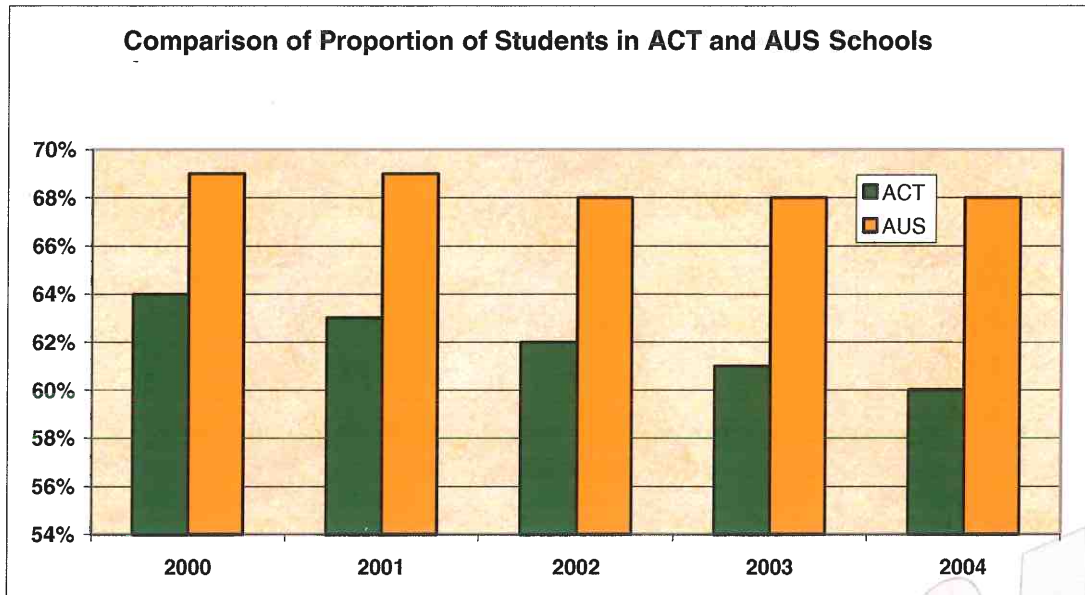
There has indeed been a trend shift in the relative shares of the public and private education systems across Australia, but, in the ACT the rate of decline in the public school enrolments is around double the national rate.

The proportion of students in ACT government schools has decreased from 64 per cent to 59 per cent from February 2000 to February 2006. The proportion of students in ACT non-government schools has increased from 36 per cent to 41 per cent from February 2000 to February 2004. If this trend continues, the public school system will cater for less than half of the total school education in the Territory within the next decade.

Across Australia on the other hand, the proportion of students in government schools decreased from 69 per cent to 67 per cent from February 2000 to August 2005. The proportion of students in non-government schools has increased from 31 per cent to 33 per cent from February 2000 to August 2005.

¹⁸ DET Annual Reports.

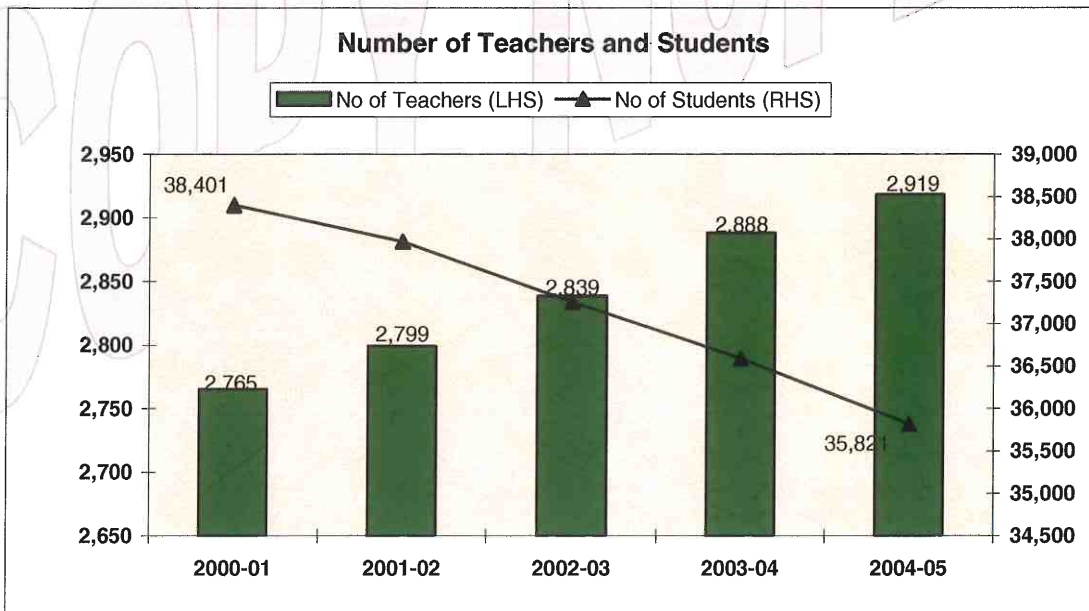
¹⁹ ABS Catalogue No 4221.0, Schools Australia 2004.



Source: ABS Catalogue No 4221.0, Schools Australia 2004

Increasing Staff Numbers

The number of schools in the ACT has remained relatively unchanged from 95 to 96 between 2000-01 and 2004-05²⁰. Over this period, while the number of full-time students decreased by 7 per cent, teachers in government schools increased by 154 FTEs or 6 per cent²¹.



Source: ACT Department of Education and Training unpublished data

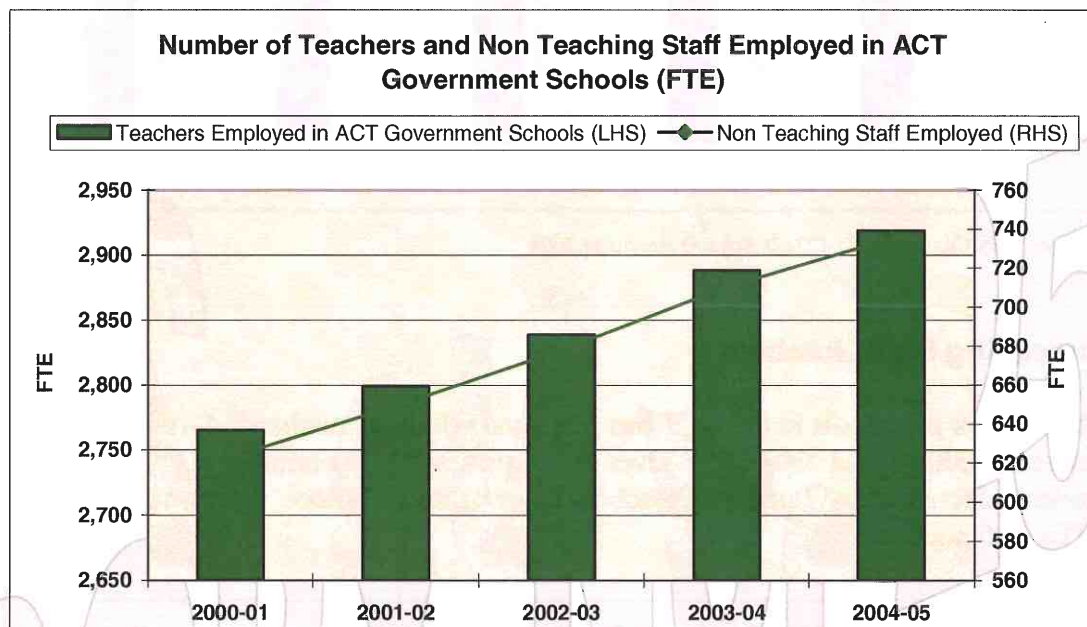
²⁰ ABS Catalogue No. 4221.0, Schools Australia 2004.

²¹ DET unpublished data.

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If the overall student/teacher ratio was maintained in 2004-05, teacher numbers should have decreased by 186 teachers over the period. The real increase in teacher numbers is therefore, taking into account the decrease in enrolments of 340 FTEs.

Similar to teaching staff, non-teaching staff in schools increased from 622 FTE in 2000-01 to 735 FTE in 2004-05, which is an increase of 18 per cent²². This increase should have, in part, provided additional support for both non-teaching activities and additional teaching capacity within schools. Additionally, there are 348 non-teaching positions in Central Office that provide some support to schools.



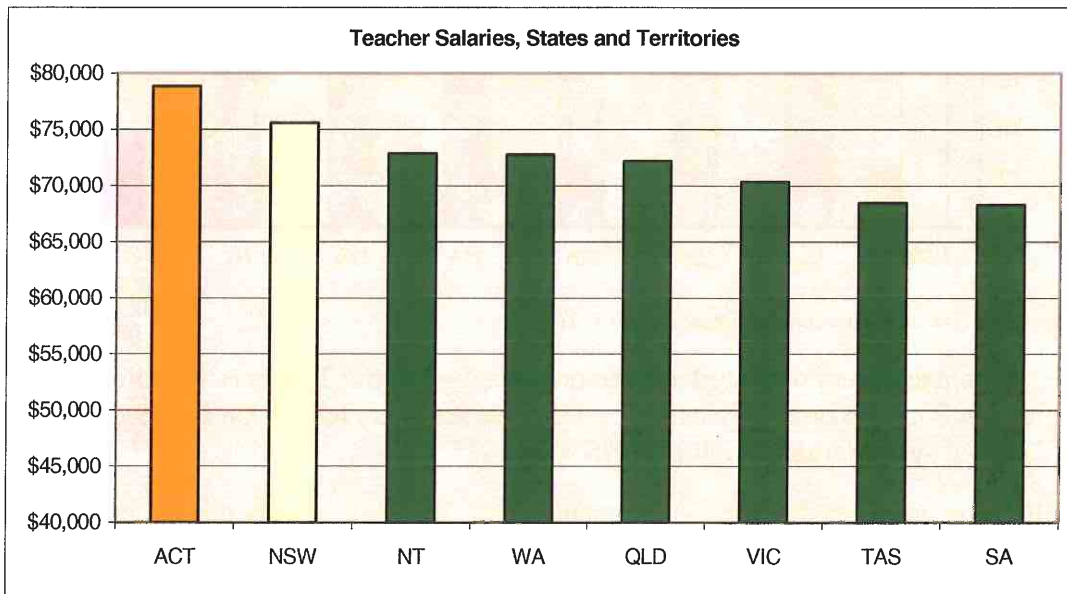
Source: ACT Department of Education and Training unpublished data

²² DET unpublished data

THE PROPOSED MEASURES

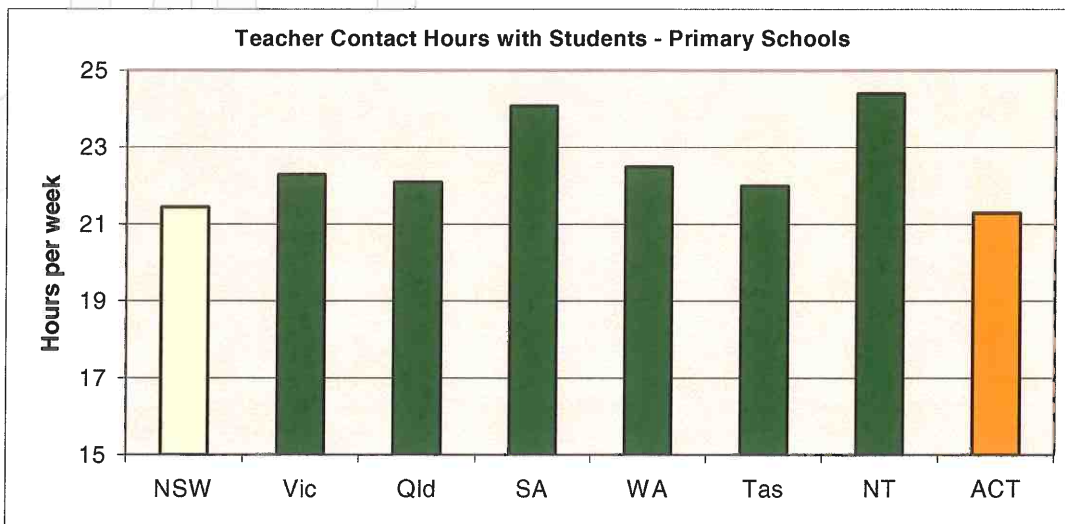
Increasing Contact Hours

Including superannuation, ACT teachers are the highest paid in the country. However, they have the lowest contact hours of any jurisdiction across all public school sectors, as highlighted in the charts below.



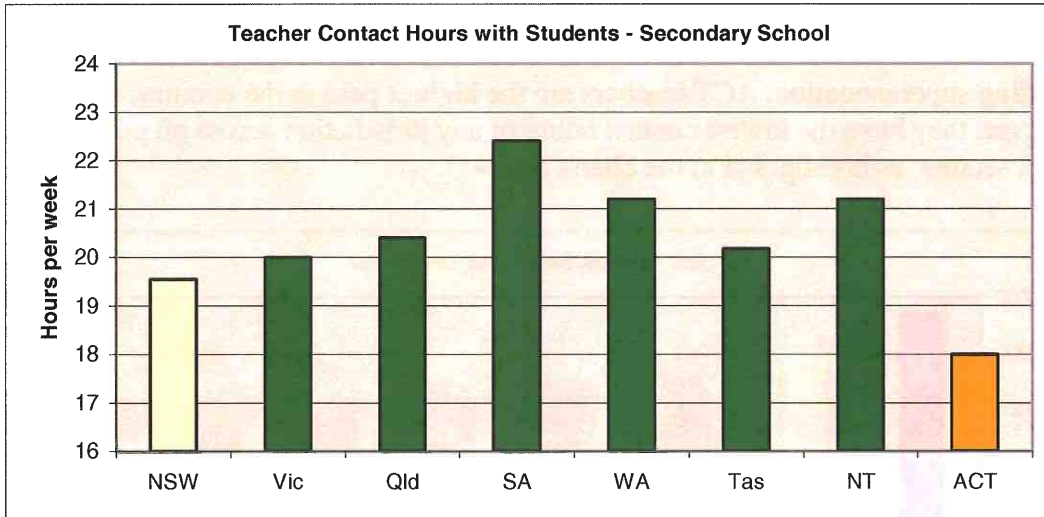
Source: ACT Department of Education and Training data

Teacher contact hours with students includes face to face time in class or in other programmed teaching sessions on the timetable. Teacher contact hours with students in ACT primary schools are the lowest in Australia at 21 hours 30 minutes. The Northern Territory has the highest teacher contact hours at 24 hours 40 minutes.



Source: ACT Treasury data collected from jurisdictions

The ACT also has the lowest teacher contact hours with students for high schools and colleges, at 18 hours. South Australia has the highest at 22 hours and 40 minutes²³.



Source: ACT Treasury data collected from jurisdictions

Teacher contact hours with students are not specified in the Teachers' Certified Agreement 2004-06 or in legislation. These contact hours have been in place since the ACT school system transferred from NSW in 1973.

The Review proposes that the Government seek to increase weekly teacher contact with students. Savings from increased contact are significant and could provide capacity for wage increases above the level of provision in the budget (3 per cent). This would ensure that teachers in the ACT remain well paid, and that the public school system is able to attract quality teachers.

Two benchmarks are available in this regard – contact hours of the best jurisdiction, and the average contact hours across all jurisdictions. The following table provides a summary of the financial impact of the two options.

²³ South Australian Staff Award 2000

Table 7.4.3: Options on EBA and Teacher Contact Hours

	2006-07	2007-08	2008-09
	\$'m	\$'m	\$'m
Savings from Increased Contact Hours			
NSW Contact Hours	3.8	7.8	8.0
SA Contact Hours	12.3	25.0	25.6
Aust. Average Contact Hours	6.3	12.9	13.3
EBA Costs – 4 per cent per annum increase			
Gross EBA Costs	6.9	14.0	20.8
EBA Costs Net of Budget Provisions	1.7	3.5	5.3
Net Budget Savings - Wages			
NSW Contact Hours	2.1	4.2	2.7
SA Contact Hours	10.5	21.4	20.3
Aust. Average Contact Hours	4.6	9.4	8.0
Net Budget Savings – Wages and Oncosts			
NSW Contact Hours	3.3	6.7	4.3
SA Contact Hours	16.7	34.3	32.5
Aust. Average Contact Hours	7.3	15.0	12.8

The savings from increased contact hours essentially relate to a decrease in teacher numbers across the public school system. In estimating the above savings, a half-year effect has been assumed for 2006-07. The following table provides estimates of impact on teacher numbers under each option.

Table 7.4.4: Impact on Teacher Staffing

	Primary FTEs	High Schools FTEs	Colleges FTEs	Total FTEs	% of Current Staffing
NSW Contact Hours	15.0	71.0	43.0	129.0	4.4%
SA Contact Hours	132.0	156.0	128.0	416.0	14.0%
Aust. Average Contact Hours	67.0	79.0	65.0	211.0	7.2%

The impact on full-time staffing is likely to be less than the estimates included in the table above. In principle, with the increase in contact hours, there should be some decrease in relief teaching costs.

The volume of relief teaching in public schools equates to around 140 FTEs per annum, as highlighted in the table below.

Table 7.4.5: Relief Teaching Across Public Schools

	2002-03	2003-04	2004-05
Relief Days (Number)	28,438	26,900	27,514
Teacher Equivalent (FTEs)	142	135	138
Relief Teacher Costs (\$'m)	7.8	8.8	12.1

Source: DET ERC information 2005

It is difficult to estimate the extent to which decreased relief teaching could absorb the decrease in staffing required (under any option). Assuming a 50 per cent reduction in relief teaching, a reduction of around 140 full time employed teachers will be required if the option of Australian average contact hours is adopted.

The annual turnover rate for teachers is around 5 per cent, and the savings could be achieved without a significant redundancy program.

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

Curriculum Development

The ACT develops its own curriculum with direct costs of curriculum development in the ACT are estimated at \$2.9 million per annum in the Central Office.

In the ACT, all schools are also required to have their own curriculum documents. This has been provided as a 'rationale' for lower teacher contact hours compared to NSW.

However, Australia increasingly is one community with one labour market. People have high levels of mobility between States and Territories. It is vital that we equip our children in ways that do not disadvantage them in the national economy and community. There are advantages in ensuring that curriculum is aligned with national developments, particularly at more senior levels, provided this produces high quality outcomes at least equal to those now provided by the separate ACT approach.

The Review therefore considers that curriculum development should increasingly call upon nationally available models and materials where this produces good outcomes. Given the ACT's geographic position, this will often mean that NSW could provide a suitable base of curriculum materials.

The Review has been advised by the Australian Council for Educational Research²⁴ that the NSW curriculum is rated as the only curriculum in Australia that specifies content in a systematic way. This is reflected in relatively higher student outcomes in NSW, when adjusted for socio-economic characteristics of its student population²⁵.

The Review was advised that the Department is currently developing a curriculum framework. This could provide guidelines under which all or some of content of the NSW curriculum (or if applicable, other best practice curriculum that may be developed in other states) could be used under licence.

In proposing this approach, the Review is not suggesting that the ACT cease to develop its own approach to curriculum where this produces clear and substantial benefits for education relative to available alternatives. Nor is it suggested that teachers cease tailoring their teaching material to specific classroom or student needs. Indeed such 'adjustments' are part of the repertoire of a good teacher.

²⁴ Dr Ken Rowe; Australian Council for Educational Research; Monash University.

²⁵ *State differences in achievement among secondary school students in Australia*; Marks G N and Cresswell J; Australian Journal of Education, Vol. 49, No. 2 (2005).

Over time, as curriculum renewal opportunities arise, this approach should produce better results for ACT students as well as allow some reduction in the high central office costs of the current curriculum development system.

The NSW curriculum could provide a platform in this regard, and will allow teachers to concentrate more on face-to-face contact with students.

The cost of purchasing curriculum documents and licence fees is estimated at \$0.5 million per annum. In addition, capacity in the Central Office will need to be retained for coordination, licence management and support to schools, and for continuing curriculum development where this proves essential to maintain educational outcomes. This is estimated at \$1.5 million per annum, providing net savings of around \$0.9 million per annum.

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

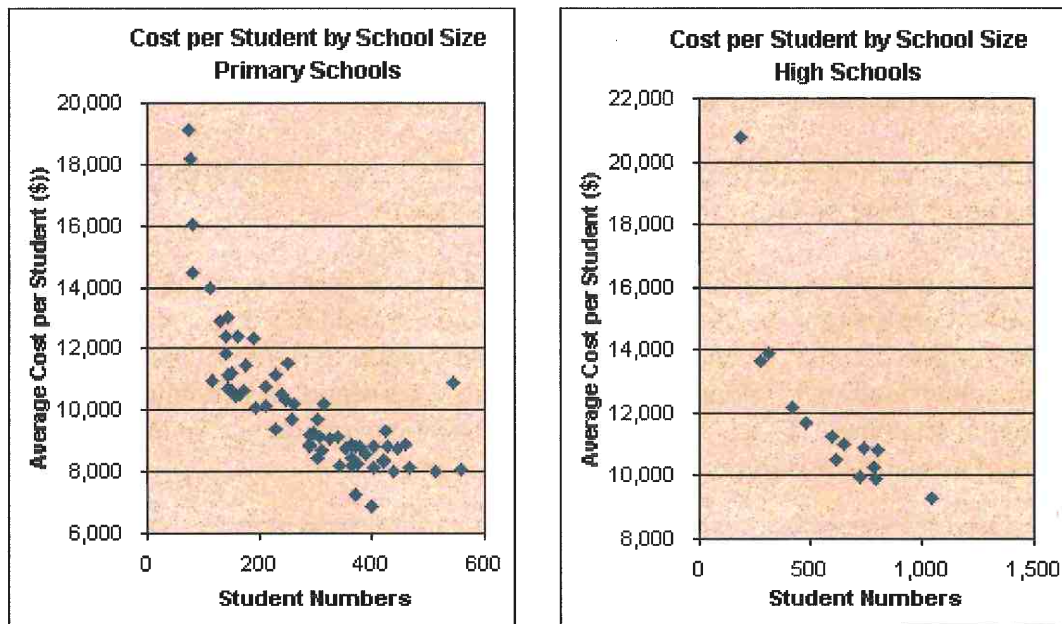
Unviable Schools and Surplus Capacity

Demographic shifts and an overall decline in government school enrolments have led to the need to maintain increasing proportions of surplus capacity across the sectors. There are 37 preschools that are part-time, with very low enrolments; three high schools and 19 primary schools with enrolments below half capacity; and one college with half student capacity²⁶.

It is quite reasonable to expect that as the size of a school (as measured by number of students) increases, the benefits from economies of scale also increase as resources are utilised at their optimum level. In the ACT context, in most cases this means that schools operate closer to their originally intended size.

For the ACT, this indeed is the case and cost per student decreases with the school student population in all sectors.

²⁶ DET ERC information 2005.



Source: Treasury graph based on DET ERC information 2004-05.

Surplus infrastructure capacity across government schools currently equates to 17,811 places.

Table 7.4.6: Surplus Capacity in Public Schools (2005)

Sector ²⁷	Capacity Student No	Enrolment Student No	Surplus Places	Surplus %
Primary Schools ²⁸	27,192	19,241	7,951	29%
High Schools	15,225	10,237	4,988	33%
Colleges	7,400	5,903	1,497	20%
Preschools ²⁹	6,875	3,529	3,346	49%
Total	56,692	38,910	17,782	31%

Source: Department of Education and Training data

While demographic changes appear to have precipitated considerations of school amalgamation recently, it is noteworthy that moves towards larger schools began many years ago. The number of smaller schools had started to decrease in 1940s when school bus services started to operate in remote areas of Australia and other western countries^{30, 31}.

²⁷ IEC, AEP programs and Co-operative Schools are not included. Amaroo has been excluded from Primary, High and Preschools sector as it is a new school and a high surplus capacity is expected.

²⁸ The capacity for Turner only includes the main building; the building for special students has been excluded.

²⁹ Includes Indigenous Preschool Program enrolments. Jervis Bay has been excluded.

³⁰ See for example, *Do Schools Facilities Really Impact A Child's Education*, J Lyons; US Department of Education, 2001. The number of schools in US has decreased from 262,000 in 1930 to 91,000 in 2002. Meanwhile student population has grown from 25 million in 1950 to more than 47 million.

³¹ The number of government schools in Australia has decreased from 7,544 in 1984 to 6,938 (about 8 per cent) in 2004. The number of government schools in the ACT has increased slightly (from 95 to 96) over the same period, despite the number of students in the government schools decreasing in the last few years (*Schools Australia*; ABS Catalogue 4221, Table 1).

A number of questions, however, arise with any suggestion to consolidate schools to achieve the economies of scale originally intended by the existing school capacity. Those questions essentially centre on the convenience of neighbourhood schools and socio-demographic factors. The overriding consideration, however, should be the educational outcomes and the extent to which they are impacted by school student numbers. The key questions here are: (i) what is the optimum size of a school, and (ii) what is the relationship between school size and educational outcomes. The Review's approach is, by consolidating resources and infrastructure, to move lower achieving schools to the same standing as higher achieving schools (as measured by the Territory's own internal school benchmarks). In all cases, the Review is proposing only that schools reach their design capacity – not that larger schools be built.

Although there is a considerable body of research to address these questions, every study on the schooling system is conducted with a different emphasis, and produces results which may not be comparable with earlier studies³². There is, however, consensus that students in substandard buildings have lower scores compared to students learning in better buildings³³.

In an environment of finite budget resources, in order to maintain small student number schools:

- either increasing proportions of the school education budget will need to be devoted to maintaining infrastructure to minimum condition standards; or
- the quality of school buildings will be eroded to such a point that those students who are able will seek education in the non-government sector. This drift is already apparent; or
- they could only deliver minimum curriculum options which compromise student achievement.

On the other hand, larger schools are likely to have the capacity to provide wider curriculum choices. In addition, economies of scale provide the ability, within the overall resource envelope, to enhance teacher quality and school infrastructure, both of which would have a positive impact on educational outcomes.

Increasing Infrastructure Utilisation

Excess capacity and the infrastructure mismatch have reached a stage where urgent action is necessary to maintain the viability of the whole public school system. Projections by the Department of Education and Training indicate that within the next decade, public school enrolments will constitute less than half of the total enrolments.

³² See for example, *School Cost Function: a Meta-Regression Analysis*; A Colegrave and M Giles; Working Paper, Centre for Labour Market Research; The University of Western Australia, 2004.

³³ *The Impact of School Building Condition and Student Achievement and Behaviour*, G Earthman, OECD International Conference Luxembourg (1998); *Where Children Learn: Facilities Condition and Student Test Performance in Milwaukee Public Schools*, L Morgan, Council of Educational Facility Planners International (2000).

A major school rationalisation program should commence over the forward estimates period – on current trends it could well continue beyond this period.

There is no universal optimal school size³⁴, and the Review has not sought to determine and impose a universal size. The Review’s approach in this regard has been to better utilise the existing capacity, while having general regard to travel distance, specific circumstances of a school and demographic projections.

There is a lack of forward planning for education infrastructure, particularly as trends on infrastructure utilisation are clearly unsustainable. The Department assisted the Review in developing a program of improvement. This work, however, is preliminary and should be taken as a guide for each district. Within each district, detailed planning is required to confirm the appropriate school option. This will cover (apart from capital investment) enrolment policy review, appropriateness of individual schools, locational ‘best fit’, school design, asset condition, and transitional arrangements and timings. A summary of the program over the forward estimates period by district is shown below.

Table 7.4.7: Proposed Improvement in Capacity Utilisation by District

Sector/District	Rationalisation	Capacity Utilisation (%)	
		Current	Future
Colleges			
Belconnen North	1 to close	68.7	100
High Schools*			
Belconnen	1 to close	55.7	92.1
Tuggeranong	1 to close	62.9	78.0
Primary Schools*			
Belconnen North	2 to close	57.4	73.0
Woden Valley	2 to close	79.2	87.9
Weston Creek	2 to close	65.9	97.5
Tuggeranong North	3 to close	52.0	76.9
Tuggeranong South	2 to close	73.4	95.4
Rural	2 to close	-	-
Total	16 to close		

* Ginninderra High School has already been closed as part of the Ginninderra District P-10 School project. As well, Holt and Higgins primary schools have been identified for closure in 2009 under the Project.

In addition, there is significant under utilisation of preschools, with the sector operating at below half capacity. The Review proposes that, over the forward estimates period, 22 preschools be closed.

The Review proposes that a rolling program of school closures be developed over the coming years, which take into account the changes in demographics and enrolments. Consolidation will involve capital works upgrades at the schools remaining open, and investment to improve learning environments in all public schools. This should be integrated into the overall revitalisation planning.

³⁴ For example, in the US, high school enrolments over 2,000 students are common with some schools exceeding 5,000 students. Some States, for example Florida, have recently moved to limit the maximum number of students in new high schools to 900.

Savings of \$16.8 million per annum are estimated once the program outlined above is implemented. These comprise savings in depreciation (\$3.1 million), decrease in teacher and administrative staff (\$12.4 million), and School Based Management payments (\$1.3 million).

Recommendation 97 and 98:

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

Improving the Quality of Learning Environment

The tools, techniques, and general teaching methods today are different from those of thirty years ago, and may not have been conceived at that time. As mentioned earlier in this chapter, maintenance expenditure since self-government across public schools has been inadequate. Increasing excess capacity over time has further exacerbated this by spreading the expenditure across unutilised infrastructure.

The schools infrastructure in the Territory is generally in poor condition due to the age of the schools and sub optimal levels of maintenance since self-government. Increases under the real term guarantee of funding had mostly gone towards wages and new initiatives, with only a marginal increase in maintenance expenditure³⁵.

In 2004-05, \$11.2 million was expended on school maintenance, of which \$6.1 million was for major maintenance. This expenditure represents around 1.9 per cent of the written down asset value of \$579 million for government schools. This is insufficient particularly given that some schools date back to 1920s.

The Review proposes significant capital investment well beyond that required to accommodate the students transferring from the closed schools. Over the forward estimates period, an initial investment of \$90 million for school upgrades is proposed.

The estimates provided above are broad, and are based on some preliminary work undertaken by the Department. Specific plan of works for each school will need to be developed through the development of an asset management plan that centres on the strategy of enhancing infrastructure utilisation and improving the condition of learning environments for students.

Once the capital upgrades are complete, it is proposed that maintenance funding to schools be increased by \$3 million per annum (around 25 per cent).

The Review considered, but did not further pursue, options for also building further P-10 schools or other new schools. It is noted that further P-10 schools would require even more closures of existing schools. The balance of considerations suggest that

³⁵ *Report on the State of the Territory's Finances as at 31 October 2001*; Commission of Audit (2002).

the scale of change required by the rationalisation of existing schools should not be further added to at this stage.

The Review has sought expert advice on options for strategic investment in information technology in schools. The investment of \$20 million over four years is proposed to provide a major boost to teaching and learning aids in all the schools.

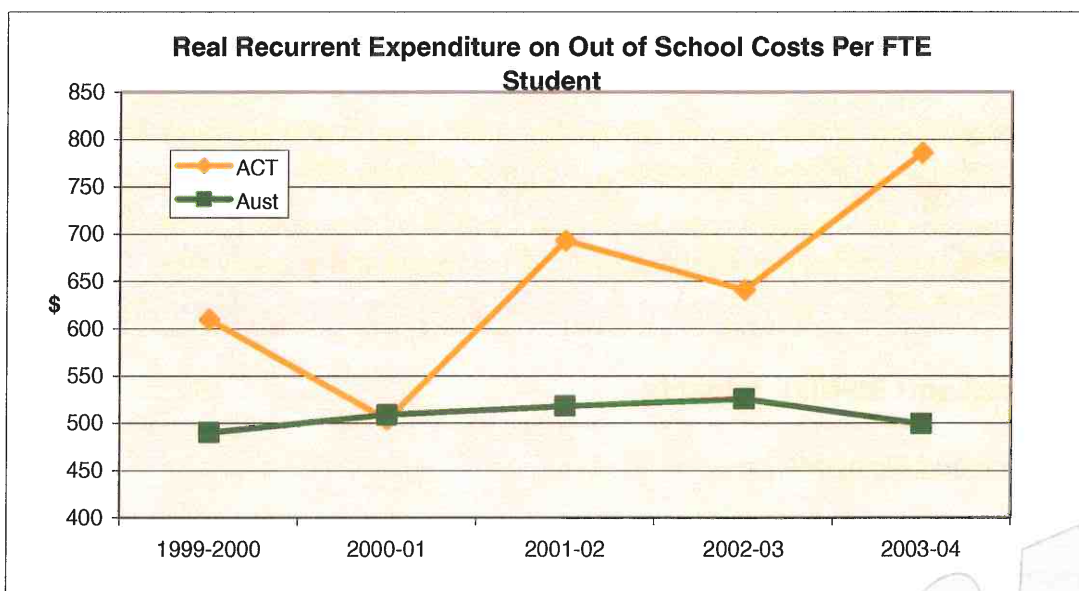
Recommendation 99, 100, 101 and 102:

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

No allowance has been made for the offsetting impact of future land sales associated with vacant school properties. The revenue from this source is likely to be considerable. In the medium term, the revenue will offset the cost of additional capital investment to upgrade school facilities. Consequently, the additional interest costs in the short term will be offset in the medium term by additional revenue from the sale of land and savings from school closures.

Out of School Expenditure

Out of school costs in the ACT are considerably higher than the national average. According to the *Report on Government Services 2006*, out of school expenditure in the ACT was \$786 per student in 2003-04, compared with the national figure of \$500 per student, as highlighted in the chart below. This represents a difference of \$287 per student.



Source: Report on Government Services 2006

To bring the ACT into line with 2003-04 national average cost structures, savings are estimated at \$10.3 million per annum. These should be adjusted for central office savings already incorporated in the 2005-06 Budget, and other saving measures proposed by the Review.

There are three main areas of expenditure within the department that could be classified as administrative expenditure:

- traditional central office costs such as payroll processing, school policy, ministerial support and governance;
- centrally managed programs which are delivered in or to schools. Examples of this type of program include the centrally funded repairs and maintenance program, transport for students with a disability, IT support to schools and student support such as counsellors and youth workers; and
- School Based Management payments to schools. These payments include allowances for minor repairs and maintenance, utilities (energy and water), cleaning, and administration.

The Review proposes that all three administrative expense areas above should be assessed for efficiencies. This will enable the proposed savings to be spread over a larger base. The only exclusions to this should be the disabled student transport, and school repairs and maintenance budget.

Separately, the Review has proposed savings of \$1.5 million in central office from restructuring vocational education and training.

Recommendations 103 and 104:

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

Financial and Staffing Impacts

Approach and Methodology

The methodology for estimating savings relating to increased contact hours has been described above.

Savings from increased infrastructure utilisation are estimated by using the benchmarks from within the current public school system, rather than referring to any external benchmark.

The benchmark used, however, does not relate to the minimum cost per student in the school system. Rather a variable benchmark is used, that refers to the costs of a similar sized school. In other words, it is assumed that as a school's enrolment increases due to the transfer of students from a closed school, it should be able to achieve the same costs per student as a similar sized school in the ACT.

The methodology adopted excludes special education costs across the school system, with the assumption that these would be added to a school's funding based on the characteristics of its intake.

SUMMARY OF SAVINGS

Table 7.4.8: Summary of Financial Impacts

Measure – Savings / (Costs)	2006-07 \$'m	2007-08 \$'m	2008-09 \$'m	2009-10 \$'m
Contact Hours				
Net Savings - Australian Average Contact Hours with 4% EBA	7.3	15.0	12.8	12.8
Employee entitlements (excluding super)	(0.4)	(0.4)	(0.4)	(0.4)
Curriculum Development				
Purchase NSW Documentation and Licence	(0.5)	(0.5)	(0.5)	(0.5)
Central Office Coordination	(1.5)	(1.5)	(1.5)	(1.5)
Savings in Curriculum Development	2.9	3.0	3.0	3.1
Increasing Use of Infrastructure				
In-School Savings in Student Costs*	1.6	6.4	11.8	14.2
Decrease in Depreciation (Closed Schools)	0.3	1.6	2.9	3.4
Benchmarking Central Office Costs	3.2	7.4	7.7	7.9
Increase in Depreciation (Capital Investments)	(0.4)	(1.0)	(1.6)	(2.1)
Strategic Investments - Recurrent				
Increased Maintenance Funding	0	0	(3.0)	(3.0)
Schools IT (Depreciation)	(1.3)	(2.5)	(3.8)	(5.0)
Transitional Assistance	(0.5)	(0.5)	(0.5)	(0.5)
Total Recurrent Savings	10.7	27.0	26.9	28.4
Capital Investments				
Capital Upgrades**				
- school infrastructure rationalisation	(10.0)	(10.0)	(5.0)	0
- system infrastructure refurbishment	(5.0)	(15.0)	(20.0)	(25.0)
Schools IT*	(5.0)	(5.0)	(5.0)	(5.0)
Memorandum Items				
Procurement (Tender Box) Savings	0.143	0.292	0.299	0.306
Procurement (ERC) Savings	0.309	0.463	0.463	0.463
IT (Review and ERC) Savings ³⁶	0.494	0.697	0.697	0.697
Transfer of Services to Shared Services Centre	2.663	6.475	6.559	6.644
Interest Costs of Capital Investment*	(1.1)	(2.7)	(4.4)	(5.2)

* Efficiency savings in respect of Holt and Higgins primary schools and Ginninderra High School closures (as part of the Ginninderra District P-10 School Project) have been included in these savings.

**No allowance has been made for the offsetting impact of future land sales associated with vacant school properties. The revenue from this source is likely to be considerable. In the medium term, the revenue will offset the cost of additional capital investment to upgrade school facilities. Consequently, the additional interest costs in the short term will be offset in the medium term by additional revenue from the sale of land and savings from school closures.

³⁶ IT savings figure includes CIT. InTACT does not have full visibility of ICT spend for CIT and Government Schools at this time to allow for separate allocation.

STAFFING IMPACTS

The final impact on staffing from increased contact hours, school closures and benchmarking Central Office expenditure is summarised below.

Table 7.4.9: Impact on Staffing

Measure	Teachers FTEs	Administrative FTEs
Increased Contact Hours to Australian Average	211	-
School Closures	130	50
Benchmarking Central Office		80
Transfer to Shared Services (HR and Finance)		71

Impact of increased contact hours is expected to be spread over two years. The estimated decrease in staffing from school closures is over four years.

The decrease in full-time teaching staff is likely to be less than that identified in the above table, as there should be decrease in relief teaching effort. The net impact is likely to be a decrease of around 220-250 teachers.

Transitional Assistance

The Review recognises the impacts that may be felt by parents and students due to the changes proposed under the education package. To assist in adjusting to the changing school environments, and associated relocation impacts, it is proposed that transitional assistance of \$2 million be provided to parents and students to cover additional costs that may occur. This assistance should be provided on a pro-rata basis for the 2007, 2008, 2009 and 2010 school years.

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

CHAPTER 7.4.2

NON-GOVERNMENT SCHOOLS

OVERVIEW

- Annual funding to non-government schools in the Territory totals approximately \$146.7 million, comprising Commonwealth payments of \$109.4 million (75 per cent of public funds), and ACT Government funding of \$37.3 million.
- Commonwealth payments to non-government schools are paid to the ACT Government, and on-passed to individual schools through the ACT Budget.

KEY CONCLUSIONS AND RECOMMENDATIONS

- There is a growing shift in student numbers from the government to the non-government education sector in the Territory. Forty-one per cent of ACT full time primary and secondary students attend non-government schools, the highest of all jurisdictions. Continuation of current trends will see up to half of ACT students attending non-government schools within 10 years.
- ACT expenditure on non-government students is approximately 17 per cent of per student costs in government schools. Funding to non-government schools should be maintained, and not affected by the efficiencies achieved in government schools proposed in this Review. Annual adjustments for cost increases should be based on the same parameters applying to government schools.

There are 44 registered non-government schools in the ACT, catering for 41 per cent of ACT school students. These schools are owned and operated by non-government providers and cater for a range of communities of interest, largely but not all religiously based, within the Territory.

The Department of Education and Training's role and responsibilities in relation to non-government schools, and home education, cover compliance and registration, accreditation and certification of senior secondary courses, support and liaison with the non-government sector, and administration and payment of Commonwealth and the ACT Government grants.

STUDENT NUMBERS

The number of students in non-government schools increased by 12 per cent between 2000 and 2006, from 22,051 to 24,689 (government primary and secondary student numbers fell 3,251 or 8 per cent in this period).

The proportion of ACT students attending non-government schools has been increasing faster than the national average. For the ACT, this proportion has increased from 36 per cent in February 2000 to 41 per cent in February 2006. Across

Australia, the proportion of students in non-government schools increased only from 31 per cent to 32 per cent over the same period.

FUNDING

Funding for non-government schools in 2005-06 is estimated at \$146.7 million. The following table provides details of the funding to the non-government schools in the ACT.

Table 1: Non-Government School Funding in the ACT

Funding Source	2005-06 \$'000
Commonwealth	
Per Capita Grants	102,563
Capital Grants	4,020
Other School Payments	2,817
<i>Total Commonwealth Funding</i>	<i>109,400</i>
ACT Government Funding	37,347
Total Funding	146,747

Funding for non-government school students varies across Australia. In some jurisdictions, per capita grants to non-government schools are provided as a percentage of the per capita cost of educating children at government schools. In some instances, this is prescribed in legislation¹.

The following table provides a comparison of the State/Territory and Commonwealth funding.

Table 2: Expenditure per Student in Non Government Schools (\$ per student)²

Calendar year 2003	NSW	VIC	QLD	SA	WA	TAS	NT	ACT	Aust.
State Government	1,535	1,048	1,521	1,276	1,625	1,546	2,154	1,314	1,393
Commonwealth	3,668	3,657	3,826	3,728	3,610	3,756	5,043	3,466	3,699
Total	5,203	4,705	5,347	5,004	5,235	5,302	7,197	4,780	5,092
State %	30%	22%	28%	25%	31%	29%	30%	27%	27%

Current ACT Government expenditure per non-government student is approximately 17 per cent of per student funding in government schools.

The Review is proposing a package of measures to achieve recurrent efficiencies within the government schooling, and an investment in capital infrastructure. If the government were to continue to provide funding to non-government schools at around the 17 per cent currently provided, these efficiencies would result in a reduction in funding to the non-government sector.

¹ For example, the legislation in NSW prescribes a rate of 25 per cent.

² National Report on Schooling in Australia, 2003; Table 23.

CABINET-IN-CONFIDENCE

The Review proposes that government continue to maintain funding to non-government schools at the current rates, plus CPI adjustments.

Funding per non-government student should not reduce as a result of efficiencies within the government school sector, given that ACT funding per student is already comparable with the national average, and is heavily weighted to lower socio-economic status schools.

Annual increases for costs impacts should be based on the same parameters applied to government education.

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

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CHAPTER 7.4.3 VOCATIONAL EDUCATION AND TRAINING

OVERVIEW

- The ACT is an atypical jurisdiction in providing vocational education and training (VET) services, due to its industry and demographic profile. Government administration, defence and a large number of small companies in construction, retail, property and business services form the largest industries in the Territory. There is an absence of primary and heavy industry.
- Forty three percent of people employed in the ACT are in the public sector, compared with 16 per cent nationally¹. Knowledge workers, defined as managers, administrators, professionals and associate professionals comprised around 52 per cent of all employed persons, compared with 38 per cent nationally².
- VET services in the Territory also reflect this differing employment profile. A higher proportion of students are in diploma or advance diploma courses, with 44 per cent of the total hours at this level, compared with 21 per cent for Australia.
- While there has been a growth in VET student numbers, this is significantly less than growth recorded nationally. The ACT provides vocational education and training services for a below average number of students. Those students, however, receive an above average number of hours of training.
- The Commonwealth Grants Commission assesses the factors affecting the relative cost of service provision for all States and Territories. For the ACT, this is assessed at 1.149, i.e., around 15 per cent higher than the national average. Around two thirds of this higher than average factor relates to cross-border students.
- In 2003-04, expenditure on VET services in the Territory was \$348.95 per capita, 50 per cent above the average across all jurisdictions³. Allowing for socio-demographic and other factors, the level of services was 30 per cent above the national average. This above average level trend has existed over the past 5 years.
- Cost per unit hour of training in 2004 was \$15.20, compared to the national average of \$14.10⁴.

¹ ABS Wage and Salary Earners, Public Sector, Australia (Cat no 6248.0).

² ABS Labour Force, Australia (Cat no 6291.0.55.001)

³ Commonwealth Grants Commission - Report of State Revenue Sharing Relativities 2005 Update Supporting Information.

⁴ The Grants Commission assessment of need does not apply to cost per hour – this is a measure of efficiency.

KEY CONCLUSIONS AND RECOMMENDATIONS

- Current structures for delivering Vocational Education and Training are based on national models established on user choice principles, and involving purchaser-provider arrangements. Such arrangements are unsuitable for a small Territory.
- There is significant overlap and duplication of responsibilities between the Canberra Institute of Technology (CIT) (the government provider) and the Department (the purchaser). CIT is the single largest provider, and delivers 85 per cent of total VET services in the Territory.
- The balance of training is provided by over 100 Registered Training Organisations, at a cost of \$10 million (through user choice arrangements). 80 per cent of these providers receive less than \$2 million of the total funding 'pool' available. Internal government costs associated with purchaser-provider arrangements are difficult to justify.
- Roles and responsibilities for all aspects of VET including policy, intergovernmental/national frameworks, service delivery, industry input, accreditation and registration should be streamlined to eliminate overlaps and duplication. A re-engineering of the system is proposed, with industry recognised as a major player under the reforms.
- The Review proposes that the ACT Budget commitment to VET be reduced by \$3.5 million per annum as part of the overall reduction in Government expenditures necessary to reach fiscal targets. This can be made up of higher fee revenue (\$1 million), savings from removing unnecessary complex governance and decision-making structures in the Department of Education and Training (DET) (\$1.5 million), and CIT efficiencies of \$1.5 million. This level of savings will still leave ACT expenditures on VET significantly higher than national averages.

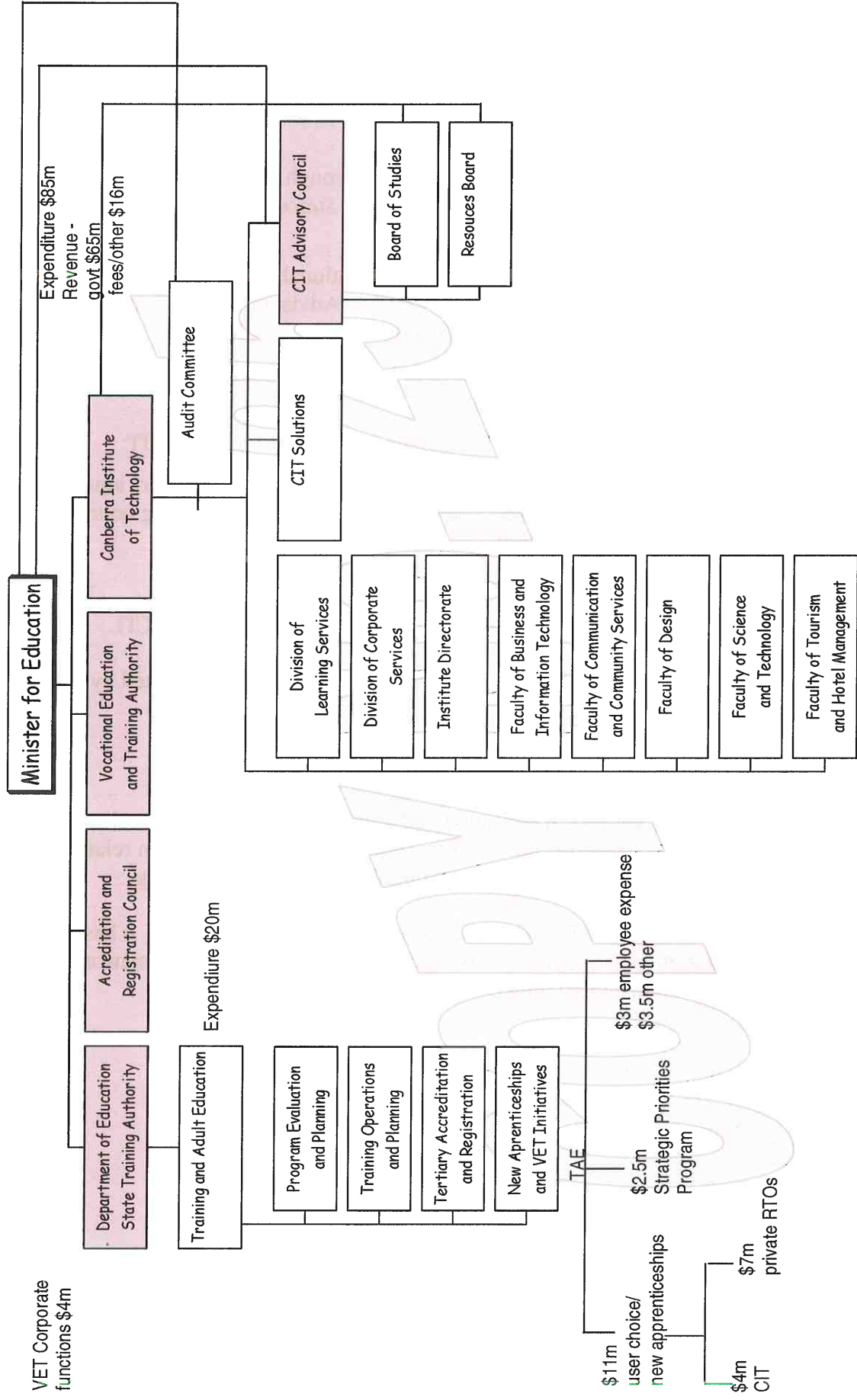
GOVERNANCE

Current Arrangements

The governance arrangements for VET services are structurally similar to those of a 'large' state administration, with large number of public and private providers competing for funding. This model is unsuitable for the Territory as, unlike other jurisdictions, CIT is the single main provider of training in the ACT.

The current structures, and funding levels, are shown in Figure 1.

Figure 1 Vocational Education and Training Reporting Structure



There is considerable overlap and duplication in key areas across DET and CIT, with little benefit or purpose. Significant resources are allocated for small output/outcome value. Basic accountability and reporting lines are confusing, for example:

- multiple accountability, reporting and advisory arrangements exist between the Minister, DET, CIT and industry;
- service accountabilities for CIT are reflected through both a *Planning and Funding Agreement* with the Department and a *Statement of Intent* signed with the Treasurer;
- industry advice is provided by DET, CIT, Vocational Education and Training Authority (VETA) and ACT Industry Training Advisory Association (ACTITAA) Registered Training Organisations (RTOs);
- market analysis and industry contact and liaison comes through DET, CIT and Department of Economic Development;
- planning and service audits are undertaken both within DET and CIT;
- the *Planning and Funding Agreement* is based on CIT (the provider) input, rather than set by DET (the purchaser). Negotiations on courses, teaching hours and rates are, at best, at the margin;
- statutory accountabilities are spread across DET and CIT; and
- statutory monitoring and reporting are duplicated across DET and CIT.

Overall, the effectiveness of strategic planning and operations are limited by the structures in place.

Proposed Changes to Governance

The governance of vocational education and training sector across Australia is characterised by its focus on conformance rather than performance⁵. In relation to compliance, the focus is on the process rather than outcomes of training⁶.

In proposing changes, the Review has adopted a number of principles. It has also been cognisant of the Government's obligations under the national framework for vocational education and training (Box 1).

⁵ Professor Richard Teese; Reader in Education; Director, Centre for Post Compulsory Education and Life Long Learning, University of Melbourne, in discussions with the Review.

⁶ This issue is further discussed in later sections.

Box 1: Underlying Principles for Changes to Governance

- Recognising scale: the uniqueness of the Territory, with the predominance of a single public provider.
- Involving industry as a leading player: besides input and advice, industry should have greater involvement in planning, design and delivery of vocational education.
- Ensuring quality: accreditation and regulation of training providers to continue.
- Meeting national framework requirements: under the national VET arrangements, each State and Territory must maintain a state training authority, prepare an annual VET plan and provide advice to the Minister on user choice funding.
- Providing incentives for entrepreneurial activities: the Commonwealth legislation also supports increased authority for directors of TAFE⁷s, to pursue entrepreneurial activities.
- Removing unproductive management practices and overheads.

The governance strategy for ACT VET proposed by the Review is based on two lines of accountability:

- CIT, as the principle provider, will report directly to the Minister. The advisory council will be strengthened to include industry and other stakeholder representation;
- DET will (a) monitor the VET sector as a whole and advise the Minister on VET policy (b) administer VET provided by non-CIT RTO providers.

Under this simplified structure, VETA will be abolished (with legislation repealed). DET will provide administrative support for the Accreditation and Registration Council, which would be retained. CIT will receive all government funding through a single appropriation (including a share of existing user choice funds).

The functional and advisory responsibilities should be streamlined within DET. Cost structures should be more appropriate for a small, predominantly single provider system.

The makeup of the CIT Advisory Council should be strengthened, with industry input as a leader in VET. The current legislation should be amended to give additional industry representation on the Council.

Industry advice should be available to both the Minister and CIT as required. Industry advice through ACTITAA (representing all RTOs) currently costs in the order of \$0.5 million per year, at public expense and support. The restructuring should include reducing this overhead.

⁷ Technical and Further Education Institute.

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The previously described structures allow for significant efficiencies across the sector, and provide a further strengthening of industry involvement. Current duplication and overlaps between CIT and DET are inefficient and counter productive. Savings in the order of \$1.5 million are estimated from the rationalisation of administration and contract management.

A broad summary of structural changes is set out in Table 1 below.

Table 1: Summary of Changes to Governance and Administration of VET

Responsibility/Function	Existing Structure	Proposed Structure
State Training Authority	DET	DET
VET policy, planning and operations	DET	DET
Accreditation and Registration	DET supported A&R Council	DET supported A&R Council
CIT	Statutory Authority, subject to ministerial direction and control	Statutory Authority, subject to Ministerial direction and control
CIT CEO	Appointed by Minister	Appointed by Minister
CIT Council	Advisory Council	Advisory Council strengthened to include enhanced industry support and input
VETA	Statutory Authority	Abolish, with responsibilities incorporated within DET/CIT
Industry advice	VETA/ACTITAA	DET/ACTITAA/CIT
Purchaser/provider	DET/CIT	Abolish (other than for RTO's)
<i>Planning and Funding Agreement</i>	Between DET and CIT	Abolish, and subsume accountabilities <i>within Statement of Intent (co-signed by Treasurer, Minister for Education and Training and Director CIT)</i>
CIT Funding	On-passed through DET	Direct appropriation
User choice/new apprenticeship and strategic priority projects	DET	DET

Recommendations 107, 108 and 109:

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

FINANCIAL ARRANGEMENTS

Appropriations

Public funding on vocational education and training in the Territory amounts to \$82 million, comprising \$59 million directly to CIT and \$23 million to DET (with some flowing to CIT).

Annual funding to CIT is presently appropriated to DET, and then on-passed to the Institute under agreed terms and conditions within the *Purchasing and Funding Agreement (PAFA)*. Included in annual payments to CIT is an amount relating to user choice/new apprenticeship, which is allocated by TAE under a form of competitive process. This latter arrangement is required to continue under the national VET framework.

The *Financial Management Act 1996* has been amended to allow direct appropriations to CIT, with the Institute required to prepare a *Statement of Intent* as part of its accountability obligations. The Review proposes that the PAFA targets and reporting requirements be subsumed into the *Statement of Intent*, and for the Statement to be co-signed by the Treasurer, Minister for Education and Training and The Director CIT.

DET should continue to manage the contracts for allocation of user choice/new apprenticeship funds, and strategic priority programs.

Recommendations 110, 111 and 112:

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

Commonwealth/ACT Negotiations

Commonwealth/ACT negotiations have been primarily undertaken by DET, with little input and consultation with CIT, or central agencies. For example, CIT (the major VET player) has not been involved in the negotiation and monitoring of the training agreement with the Commonwealth.

The approach carries significant risks and budget threats. Future negotiations should have initial in-principle agreement from Cabinet, including decisions on specific negotiation points. Financial obligations in agreements should be clarified and incorporated as part of the budget process, and confirmed in Budget Cabinet.

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

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

EFFICIENCIES/EFFECTIVENESS IN VET

VET services in the Territory rate average or above average on most efficiency/effectiveness measures⁸. For example:

- public funding per hour of training has fluctuated and was above the national average in 2004, but lower than four other jurisdictions;
- on measures of equity outcomes, the ACT is close to the average;
- on measures of student destinations, the ACT is above average;
- measures of student satisfaction and perception of benefits, the ACT is above average;
- national data on employer satisfaction shows the ACT as ranking well; and
- fees and charges should be examined in the light of the socio-economic status of students in the ACT relative to the rest of Australia.

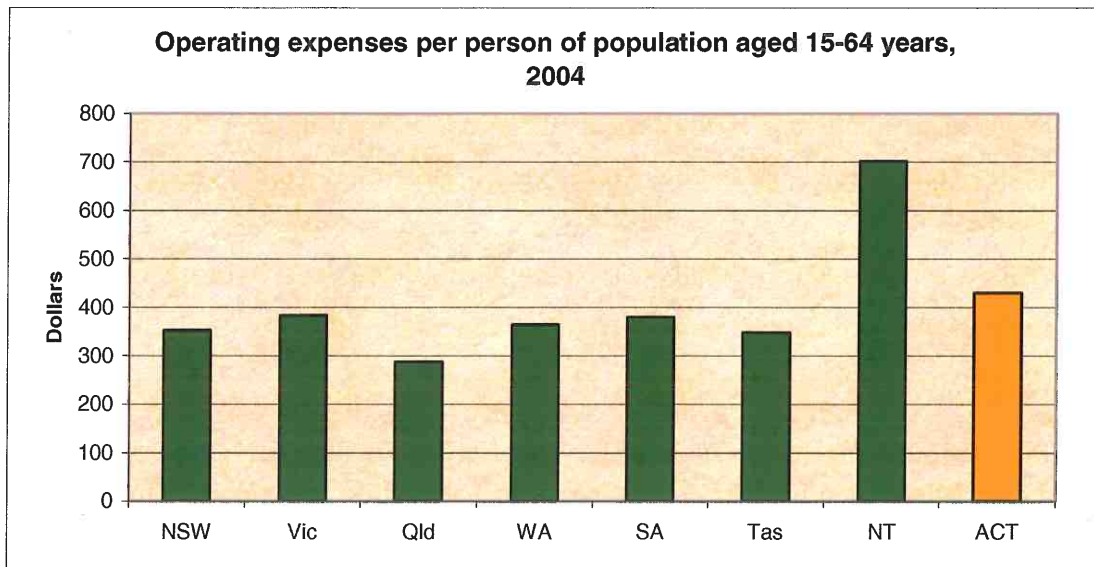
However, opportunities for further efficiencies exist, including within CIT. These are discussed below.

Operating Expense per Person

The ACT had the second highest VET operating expenses in the country in 2004, at \$429 per person aged 15-64 years. This was 6 per cent higher than the national average. The lowest operating expense per person was in Queensland, at \$287.

⁸ Review of efficiency and effectiveness of VET in the ACT. Gerald Burke, Monash University – ACER Centre for the Economics and Education and Training.

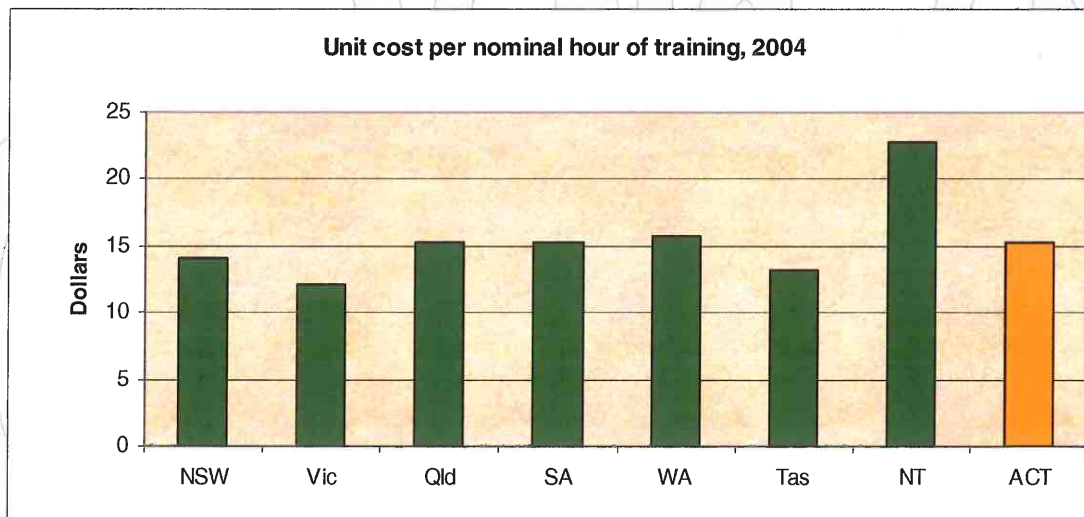
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Source: *Australian Vocational Education and Training Statistics: Financial Information 2004*

Unit Cost per Nominal Hour of Training

The ACT's unit cost per nominal hour of training was \$15.20 in 2004, which was 1 per cent lower than the national average of \$15.43. The lowest unit cost was in Victoria at \$12.15. The unit cost for NSW was \$14.03, which was 8 per cent lower than ACT.



Source: *Annual National Report of the Australian Vocational Education and Training System 2004*

Student Destinations and Dropout Rates

There are several pathways to vocational education and training such as:

- adult training: this may involve up-skilling or re-skilling while in work, or out of work;
- post secondary entry: students completing year 12 and then choosing a trade;
- students who discontinue university education; and
- students who do not complete year 12 education.

There is a priority need to ensure that students who do not plan to continue into university education are streamed into vocational education and training (and desirably trained at CIT) while they are engaged in secondary or college education.

Sustaining Canberra's pre-eminent place in Australia as a high income centre for leading service industries requires that very high proportions of the population obtain post secondary education qualifications. While university qualifications will be of particular importance in the ACT economic structure, VET provides a critical line of educational attainment.

The Review was advised that the Department of Education and Training was funded through the Training Pathway Guarantee in 2004-05 to provide a safety net for school leavers who are not in some form of employment, or post school study or training, within a year of leaving school. These students were to be provided with access to one year's post school training in a VET course.

The program involved tracking the destinations of students who had left school without gaining a Year 12 Certificate. The Review understands that difficulties were encountered in locating the students and the program was not fully implemented. However, funding for implementing this program remains within DET appropriations.

Implementation of this policy should be given priority. This policy should be an accountability of the schools/colleges and be included as part of their performance measures as much as is their success in ensuring students qualify for tertiary education.

The benefit of this effort will be through minimising students falling out of the education/learning process at a critical time of their lives. It will also assist in addressing skills shortages.

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

Registered Training Organisations (RTOs)

Contractual payments to RTOs in 2004 totalled \$12.3 million, with payments to 102 organisations. Of these, 96 were private organisations, and six were government agencies (comprising CIT, school and colleges).

Government agencies received \$4.5 million, or 37 per cent of the total amount paid in 2004. Of the remaining 96 RTOs, 79 received small amounts of up to \$20,000 each, and totalling to \$1.95 million. 14 organisations received between \$137,000 and \$500,000, and 3 organisations received over \$500,000 each.

Operationally, the reporting requirements have been identified as significant imposts on a large number of RTOs, which individually receive relatively small payments. These concerns have been raised by the ACT Association of Providers of Training Services (APTS) and the Australian Council for Private Education and Training (ACPET) with the Legislative Assembly⁹.

The administration of the arrangements within the Department, at approximately 18 FTEs (estimated at \$1.8 million), is also high relative to the funds disbursed.

Further work should be undertaken (between CIT, DET and RTOs) to reduce regulatory requirements, and business costs and red tape. Linked to this should be firmer action plans against RTOs that perform poorly¹⁰. A centralised, transparent approach for handling complaints should also be put in place across the sector.

Canberra Institute of Technology

Workforce Productivity

CIT teachers are the highest paid in the country even before superannuation payments are taken into account. The last CIT Certified Agreement gave band 1 teachers increases of between 17 per cent and 19 per cent.

The ratio of teachers to non-teaching staff at the CIT is 3:2. Whilst this is on par with other jurisdictions, a significant proportion of students in the ACT are enrolled in diploma or advanced diploma courses, and not in traditional trade courses (which require more intensive technical or other assistance).

In addition to the high ratio of teaching to non-teaching staff, around 15 per cent of teaching staff, or 75 FTE, are currently in non-teaching, including promotion positions. These teachers received between 20 per cent and 29 per cent salary increases in the last certified agreement negotiations.

⁹ *Pathways to the Future: Report on the Inquiry into Vocational Education and Training in the ACT*; Standing Committee on Education Report No. 3, ACT Legislative Assembly (2003).

¹⁰ *Review of Efficiency and Effectiveness of VET in the ACT*; Centre for the Economic of Education and Training, Monash University (December 2005); Report prepared for the Expenditure Review Committee. The consultants reported that, in general, concerns were expressed by a number of stakeholders regarding effectiveness of TAE's monitoring. A number of RTOs favoured firmer action against those RTOs that did not perform satisfactorily. Similar views were also expressed by Unions-ACT.

Class Size

Class sizes currently average 15.5 enrolments per class. Given the ratio of higher diploma/diploma courses provided compared to the more traditional trade courses in other jurisdictions, average class sizes could be increased. Increasing average class sizes to 16 enrolments per class would contribute to better utilisation of facilities.

Corporate Services

Corporate Services and the Institute Directorate constitute around 14 per cent, or 113 of total FTE staff, and 12 per cent of total expenditure. These staff do not undertake teaching functions. Bringing these costs back to 10 per cent of total FTE should be targeted.

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

Fees and Charges

CIT fees and charges were last increased in the late 1990s. Given the time since last increases, fees should be reviewed and updated in line with changes in the market over the past five years. Progressive adjustment of fees across the forward estimates is proposed, targeted at increasing fee revenues by \$1 million by 2008-09. This increase should be implemented across a three-year horizon, with fees increasing on average 10 per cent per year.

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

Infrastructure

CIT operates on six main campuses across Canberra, with infrastructure (land and buildings) valued at \$127.8 million. There are opportunities to achieve more effective use of the infrastructure devoted to VET, specifically CIT, through rationalisation of campuses.

There is limited information available on campus usage. While room bookings are available for some campuses, they are not recorded on a consistent basis and do not apply to all facilities. Enrolment data, however, provides a useful proxy.

In 2004, out of a total of 23,287 enrolments:

- Reid campus recorded the highest number at 8,743 (38 per cent);
- Bruce campus had 6,721 (29 per cent);

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- Southside campus had 3,176 (14 per cent);
- Fyshwick campus had 1,292 (6 per cent);
- Tuggeranong campus with 1,180 (5 per cent);
- Weston campus with 558 (3 per cent); and
- 939 were off-campus (4 per cent).

High maintenance expenditures are being attributed to too many campuses. Inefficiencies also exist through maintaining campuses with high proportions of excess capacity, particularly given the pressures on the Institute to upgrade facilities and infrastructure in line with industry training standards.

Weston campus (horticulture)

Closure of the Weston campus, currently delivering horticulture programs, has been identified by CIT. These training programs would relocate to the Bruce campus. Recurrent savings of around \$0.4 million per year have been estimated, although initial capital investment of \$4 million would be required to upgrade and fit-out Bruce.

Land use policies at Weston (broadacre) currently restrict the scope of redevelopment opportunities. Change in land use policy would require variations to both the *National Capital Plan* and the *Territory Plan*.

The proposal should be subject to a business case, and cost/benefit analysis. The assessment should include the impact of land use changes, and the capital cost of upgrades at the Bruce campus.

Bruce campus (Canberra Raiders and ACT Academy of Sport)

The Bruce campus is being used by the Canberra Raiders as a Training Complex. Whilst the lease arrangements provide for the Raiders being responsible for day to day operating costs associated with the complex, no rent is paid to CIT.

The Bruce campus also provides space of 379m² to the ACT Academy of Sport (ACTAS). The Academy pays \$18,000 per annum towards utilities, but no rent for the space occupied. It is noted that the ACTAS is subsidised through the budget for these costs so any adjustment to payments may simply add to this subsidy. Notwithstanding this, the impact on the CIT should be assessed.

It is proposed that the leases for both arrangements be reviewed, with the aim of including a rental provision to better reflect commercial use of the occupancies.

Watson Academy of Interactive Entertainment

CIT has raised an option to divest the Government's interest in the Watson campus, currently leased to the Academy of Interactive Entertainment (AIE). The AIE has licensed the Watson campus from CIT since 2001. Rental income to CIT is \$50,000 per annum, a significant under return on the infrastructure. The

longer-term opportunities for alternative uses of the site (6 hectares within the suburban area) are also significant.

Strategies for divesting Watson should be developed for Government consideration. This should be based on the poor level of return and the growing risks for the Territory in maintaining the ageing infrastructure at Watson.

Recommendations 117, 118 and 119:

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

SUMMARY OF SAVINGS AND STAFFING IMPACTS

	2006-07 \$'m	2007-08 \$'m	2008-09 \$'m	2009-10 \$'m	Total FTE Impacts
Rationalisation of TAE	1.500	1.500	1.500	1.500	10
Increased fees at CIT	0.300	0.600	1.000	1.000	0
EBA Costs	-0.500	-0.500	-0.500	-0.500	0
Improved Efficiency in Cost per Hour	0.750	1.500	1.500	1.500	10
TOTAL SAVINGS	2.050	3.100	3.500	3.500	20
Procurement (Tender Box) Savings	0.177	0.365	0.374	0.384	-
Procurement (ERC) Savings	0.327	0.491	0.491	0.491	-
Transfer to Shared Services	1.082	2.631	2.665	2.700	29.99
IT (Review and ERC) Savings	See Government Schools chapter (unable to separately allocate)				

CHAPTER 7.5

URBAN SERVICES

OVERVIEW

The Department of Urban Services (DUS) is the Government's key municipal services provider. Services include construction and maintenance of roads and footpaths, street lighting and stormwater systems, the provision of parking services, customer information and transaction services, libraries, traffic management, waste services, public and recreational space maintenance, domestic animal services and public transport services.

The Department also provides support services to government agencies including property management, publishing and records management and operates a range of government business enterprises.

Estimated expenditure in 2005-06 is \$368.8 million with staffing of 890 FTEs. This is split between Municipal Services (\$214.9 million; 495 FTEs), Transport (\$82.9 million; 141 FTEs) and Government Services (\$71.0 million; 254 FTEs).

The Department has been the subject to two ERC reviews, in 2004 and 2005. These resulted in savings targets rising to \$10 million by 2006-07. These are to be achieved through the abolition of purchaser/provider arrangements across the department and centralisation of corporate functions.

KEY CONCLUSIONS AND RECOMMENDATIONS

- The Department will have a significant task of integrating the functions being transferred from other Departments. Key machinery of government arrangements proposed by the Review include:
 - establishing a single, Territory-wide land management and conservation function following the transfer of Environment and Heritage from the Chief Minister's Department;
 - consolidation of sport and leisure facilities' management, with ACT Sport and Recreation (including all sports grounds);
 - consolidation of transport policy and operations with the transfer of Land Use and Transport from ACTPLA and ACTION;
 - transfer of Tourism functions from the Australian Capital Tourism Corporation; and
 - establishing improved coordination between planning processes and environment protection and heritage.
- Further opportunities exist for efficiencies and more effective services through consolidation of functions, centralisation of policy, and better whole-of-government co-ordination and integration of shopfronts, records management, call centres, payment facilities and library services.
- Additional areas identified include rationalisation of domestic animal services and privatising swimming pools, nursery and horticulture services. Publishing services and records management are to be transferred to Shared Services.

7.5.1 POLICY FUNCTIONS

The previous ‘federation’ model of operation led to the creation of many small business units with their own finance and policy capacity. While the finance areas are being consolidated into the central corporate area, policy capacity remains spread across a number of units. Currently around 46 policy staff are spread across six areas of the agency.

With the change management framework put in place over the last year, opportunity also exists to streamline and integrate the policy advising functions of the Department. The Review’s arguments in Chapter 4 for policy leadership across the whole of government are also relevant in the context of Urban Services. For a department with a diverse range of activities such as Urban Services, policy coordination and leadership is essential. This would allow a wider policy perspective in advice to the Minister.

A number of other service delivery departments successfully operate smaller, quality based policy centres. For DUS, this would also allow for staff development opportunities through wider policy exposure across the full range of the Department’s operations.

An outline of current policy functions across the department is shown below.

Table 7.5.1: Policy Functions in Urban Services

Activity Title	Output	Estimated FTEs
Policy and Planning	1.2 Roads	2.15
Policy and Planning	1.3 Waste	7.50
Policy, Planning and Information Systems	1.4 Urban Parks and Places	4.00
Transport Advice	2.1 Transport Regulation and Services ¹	24.00
Transport Advice	2.2 Public Transport	3.00
Purchasing Public Transport Services	2.2 Public Transport	1.20
Accounting Policy	Corporate Services	4.00
TOTAL		45.85

The Review’s proposed machinery of government changes will see an additional 25 policy staff being transferred into the Department from Environment Management and Regulation (CMD) and 5 staff from Land Use and Transport Policy (ACTPLA). Total policy resources available under the new administrative arrangements will be in the order of 76 staff.

The Review proposes efficiencies of \$4 million through integration of policy functions, equivalent to about 40 staff. The Department of City and Territory’s focus will be on municipal functions and an integrated policy area adds to strengthening the strategic planning, legislative and operational directions of the Department across the medium–longer term.

¹ Total resources for Transport Regulation and Services include 11 traffic camera staff. These have been excluded from the policy staff numbers within Output 2.1.

Consolidated policy resources of 36 staff will remain, and this is more than equivalent to the resources being proposed by the Review for the new policy group structures within the Chief Minister's and Treasury central agencies. It also provides a solid base for managing significant policy matters across the Department, as well as meeting external policy input such as the intergovernmental COAG agenda.

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

7.5.2 LAND MANAGEMENT FUNCTIONS

The Department has already undertaken some work towards the development of a single area for land management functions, through the consolidation of all its functions in this area, and the reaching of agreements with ACTPLA and the Land Development Agency (LDA).

The transfer of Environment ACT and Forests provides opportunity to establish a single 'land manager' in the Territory. This consolidation will allow consistent policies and practices to be developed, an enhanced ability to plan operations, better integration with other government responsibilities (such as bushfire mitigation), and savings gained through economies of scale.

The Review is not proposing that savings be returned to budget. Those should instead be reinvested in the management of unleased Territory land which is under funded.

The funding being transferred for the management of unleased land (in the order of \$150,000 for 15,000 hectares) appears insufficient. Establishing nature conservation reserves would entail considerably higher costs. Environment ACT has proposed the adoption of alternative land management strategies, such as conservation leases and, where possible, more productive uses. The Review considers these measures as essential for best use of unleased Territory land.

Recommendations 121, 122 and 123:

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

7.5.3 OFFICE OF TRANSPORT

The proposed changes to the machinery of government will draw the functions relating to transport policy and services into the department.

The Review proposes that an Office of Transport be established within the new Department of City and Territory to bring together all transport policy and operations. This should include the operational transport related functions currently managed within ACTPLA. The functions involved include:

- Urban Services – roads, infrastructure, ACTION, public transport policy and contracts, traffic lights and cameras; and
- ACTPLA – roads, infrastructure, public/community transport initiatives, and operational activities relating to *Sustainable Transport Plan* (ACTPLA will retain its responsibilities for transport planning).

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

7.5.4 CUSTOMER SERVICES AND INFORMATION

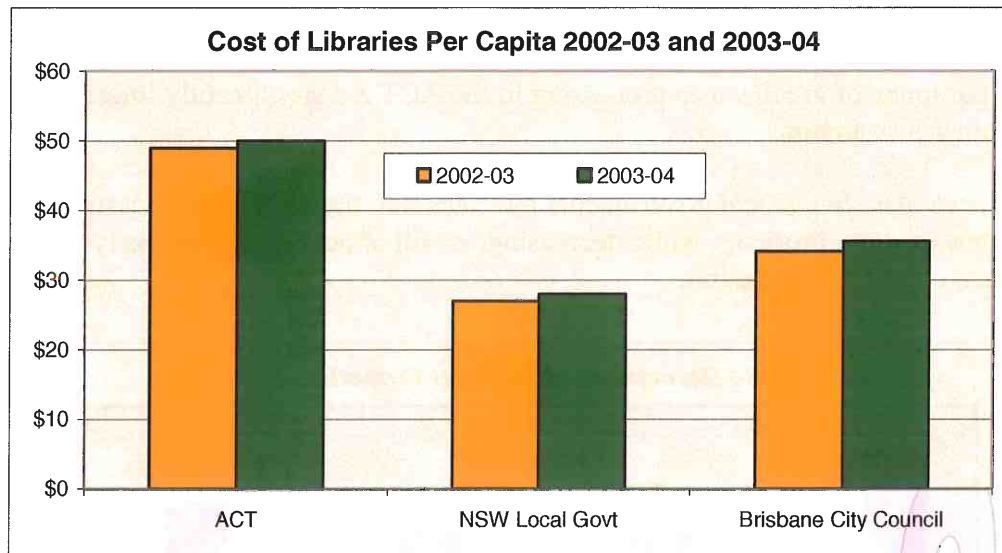
Library and Information Services

There are efficiencies to be gained through the better management of library resources and access across the ACT Government. Library resources are currently spread across the ACT Library Service, and agency-specific libraries in the Department of Justice and Community Safety, Department of Education and Training and ACT Health. This arrangement often means that more than one of these libraries will hold a subscription to the same journal, or be purchasing the same publication, leading to extensive duplication in expenditure. Conversely, while these publications and online subscriptions may be accessible to its staff, they will not be available to staff of other agencies.

Building on the model of the Government and Assembly Library, which provides an independent, high quality and confidential service to the Legislative Assembly and the Government, there would be significant benefits arising out of the consolidation of existing departmental libraries into the ACT Library Service's Specialist Information Services infrastructure. This would ensure that a wider range of resources were available for all government employees, as well as a more rationalised approach to the purchase of publications.

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

Cost per capita of library services in the ACT is up to 45 per cent higher than that in NSW local government and the Brisbane City Council².



Source: ACT data provided by the Department of Urban Services.
 NSW Local Govt– NSW Local Government Comparative Information 2002-03 and 2003-04
 Brisbane City Council– Queensland Local Government Comparative Information 2002-03 and 2003-04

The Review proposes a benchmark of \$45 per capita to be progressively achieved by 2008-09³. Given the current regional distribution of the library network, efficiencies should be pursued through rationalising existing libraries within town and major group centres. Given the expansion of the Civic library, consolidation of adjoining libraries would be reasonable.

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

7.5.5 ROADS, PATHS, BRIDGES AND CULVERTS

The Department has raised concerns in relation to adequacy of maintenance funding, and the risks and potential future costs due to poorly maintained infrastructure. These issues are addressed in Chapter 8.

² In other jurisdictions, State governments maintain libraries in addition to local councils. For the ACT, an equivalent level of state service does not appear necessary, given the location of the National Library.

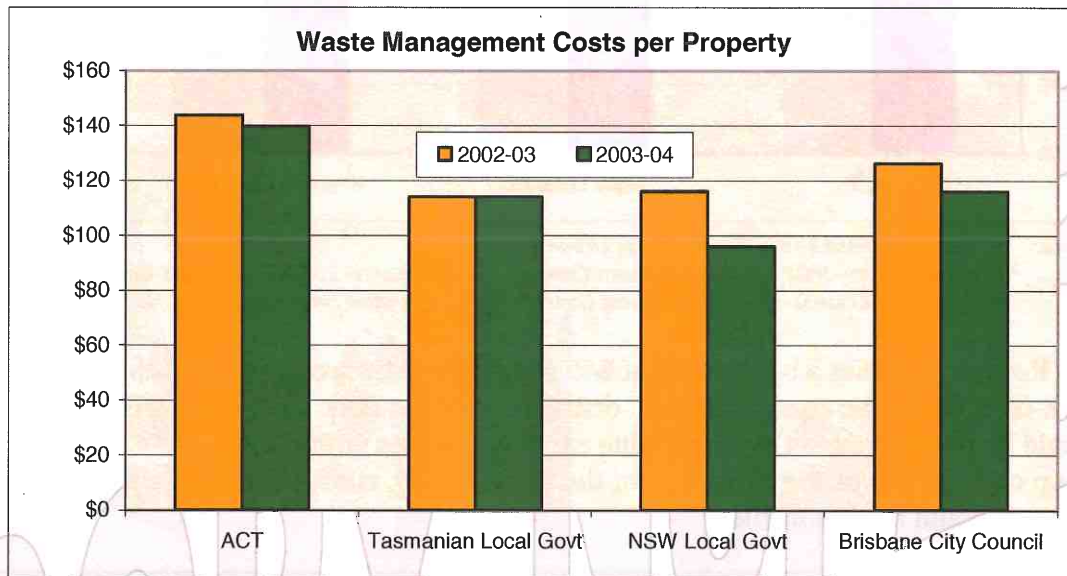
³ The proposed target is based applying a labour cost escalator to the current benchmark (Brisbane City Council) 2008-09, and allowing a 10 per cent variance for the higher superannuation costs.

7.5.6 WASTE

Waste Management Costs

The cost per tonne of green waste processing in the ACT are significantly lower than those in other jurisdictions.

However, cost data from local governments indicates that the ACT's total waste management cost per property, while decreasing, is still about \$20 per property higher than the next highest jurisdiction.



Source: ACT data provided by the Department of Urban Services; NSW Local Govt– NSW Local Government Comparative Information 2002-03 and 2003-04; Brisbane City Council– Queensland Local Government Comparative Information 2002-03 and 2003-04; Tasmanian Local Govt – Measuring Council Performance in Tasmania 2002-03 and 2003-04

Waste collection costs are largely contractual in nature. There would be some reduction from consolidation of the policy functions.

No Waste by 2010

The Territory has the highest proportion of waste recycling of all jurisdictions. The objective of zero waste to landfill under the *No Waste by 2010* strategy, however, cannot be achieved within the current budget allocations.

In order to achieve the current targets of the Strategy, cost per tonne would increase to four to five times the current cost. Cost efficient technologies are still being developed.

Any targets on waste to landfill need to take account of the policies developed and adopted at the national level between all jurisdictions on packaging. The Review proposes that more realistic targets for waste reduction be established on the basis of the intergovernmental policies as well as the current budget capacity.

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

7.5.7 CANBERRA URBAN PARKS AND PLACES

Pool Subsidy and Asset Maintenance

The Government currently owns swimming pools in Canberra City, Dickson, Manuka, Tuggeranong Town Centre and Erindale. They provide varying levels of return and/or cost to government. Service quality across pools, due to their age and amenity, also varies.

All government pools are managed by private providers. All pools are in need of repair, and there are significant budgetary risks associated with the upkeep and maintenance of the facilities.

It appears that there is a sustainable market for swimming pool operations in the Territory, with three privately owned swimming facilities operating in Belconnen and one in Deakin.

The Review proposes that the sale of government swimming pools be pursued. The arrangements should provide for site redevelopment opportunities, at no cost to the Territory.

The conditions of sale and redevelopment should take into account the heritage aspects of the existing pools, appropriate community service obligations and funding arrangements to support continued access by disadvantaged and low-income people, and swimming education purposes.

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

Shopping Centre Refurbishment and Suburban Precinct Management

The shopping centre refurbishment program relates to upgrades to parking areas and precincts adjoining shopping centres. The land is unleased Territory land, however, the program has direct benefits for shopping centres.

The upgrades are delivered through the capital works program. The extent of private sector contribution is unclear, and the department has identified this program as a low priority.

The recurrent cost of developing the capital program is \$1.068 million, with 8.6 FTEs. Separately, Canberra Urban Parks and Places (CUPP) is responsible for maintaining these areas.

The responsibility for planning, developing and delivering future upgrades should also be managed by CUPP. The Review proposes savings of \$0.868 million, allowing capacity for two staff (\$0.2 million) to be retained by the Department.

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

Domestic Animal Services

There are a number of synergies in the provision of services by Domestic Animal Services and the RSPCA, with regard to the holding and management of stray animals. The Government provides funding to the RSPCA for its services.

There is a duplication in the facilities which both agencies use to hold animals either awaiting collection by owners, veterinary care, recovery or destruction, with both agencies also advertising to the ACT community for people to adopt pets from their service.

There would be significant benefits in the holding services currently being provided by Domestic Animal Services being contracted to the RSPCA, and the government services being more strongly focussed on ranger-related collection activities.

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

7.5.8 GOVERNMENT BUSINESSES

A number of businesses were transferred to the Department following the wind-up of TotalCare. These included Cityscape and Facilities Management. CityScape is a business unit in Urban Services responsible for horticultural services across the city⁴. Its services cost approximately \$21 million per annum. Facilities Management provides maintenance services for government properties, with annual costs of around \$10 million.

In returning these businesses from TotalCare, it was recognised that levels of inefficiencies existed in comparison to private sector equivalent services. The Review proposes that these businesses be assessed against comparable benchmarks, with efficiency savings to be realised to the budget.

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

⁴ It also provides services to the National Capital Authority under contract. The business has now been incorporated in Canberra Urban Parks and Places (CUPP).

7.5.9 SUMMARY OF SAVINGS AND STAFFING IMPACTS

Total savings from the Department of Urban Services is estimated at \$8 million by 2009-10, as highlighted below.

Table 7.5.2: Summary of Financial Impacts

Measure – Savings / (Costs)	2006-07 \$'m	2007-08 \$'m	2008-09 \$'m	2009-10 \$'m	FTE Impacts
Integration of activities					
Single Land Management Structure	0	0	0	0	-
Integration of Policy Functions	2.500	4.100	4.202	4.307	40
Establish Office of Transport	0	0	0	0	-
Consolidate Libraries	0.500	1.000	1.600	1.640	12
Cessation of programs					
Sale of Swimming Pools	0.370	0.758	0.777	0.798	1
Consolidate Community Partnerships Program	0.300	0.307	0.315	0.323	-
Abolish Local Centre Revitalisation Management (staffing only)	0.868	0.890	0.912	0.935	6.6
Total Recurrent Impact	4.538	7.055	7.806	8.003	59.6
Procurement Savings	1.316	2.698	2.765	2.835	-
Procurement (ERC) Savings	0.754	1.131	1.131	1.131	-
IT (Review and ERC) Savings	0.942	1.329	1.329	1.329	-
Transfer to Shared Services	1.814	4.412	4.468	4.528	48.52

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CHAPTER 7.6

PUBLIC TRANSPORT

OVERVIEW

- ACTION was established as a statutory authority in January 2002. It provides public transport services under a contract with the Department of Urban Services. Services include scheduled route services; school services and special needs transport services.
- ACTION's costs are approximately \$84 million per annum. Around 20 per cent of these costs are recovered through the fare box (\$15.7 million in 2004-05). The Authority receives budget funding of approximately \$60 million per annum. The Authority operates a fleet of around 390 buses, and has a staff of approximately 700 FTE.
- Total annual passenger boardings are approximately 16.2 million, with 32 per cent full fare boardings, 35 per cent concessions and 32 per cent school boarding.

KEY CONCLUSIONS AND RECOMMENDATIONS

- Public transport functions are currently spread across three agencies, Urban Services (purchaser of bus services), ACTION and ACTPLA (sustainable transport, real time information system).
- The original purpose of establishing ACTION as a statutory authority was, among other things, to allow public transport to operate more freely within a competitive environment and along the lines of a private bus operator. These goals have not been achieved.
- Since 2000-01, ACTION's costs have increased significantly and fare box recovery has decreased. In addition, FTE staff has increased by 4 per cent, employee costs have increased by 28 per cent, and passenger boardings have remained stable (marginal decrease in 2004-05). The recent expansion in services has not translated to increased patronage, with boardings per kilometre decreasing by around 4 per cent.
- Bus operations should be integrated within a departmental structure. Purchaser/provider (contractual) arrangements should be abolished, and duplication and overlaps eliminated.
- Given the significant increases in fuel and labour costs, fares should be increased more than the CPI to cover these costs, raising an additional \$1 million in revenues. Given that these costs have already been budget funded, appropriation should be reduced accordingly.
- Savings of \$4 million should also be pursued in operational management and administrative overheads.

7.6.1 ADMINISTRATIVE ARRANGEMENTS

Public transport functions are fragmented between three agencies within the ACT Government. A purchaser/provider arrangement exists between Urban Services and ACTION. ACT Planning and Land Authority advises on Sustainable Transport Policy. It also delivers specific projects relating to bus services such as, the Real Time Passenger Information System¹.

The Review is proposing to consolidate Transport Policy into the new Department of City and Territory (Chapter 4.2). Responsibility for advice to the Minister on public transport policy (including sustainable transport), and the delivery of projects should also be consolidated within the broader transport function.

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

On 1 January 2002, ACTION was incorporated as a statutory authority under the provisions of the *ACTION Authority Act 2001*. The Act states that the main function of ACTION is *'to provide an effective, affordable and accessible public transport network within its area of operations'*.

The original intent for establishing ACTION as a separate legal entity was to allow it to operate more commercially, including the flexibility to progress towards employment conditions more appropriate to commercial operating needs. The separation was also designed to give freedom to the ACTION Board to control costs through normal commercial business measures, and to bring efficiencies into line with those of private operators.

Original legislation passed in the Legislative Assembly provided ACTION with flexibility to negotiate employment arrangements consistent with industry norms. This was later amended to extend the coverage of the *Public Sector Management Act 1994* to all employees. This amendment, in effect, gave little tangible financial or administrative benefits in retaining ACTION as a separate legal entity. The original purpose of establishing ACTION as a statutory authority has been negated.

Financially, the Authority's budget dependency has increased. Additional overheads have also been incurred in supporting the Authority, as well as duplication of roles and responsibilities between ACTION and the Department of Urban Services.

The Review proposes that the statutory authority be abolished, with responsibility for public transport integrated back into the Department of Urban Services (new Department of City and Territory). Under these arrangements, the purchaser/provider model, and duplication and overlaps, should be eliminated and savings realised to the budget.

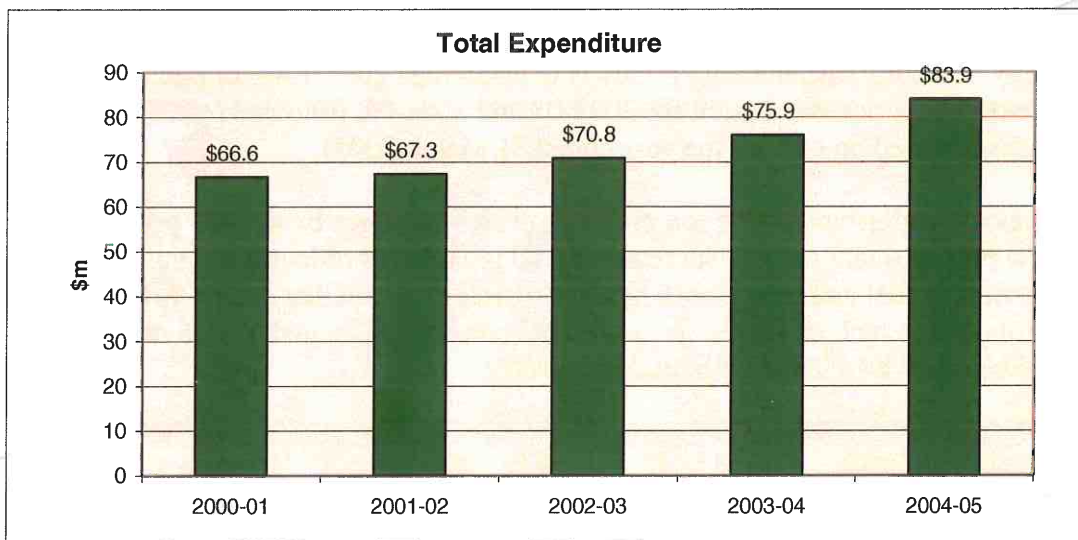
¹ 2005-06 Budget Paper No 4; Page 212.

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

7.6.2 PERFORMANCE TRENDS

Expenditure

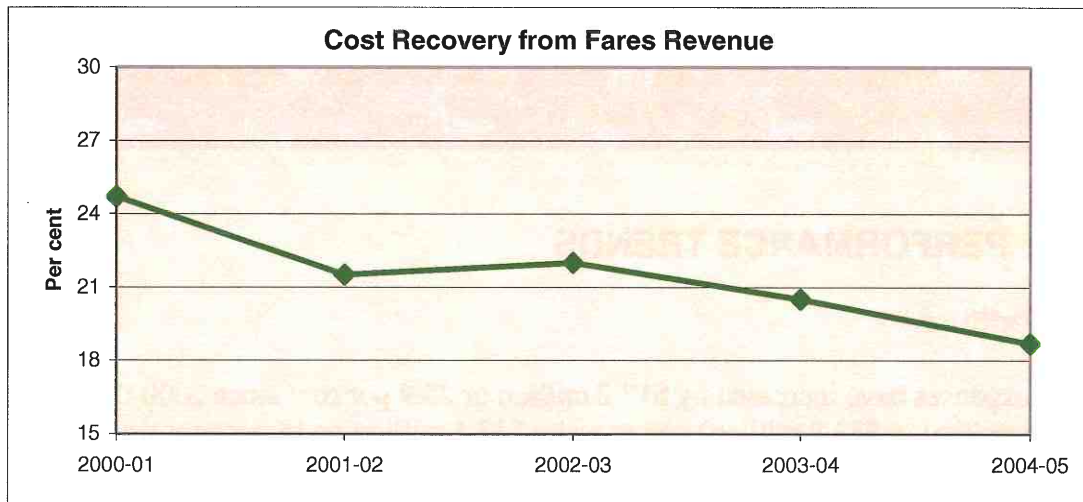
Total expenses have increased by \$17.2 million or 25.9 per cent since 2000-01 (\$66.6 million to \$83.9 million) and grew by \$13.1 million or 18 per cent since ACTION was made a statutory authority in 2002.



Source: ACTION Authority Annual Reports

Fare Box Recovery

Cost recovery from fares revenue has been steadily declining over the past 5 years, falling from 24.7 per cent in 2000-01 to 18.7 per cent in 2004-05. Fare revenue has remained relatively stable at \$15.7 million.



Source: ACTION Authority Annual Reports

The Government's sustainability policy is to encourage greater use of public transport. Fare price was frozen for 2003-04 and 2004-05, followed by a CPI increase in 2005-06 (based on CPI for the year ended 31 March 2005).

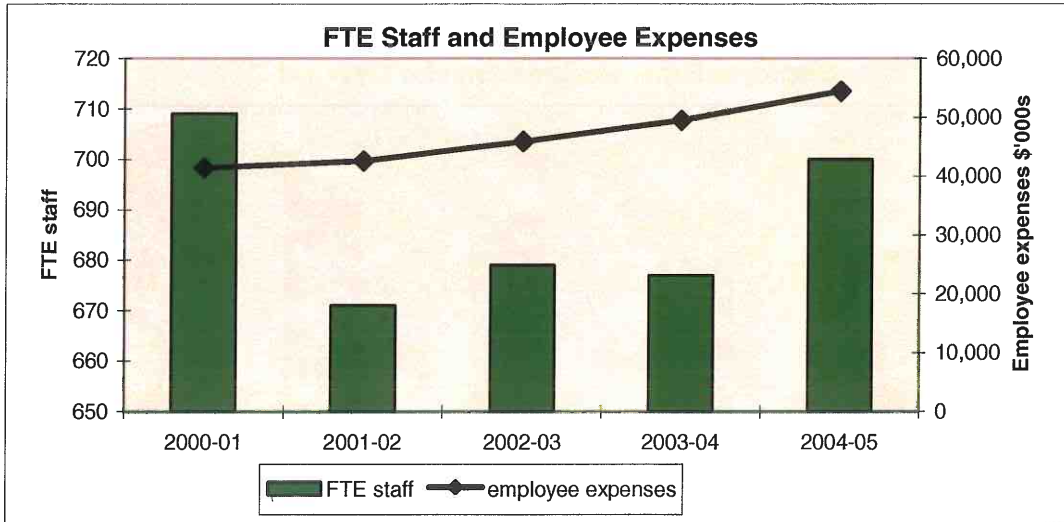
The Review understands there is a proposal to increase fares by about 3 per cent. The Review proposes that fares be increased by 10 per cent, to reflect the significant movements in fuel and labour costs for bus services. Given that ACTION has already been funded for such increases, the additional revenue, estimated at \$1.5 million, should be offset by a decrease in budget funding.

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

7.6.3 EFFICIENCY AND EFFECTIVENESS

Staffing Numbers

FTE staff have increased over the past four years from 671 in 2001-02 to 700 in 2004-05, an increase of 4.3 per cent. Over the same period employee costs grew from \$42.6 million to \$54.5 million, an increase of 27.9 per cent.

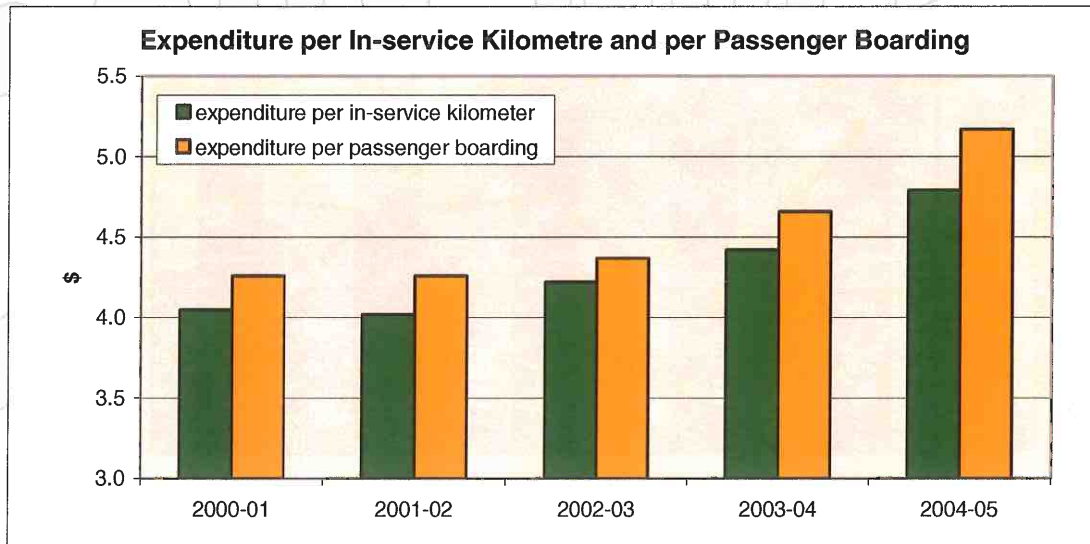


Source: ACTION Authority Annual Reports

Unit Costs

Expenditure per passenger boarding is marginally higher than expenditure per in-service kilometre.

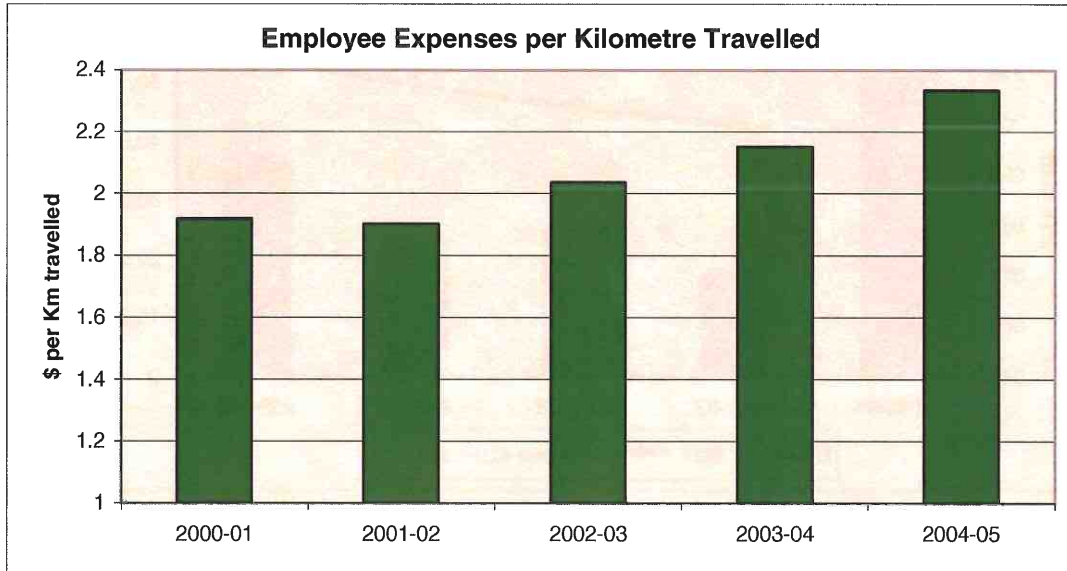
Expenditure per in-service kilometre and per passenger boarding has increased over the past 5 years. In 2004-05 expenditure per in-service kilometre was \$4.79, an increase of 18.3 per cent since 2000-01. Expenditure per passenger boarding was \$5.17 in 2004-05, an increase of 21.4 per cent since 2000-01.



Source: ACTION Authority Annual Reports

A total of 23.3 million kilometres were travelled in 2004-05, an increase of 8.2 per cent since 2000-01. Over the same period employee expenses have increased by 31.6 per cent.

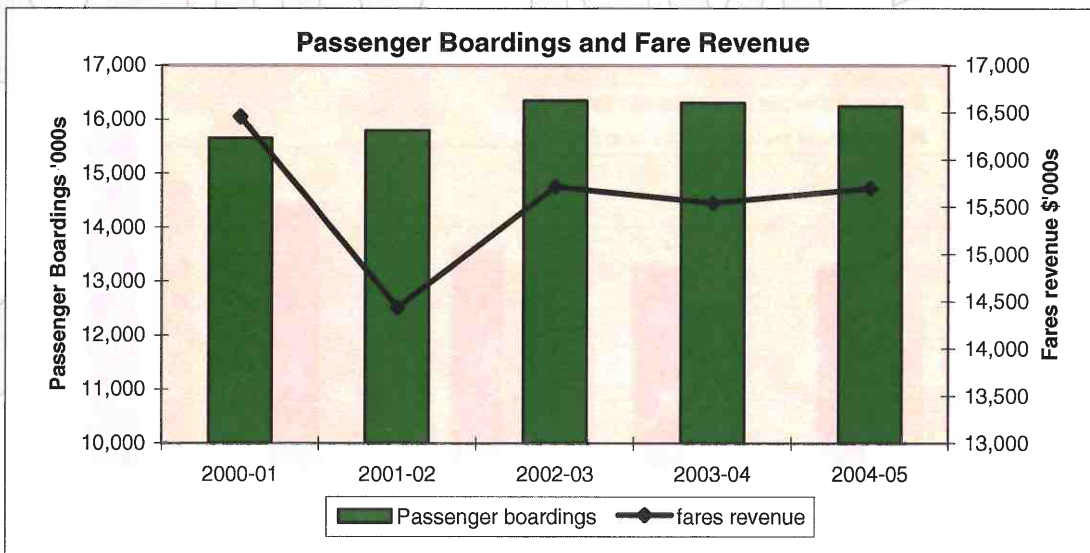
Employee expenses per kilometre travelled have increased from \$1.92 in 2000-01 to \$2.33 in 2004-05, an increase of 22 per cent.



Source: ACTION Authority Annual Reports

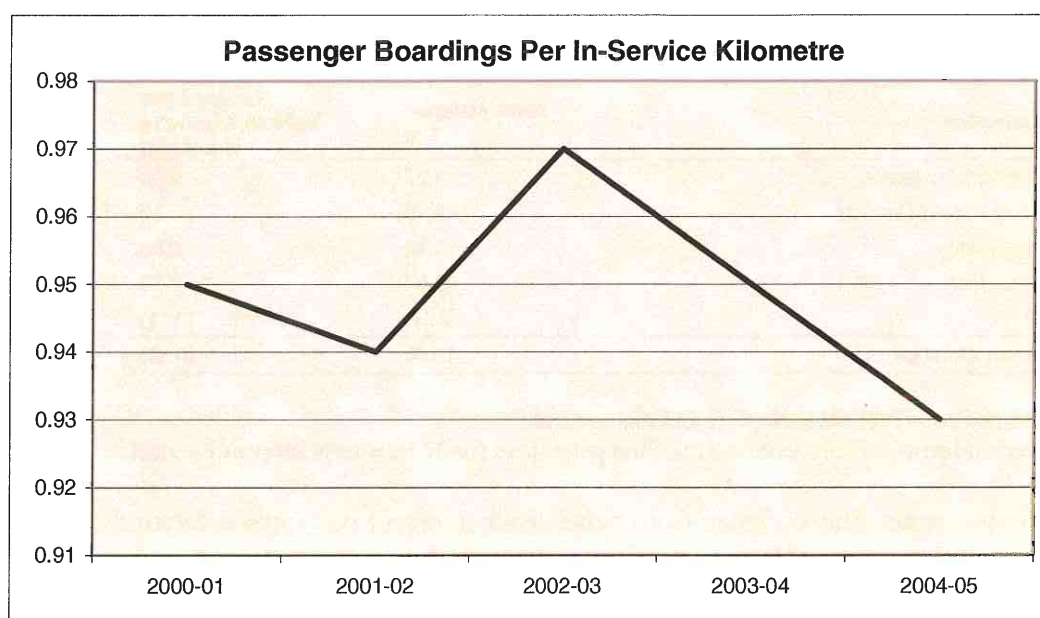
Passenger Boardings

Passenger boardings have decreased marginally over the past three years falling from a peak of 16.3 million in 2002-03 to 16.2 million in 2004-05, a decline of 1 per cent. Around two thirds of the boardings relate to concession holders (35 per cent) and school students (32 per cent). Over the same period fare revenue has remained relatively constant at around \$15.7 million.



Source: ACTION Authority Annual Reports

Passenger boardings per kilometre is a useful measure of effectiveness of services. The following chart highlights that the increase in services in the recent years has not translated into improvements in patronage.



Source: ACTION Authority Annual Reports

Benchmarking

ACTION has been subject to a number of benchmarking studies and reviews, all of which have concluded that its costs were around \$13 million to \$15 million above the costs of an average efficient operator².

The latest report commissioned by ACTION indicates that its costs are \$13.6 million higher than an average best practice operator. Of this, \$8.4 million relates to differences in input costs, and \$5.2 million relates to operational differences with the benchmark partners (such as network design, speed etc).

The following table provides a summary of the cost difference from the average best practice³.

Table 7.6.1: Cost Difference from Average Best Practice Operator

Cost Category	Total Variance \$'m	Variance per Vehicle Kilometre (\$ per km)
Variance in Reported Cost	8.36	0.36
<i>Adjustments for operational Differences</i>		
Speed	7.96	0.35
Level of Charter	(1.38)	(0.06)
Use of Casuals	(0.27)	(0.01)
Spread of Hours	(1.08)	(0.05)
Total Cost Variance	13.60	(0.59)

The cost variance of \$13.6 million has been disaggregated as follows:

² For example, Commission of Audit 2002; Benchmarking Surveys undertaken on behalf of ACTION by Indec Consulting, 2001-02 and 2003-04.

³ Benchmarking Survey 2003-04; Indec Consulting.

Table 7.6.2: Contributing Factors to Cost Variance from the Benchmark

Cost Category	Total Variance \$'m	Variance per Vehicle Kilometre (\$ per km)
Driver Utilisation / Leave	1.27	0.06
Driver Pay Rates / Oncosts	6.18	0.27
Distance Costs	1.74	0.08
Overhead Costs	6.93	0.30
Capital	(2.52)	(0.11)
Total Cost Variance	13.60	(0.59)

Notes:

- Distance costs include fuel, parts and maintenance.
- Overhead costs include around \$1 million per annum for 27 long-term inoperative staff.

The Review notes that variance from benchmark in driver pay rates is beyond management's control. However, driver utilisation, leave management, and overhead costs, which are \$8.2 million above benchmark, should be subject to management's decisions.

Review's Response

The increase in ACTION's costs has been mainly due to an increase in its base costs (wages, fuel and parts), and an expansion in services. While variance in its costs from the benchmark has remained relatively stable in recent years, it should remain a matter of concern.

A proportion of this variance relates to Government's decisions in relation to employee's conditions of service and other requirements imposed. Even excluding those, there appear to be opportunities to achieve efficiencies in driver scheduling, management of absenteeism, and reducing overhead costs, particularly related to indirect staff⁴. The Review notes that there is further scope to reduce costs by reducing dead running. This, however, may involve some redesign of the network.

The expansion in services is in the context of growth in the city and the Government's Sustainable Transport Plan. The Review notes that passenger boardings have remained stable (or marginally declined) over the past few years⁵. The increase in total FTEs and the annual bus kilometres, however, has been substantial. There is scope to increase the effectiveness of services.

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

⁴ Commission of Audit 2002: Report (No. 2) on the State of the Territory's Finances. The Report highlighted that direct to indirect staff ratio was 5:1, after excluding the inoperative staff and transport officers. By comparison, industry ratio was 12:1. This ratio is unlikely to have changed significantly.

⁵ The Review was advised of an increase in full fare boardings in 2005-06. This, however, appears to have been partly offset by a decrease in concession and school boardings.

7.6.4 SUMMARY OF SAVINGS AND STAFFING IMPACTS

The table below provides an overview of options for where efficiency and effectiveness savings can be generated within ACTION.

Table 7.6.3: Summary of options for Efficiency and Effectiveness Improvements

Proposal	Description	Budget Impact \$'m
<i>Revenue</i>		
Increase in Fares	Increase above CPI to address increasing costs of fuel and parts.	1.5
<i>Cost Reductions</i>		
Transport Officers	A group that provides both in depot and on road supervision. 16 officers are employed to operate at four interchanges. It is proposed to introduce mobile supervision rather than static supervision at the interchanges. This would reduce the number by 8.	0.8
Driver Utilisation	Improvement in leave management and driver scheduling.	0.2
Overhead Costs	Decrease in indirect staff. Details to be determined by the Department.	3:0
Total		5.0

Table 7.6.4: Summary of Financial Impacts

Measure – Savings / (Costs)	2006-07 \$'m	2007-08 \$'m	2008-09 \$'m	2009-10 \$'m	FTE Impacts
<i>Revenue</i>					
Increase in Fares	1.500	1.500	1.500	1.500	0
<i>Cost Reductions</i>					
Transport Officers	0.200	0.800	0.800	0.800	8
Driver Utilisation	0.050	0.200	0.200	0.200	0
Overhead Costs	0.750	3.000	3.000	3.000	TBC
TOTAL SAVINGS	2.500	5.500	5.500	5.500	8
Machinery of Government Savings	0.792	1.082	1.109	1.137	9.9
Procurement (Tender Box) Savings	0.187	0.384	0.394	0.403	-
Procurement (ERC) Savings	0.111	0.166	0.166	0.166	-
IT (Review and ERC) Savings	0.112	0.158	0.158	0.158	-
Transfer to Shared Services	0.533	1.295	1.312	1.329	14.09

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CHAPTER 7.7

DISABILITY, HOUSING AND COMMUNITY SERVICES (INCLUDING THE OFFICE FOR CHILDREN, YOUTH AND FAMILY SUPPORT)

OVERVIEW

- Disability, Housing and Community Services (DHCS) provides the key human service functions of public and community housing; the care and protection of children, disability services, therapy services; and a range of programs to assist families, carers and community development.
- The Department was established in response to the Board of Inquiry into Disability Services and the Reid Report in 2002. In 2004, following the Vardon and Murray reports into child protection issues, the Department assumed responsibility for children and young people. Multicultural affairs and community engagement joined the Department in 2005.
- The Department spends \$276 million per annum across its three financial reporting entities Disability, Housing and Community Services (\$95.5 million); The Office for Children, Youth and Family Support (\$72.4 million); and Housing ACT (\$108.4 million). Staff numbers total approximately 1,125 FTEs.

KEY CONCLUSIONS AND RECOMMENDATIONS

- Expenditure on child protection and out-of-home services per child is the highest of all jurisdictions at 67 per cent above the national average¹. In public housing, overhead expenditure is approximately 66 per cent above the average of all jurisdictions and New Zealand².
- The Review is not proposing significant savings, but a reallocation of resources through more cost effective service delivery arrangements. This as an area likely to pose considerable risks to budget due to increased expectations for services. Priority should be targeted to minimising these fiscal and service risks.
- There is capacity to better coordinate and integrate services through a single service point for complex clients. This should include a centralised service purchasing function extended to the non-government sector.
- The Review has proposed that the functions of the Department be amalgamated with those of ACT Health, to form a new Department of Health and Community Services. The amalgamation should realise the full potential from integration of service delivery, and ensure continuum of care.
- Alternatively, the Department could stand alone as the Department of Community Services, reporting to a single Minister. Irrespective of the organisational arrangements, further integration of service purchasing and grants administration with Health should be pursued.

¹ Report on Government Services 2006.

² Australian Housing and Urban Research Institute.

KEY CONCLUSIONS AND RECOMMENDATIONS (Contd.)

- The Review is proposing that the Department prepare a four-year rolling forward financial strategy as part of the Budget process each year to identify and savings or revenue options to address any cost or demand pressures within its financial envelope (also see Chapter 7.3).

7.7.1 HUMAN SERVICES INTEGRATION

The ACT human service ‘system’, covering both government and non-government service provision, is complex and unwieldy, particularly from a client perspective. There are multiple case management systems, which often overlap and agreements between agencies that often serve to inhibit access to services. Currently, when issues cannot be resolved between agencies the Management Assessment Panel (MAP) is convened. The MAP is advisory in nature and is not able to require agencies to comply with its recommendations.

To better maximise efficiencies and service effectiveness, delivery systems should be redesigned to provide universal services (access for everyone), targeted services (to groups or communities at risk) and intensive services (to individuals/families with high and complex needs).

A key principle supporting the service arrangements should be provision of timely and accessible human services through the promotion of the least intrusive human service options – that is, acting sooner and more effectively and promoting self-care wherever possible. The service system should take a whole-of-life focus (pre birth, early childhood, children, young people, through to older people). Consistent geographic/regional boundaries should be established across all program areas within the new Department(s) of Health and Community Services as part of developing a more cost effective service structures.

Geographic/regional service networks comprising relevant government and non-government service providers should also be established. In addition, some form of means testing or co-payments should be considered as part of the development of an ACT human service system.

The Review has separately made recommendations in relation to centralising grants and service purchasing arrangements in each key portfolio. In addition to ensuring value for money for government contracts, a centralised non-government service delivery function will also drive improved coordination and integration in the community sector.

Complex Case Management

People most vulnerable in society, with multiple needs are most likely to benefit from integrated service delivery. It is proposed that within the new Department(s) of Health and Community Services a single area take responsibility for the most complex clients. This is estimated to be no more that 200 individuals across the ACT. A streamlined case management system should also be established for these complex

cases, so that only one case management plan covering the full range of government services is developed and implemented.

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

7.7.2 DISABILITY SERVICES

Disability services are mainly funded under the Commonwealth-State/Territory Disability Agreement (CSTDA). The relative share of funding is \$1 Commonwealth to \$4 ACT. The following provides a summary of the funding for disability services.

Table 7.7.1: Funding for Disability Services under the CSTDA

	2001-02 \$m	2002-03 \$'m	2003-04 \$'m	2004-05 \$'m	2005-06 \$'m	Annual average growth
Commonwealth	6.907	7.376	7.623	7.936	8.373	5.3%
ACT - Commitment	30.716	35.151	36.858	37.813	38.599	6.4%
ACT - Actual	30.716	39.854	44.580	46.934	50.165	15.8%
Total	37.623	47.230	52.203	54.870	58.583	13.9%

Expenditure in the ACT has grown at an average rate of 14 per cent per annum since 2001-02. The ACT has overmatched Commonwealth funding, against a commitment of average growth of 6.4 per cent. The ACT's contribution has grown at an average of 15.8 per cent.

The significant increase in the expenditure has been largely in response to the Gallop Report. After the "catch-up", however, this level of growth should be curtailed.

Disability ACT is the principle provider of accommodation support services for people with a disability in the ACT. It provides approximately 50 per cent (168 of 331 places) of all accommodation support places in the ACT and the majority of places for people with intellectual disability.

Places in government group homes are significantly more expensive than those in the non-government sector. In 2003-04 the cost per user in government provided group homes was \$112,199 compared with \$60,872 in the non-government sector. The *2006 Report on Government Services* tables show the ACT government group home costs per user as 14 per cent above the national average but below the costs of Tasmania, Queensland, and New South Wales.

The Department is developing a strategy to move a proportion of clients with lower levels of need to the community sector over a three-year period. This requires short-term community sector investment to develop capacity to take on this level of service. However, resources should be found within existing resources.

The Review proposes that the balance between government and community-based services be shifted with an increased proportion of support being provided by the community sector.

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

7.7.3 PUBLIC HOUSING

Funding Arrangements

The *Commonwealth/State Housing Agreement* (CSHA) provides the framework for Commonwealth payments for public housing in the ACT. The financial contribution under the Agreement is \$2 from Commonwealth to \$1 from ACT.

The Territory's share of CSHA funding is determined upon the basis of population and not number of dwellings. However, as at 30 June 2005, while the Territory managed 3.2 per cent of public housing dwellings nationally, it only accounted for 1.6 per cent of population.

The current CSHA agreement requires States and Territories to find ways to involve the private market in the provision of social housing. If this requirement is not met, there is the potential for a 5 per cent penalty to be imposed on jurisdictions payments.

Over recent years, the Territory's has overmatched its contributions under the CSHA, as shown below.

Table 7.7.2: Commonwealth and ACT Matching Funding Under the CSHA

	2003-04 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000	2007-08 \$'000
Commonwealth					
CSHA - Commonwealth	18,438	18,468	18,785	18,962	19,142
Total Commonwealth	18,436	18,464	18,785	18,962	19,142
ACT					
CSHA - Matching	8,197	8,212	8,346	8,422	8,499
ACT Overmatching Funding	5,858	2,787	2,904	2,319	2,359
Additional Appropriation - Capital	2,964	5,000	5,580	5,000	5,000
<i>less:</i>					
Land Tax Equivalent	-2,130	-2,130	-2,130	-2,130	-2,130
Payroll Tax Equivalent	-888	-945	-1,108	-1,159	-1,194
ACT Overmatching	5,804	4,712	5,246	4,030	4,035

The ACT Government should limit its contribution to the matching obligations under the CSHA. Projects presently funded through over matching provisions should be reassessed against other public housing priorities, or against efficiencies discussed below.

Whilst the payment of land tax and payroll tax are not precluded under the CSHA, in essence they are met from overmatching funds. As a result, these payments should no longer be levied on Housing ACT.

Recommendations 138 and 139:

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

Efficiency of Public Housing

The Government's commitment to grow public housing by \$40 million over the next three years is equivalent to an increase of approximately 120 dwellings. If this is to be achieved, substantial improvements in operational efficiency are required.

The ACT's recurrent expenditures per property on public housing are 69 per cent above the national average, second only to the Northern Territory. In addition, the Territory also has the highest capital cost per property in Australia, with the majority of this relating to land value.

Table 7.7.3: Government Housing Assistance 2004-05

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Aust.
<i>Per Capita Expenditure</i>									
Recurrent	87	48	56	81	144	148	270	261	81
Total (Including Capital)	423	239	239	270	431	432	1,028	642	340
<i>Per Dwelling Expenditure</i>									
Recurrent	4,704	3,686	4,444	5,080	4,836	6,116	8,066	9,423	4,757
Total (Including Capital)	22,925	18,346	18,883	16,983	14,495	17,873	30,703	23,174	19,895
<i>CRA Expenditure</i>									
Per Capita	105	89	136	96	92	102	52	62	104
Per Income Unit	2,211	2,136	2,251	2,190	2,105	2,063	2,012	2,236	2,189

Source: Productivity Commission Report on Government Services 2006

Research undertaken by the Australian Housing and Urban Research Institute (AHURI) across Australian jurisdictions and New Zealand indicates that at 30 June 2001, overhead expenditure in the ACT was 66 per cent above the average of all jurisdictions and NZ, at \$2,518 per dwelling compared to \$1,508 nationally. This equates to approximately \$11.5 million above the average.

Further efficiencies in public housing operations should be targeted at bringing the Territory into line with national average costs structures. This should be achieved, for example, through:

- reduction in maintenance costs with no effect on overall maintenance levels (\$2 million);

- reduction in 20 staff (\$2 million);
- administrative savings through efficiencies in consultants, contractors and fleet (\$1 million);
- introduction of water payments by tenants (\$0.7 million); and
- cessation of the Private Rental Leasing and Social Landlord programs (\$0.7 million).

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

The Review is proposing an increase in general rates (Chapter 11), which impacts on public housing operations. In 2004-05, an additional \$0.940 million was appropriated to compensate for the increase in rates.

In the private rental market the landlord would be expected to recover additional rates charges through higher rentals. With the level of rebates being applied by Housing ACT, only 14 per cent of the rates increase is likely to be recovered through higher rents.

Consistent with maintaining funding at the matching level, any future increases in general rates should be targeted from efficiencies in public housing operations.

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

Effectiveness of Public Housing

Waiting Lists Eligibility Criteria

Income limits for public housing are currently determined according to household size and are tied to ACT Average Weekly Earnings (ACTAWE) advised on a quarterly basis by the Australian Bureau of Statistics.

For a single person, the income threshold or limit is set at 60 per cent of ACTAWE, while for a household of two people, the income limit is set at 100 per cent of ACTAWE (plus allowances for additional people)³. These limits are \$585 and \$975 gross per week respectively⁴. The corresponding national average weekly earnings are \$483 and \$805 respectively.

These levels do not reflect the likelihood of being able to obtain public housing through the priority wait list approach. Unless there are other circumstances it is

³ In addition to the income test there is an asset limit of \$40,000 which is applied to realisable assets and which excludes basic items such as clothing and ordinary personal and household effects, tools of trade and one motor vehicle per household.

⁴ As at 18 November 2005.

highly unlikely that a couple with an income of \$51,000 (ACTAWE), or even \$42,000 (National AWE), per year will be housed within reasonable foreseeable timeframes.

To ensure that the waiting list comprises people who are likely to be housed and are those in the most need, the income limits for couples should be set at 75 per cent of the National AWE, approximately \$603 per week and the limits for singles be set at 60 per cent of the National AWE, \$483 per week.

However, given the considerable tightening in the financial eligibility tests, flexibility should be available to the Commissioner for Housing to consider other factors in determining final eligibility. For example, women escaping domestic violence and others who have high support costs that significantly reduce their net disposable income.

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

Targeting Stock to Need

The waiting times for housing allocations have increased due to the relatively small number of dwellings that become available for allocation or re-allocation each year, and the high demand for these dwellings. Available dwellings have reduced markedly in recent years from the 637⁵ public housing allocations in 2004-05 compared with the 1,198 allocations in 2000-01.

The financial circumstances and housing needs of public housing tenants change over time. Stable employment and improvement in income may obviate the need for housing assistance, and the asset could be targeted to someone in housing stress. Changes in household size through the various phases of life mean that households need to move to larger or smaller dwellings.

The flexibility required to target and continually match the stock to tenant needs is not part of the Government's existing policy on security of tenure and accordingly the current provisions of the Public Rental Housing Program (PRHP) do not allow it. The program, as prescribed under the *Housing Assistance Act 1987*, only provides for the transfer of tenants to a more appropriate property where their current dwelling is unsafe or is to be redeveloped. As a consequence, depending upon the measure used, the stock is underutilised by 20 per cent to 50 per cent, as the tenants cannot be moved without their agreement.

Greater flexibility could be provided through a notifiable instrument under the *Housing Assistance Act 1987* if the Government were prepared to modify its security of tenure policy from security within an existing dwelling to security within the system.

⁵ Report on Government Services 2006, Table 16A.1.

While the management of Housing ACT should have an ability to move tenants, this power should be exercised as a last resort. Negotiation, and providing incentives should be the primary means to achieve better stock allocation.

The issues highlighted above are not new. The proposed change will provide the means to implement recommendations of Government's Affordable Housing Taskforce⁶. This approach is also being adopted by housing authorities in other jurisdictions⁷.

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

Whilst public housing eligibility is moving to a position of a welfare housing provider for its new tenants, there are still approximately 1,600 market renters in public housing. This is more than the number of people on the priority waiting lists. Of these, less than 60 pay more than \$300 per week for their accommodation. There is little information on the actual incomes as there is currently no process to collect that information. The Government is to consider a Submission that seeks to allow Housing ACT to collect financial information from market renters.

The debate around security of tenure for market renters is contentious, and it is likely to remain while waiting lists are long and slow. The Government's position has been to maintain security of tenure. However, it has indicated that it would be prepared to consider incentives to encourage market renters to either purchase their properties or relocate to alternative accommodation. Such a strategy was recommended by the Affordable Housing Taskforce⁸.

The Minister for Disability, Housing and Community Services has recently initiated consultation around a number of housing matters including that security of tenure may not continue to be in place for future entrants to public housing. While this is unlikely to have any significant impact in the short to medium term, it may well allow for better targeting in the longer term.

A more fundamental and immediate change would be to remove security of tenure for tenants who have been paying market rent for three years or more. This would equate to approximately 700 tenants.

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

⁶ *Affordable Housing in the Australian Capital Territory: Strategies for Action*; Report of the Ministerial taskforce on Affordable Housing, December 2002, Page 60.

⁷ For example, NSW announced changes to public housing tenure in their 2005-06 Budget, such that from 1 July 2005 the length of time a tenant can stay in public housing will be matched to their need for public housing - *NSW 2005-06 Budget Paper 3, Page 9-3*.

⁸ *Affordable Housing in the Australian Capital Territory: Strategies for Action*; Report of the Ministerial taskforce on Affordable Housing, December 2002, Page 61.

Housing Stock

There are approximately 11,500 public housing dwellings in the Territory. These are spread throughout the ACT with only a small number of suburbs not having public housing represented within them.

There are a number of suburbs where stock numbers are significantly higher than 10 per cent of the suburb. The highest concentrations, in excess of 25 per cent, of public housing are in Braddon, Reid and Turner where there are a number of large multi unit complexes skewing the overall figures.

There are also large holdings, in absolute terms, of single title properties in Kambah (628), Narrabundah (380), Ainslie (376), O'Connor (279) and Florey (278).

The average age of the Territory's housing stock exceeds 29 years of age, one of the oldest within Australia. The current property turnover rate is such that the stock continues to age. The condition of the stock is generally good, with approximately 82 per cent found to meet standards. However, the ageing of the stock adds to maintenance costs per property.

There is also a mismatch between the type of stock, and that required by those on the housing waiting list. A significant proportion of future clients and existing clients' needs are likely to be for one and two bedrooms dwellings, rather than for the three-bedroom stock that is currently held by Housing ACT.

There is also an expanding need for properties with more than three bedrooms for larger families.

While there are many single clients on the waiting list and likely to be more in the future, it is also true that these clients may well have a need for more than one bedroom properties. This will include parents who have access to children on a less than full time basis and those that form relationships in the future. This factor combined with low capital growth associated with one bedroom apartments, only small cost differences between one and two bedroom accommodation and a greater degree of flexibility in allocation leads to a preference for two bedrooms over one.

The challenge is to restructure the portfolio, addressing both age and type of dwelling, in a manner that responds to the needs of those on the waiting list, minimises vacant properties and increases private sector involvement in the provision of social housing.

The Review has received proposals for sale/lease back/management of public housing stock that provide private sector investment into the public housing system, and may assist in matching stock to tenants' needs. A number of opportunities have also been identified by Housing ACT.

Sale options explored target a portfolio sale to an institutional investor (e.g., a superannuation fund). The option involves the sale of 500 three-bedroom properties with part of the proceeds to be used to purchase 200 two-bedroom properties to meet the merging needs.

Indicative financial analysis indicates that such a sale would be feasible with the potential to improve the overall financial position of Housing ACT. This analysis should be tested further through independent advice.

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

7.7.4 SUPPORTED ACCOMMODATION ASSISTANCE PROGRAM

The Supported Accommodation Assistance Program Five (SAAP V) provides the framework for funding and reporting on homelessness services throughout Australia. The ACT receives approximately 3.4 per cent of the total funding from the Australian Government, while it has only has 1.6 per cent of the total population.

The ACT is required to match the relatively higher proportion of funding provided by the Commonwealth on 1 to 1 basis. The Territory, however, overmatches by between \$0.2 million and \$0.4 million per annum in the homelessness sector. This overmatching funding should be removed.

In addition to the overmatching, the Territory also funds approximately \$2.2 million in SAAP-like services, such as Family Accommodation Services. These services provide housing for families who would otherwise be split up in shelters and services, and to maintain tenancies and prevent homelessness.

The average cost per service for the ACT is nearly four times the national average. The average cost per day of service is twice the national average, indicating that the period of service in the ACT is twice the average length of service nationally.

The caseload and accommodation per service in the Territory is low compared with national standards.

The Review proposes that expenditure on SAAP services be limited to the matching obligations under the SAAPV agreement. In addition, SAAP-like services should be managed within the SAAPV financial limits.

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

7.7.5 OFFICE OF CHILDREN, YOUTH AND FAMILY SUPPORT

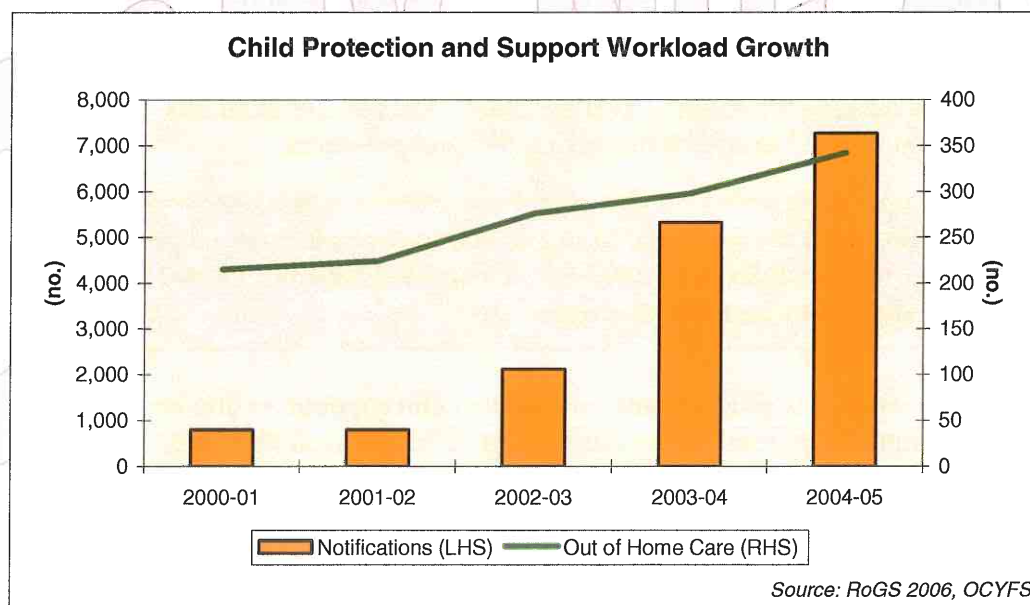
The services provided by the Office of Children, Youth and Family Support (OCYFS) include provision of appropriate care and protection strategies for children and young people, youth justice services, family support activities, and the monitoring and licensing of children's services. The Office was established in response to the Vardon Report on child protection management⁹.

In response to that Report, the Government revised its governance arrangements, undertook a major recruitment campaign to engage child protection workers and injected additional funds into the child protection system.

Operational expenditure on child protection has increased from \$42.9 million in 2001-02 to \$75.3 million in 2005-06. The number of child protection workers has increased from 46 to 110.

Increase in Notifications and Out of Home Care

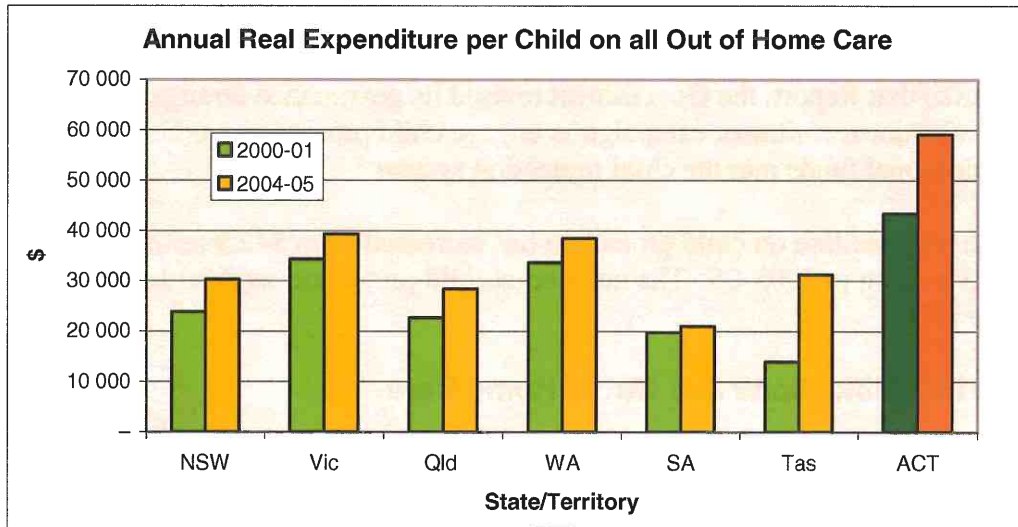
In 2002-03, arrangements for recording reports of concerns about children and young people changed. Along with stricter mandatory reporting requirements, this has led to a significant growth in the number of notifications being processed by the OCYFS, up by nearly a factor of 10 (from 794 in 2000-01 to 7,275 in 2004-05). There has also been a large increase in the number of out-of-home placements in recent times, up 59 per cent from 215 in 2001 to 342 in 2005.



⁹ *The Territory as Parent.*

Cost of Out of Home Care

The ACT has the highest cost per child on out of home care. The cost increased from \$45,922 per child¹⁰ in 2003-04 to \$59,102 per child¹¹ in 2004-05.



Source: Report on Government Services 2006; Table 15 A.3.

The significant increase in notifications, and in the number of children in out of home care places, combined with the high costs of out of home care expenditure per child, represents a significant risk to the budget. The Review notes a number of reforms underway to reduce costs in this area and proposes that out of home care cost per child be brought back to the 2003-04 level of \$46,000. For the medium term, a target should be set to achieve the national average costs. The savings from this recommendation be used to absorb increasing demand pressures.

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

More fundamentally, it is a significant concern that current policies and approaches have led to a dramatic increase in the numbers of children taken into care. It is noted that expert opinion has in recent times questioned whether current models of mandatory notification, community and family support, and the management of cases are best serving the needs of all children and their families.

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

¹⁰ Per child in care at 30 June 2004.

¹¹ Per child in care at 30 June 2005.

7.7.6 ADVISORY BOARDS AND COMMITTEES

The Department is advised by, and services, 58 external boards and committees. The costs attributed to these are \$834,000 per annum in sitting fees, staffing and other support. Very few of the Committees have a legislative basis, other than the ACT Community Recovery Sub-Committee and the Housing Review Committee.

Of the total number of bodies, approximately 10 are related to disability, 13 to housing/homelessness, 8 to community services/engagement, 24 to children and youth services and 3 to cross agency or other. In three cases, multiple committees have been established to advise on aspects of one issue (five on Disability Future Directions, two on New Youth Detention Centre, and seven on Vardon and Murray Reports).

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

7.7.7 CORPORATE SERVICES

In Chapter 4.2, the Review has proposed the establishment of a single Department of Health and Community Services, with significant savings through rationalisation of overhead and support costs. Should a separate Department of Community Services be maintained, savings in corporate and organisational services costs should still be pursued. These are outside the resources being transferred to the proposed Shared Services Centre.

The corporate services in DHCS provides a wide range of support services, including the following:

- Executive;
- Strategic Policy, Research and Organisational Governance;
- Finance and Budgets;
- Organisational Service;
- Advocacy, Review and Quality;
- Community Services; and
- Business Services.

Currently the above group consists of approximately 160 staff. The establishment of the Shared Services centre will require 38 FTEs to be transferred, leaving 122 FTEs.

A reduction of 22 FTEs is proposed in the first year, with a further reduction of 6 FTE staff in 2007-08. This would equate to savings in the order of \$3 million per annum.

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

7.7.8 SUMMARY OF SAVINGS AND STAFFING IMPACTS

	2006-07 \$'m	2007-08 \$'m	2008-09 \$'m	2009-10 \$'m	Total FTE Impacts
ACT Public Housing – CSHA Matching	4.000	4.000	4.000	4.000	20
SAAP V	2.200	2.200	2.200	2.200	-
Corporate Overheads and Support Services Savings	1.200	2.427	3.104	3.182	28
TOTAL SAVINGS	7.400	8.627	9.304	9.382	48
Procurement (Tender Box) Savings	0.593	1.216	1.246	1.277	-
Procurement (ERC) Savings	0.557	0.836	0.836	0.836	-
IT (Review and ERC) Savings	0.967	1.365	1.365	1.365	-
Transfer to Shared Services	1.417	3.444	3.489	3.534	38.11

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CHAPTER 7.8

JUSTICE AND COMMUNITY SAFETY

OVERVIEW

The Department of Justice and Community Safety (JACS) is responsible for activities and services in the areas of justice, the law, commercial practices and elections.

A significant proportion of outputs within JACS involve compliance with legislation or the performance of statutory duties. Independent statutory officers within the department include the Director of Public Prosecutions, the Electoral Commission, Office of the Community Advocate, and the Human Rights Office. The Department is also responsible for the management of services provided by the Commonwealth through the Australian Federal Police, the Ombudsman and the Privacy Commissioner. JACS manages ACT corrections services and arrangements for accommodating ACT prisoners in NSW.

Output Classes

The output classes for the Department, the budgeted expenditure, and full time equivalent (FTE) staff for 2005-06 are outlined in the table below.

Table 7.8.1: Justice and Community Safety Outputs and Expenditure

OUTPUT CLASS	\$'000	FTE Staff
Output 1.1 Policy Advice and Justice Programs	6,452.0	39.0
Output 1.2 Courts and Tribunals	23,126.0	142.0
Output 1.3 Legal Services to Government	5,830.0	53.0
Output 1.4 Legislative Drafting and Legislative Information	3,354.0	20.0
Output 1.5 Public Prosecutions	6,109.0	48.5
Output 1.6 Protection of Rights ¹	7,229.0	17.0
Output 1.7 Electoral Services	1,043.0	5.8
Output 1.8 Regulatory Services	9,066.0	78.8
Output Class 1: Justice Services	62,209.0	404.1
Output 2.1 ACT Corrective Services	30,476.0	186.0
Output Class 2: Corrective Services	30,476.0	186.0
TOTAL JUSTICE AND COMMUNITY SAFETY (DEPT)	92,685.0	590.1
Output EBT ² 1: Legal Aid Commission	9,554	0.0
Output EBT 2: ACT Policing	95,791	0.0
TOTAL JUSTICE AND COMMUNITY SAFETY (TERR)	105,345.0	585.10³

¹ Includes payments to the Office of the Public Trustee, Commonwealth Ombudsman, Tenants Advisory Service, Office of the Privacy Commissioner, the Office of the Community Advocate and the ACT Human Rights Office.

² EBT is Expenditure on behalf of the Territory, or the so called administered expenditure.

³ FTE count does not include those organisations the Department makes payments to (eg. Output 1.6)

KEY CONCLUSIONS AND RECOMMENDATIONS

- Expenditure on corrective services and justice in the ACT is similar to national average.
- Community corrections service costs are significantly above the national average and are recommended to be reduced to national average.
- With occupancy in NSW prisons currently increasing, continuing reliance on NSW prisons puts the ACT at risk of access problems, or increased costs arising from the need to build more prisons in NSW. Consequently, it would be financially imprudent not to proceed with the new prison.
- Costs associated with the Human Rights Commission could be reduced through appointment of part-time commissioners or through individual commissioners having more than one role.
- Courts administration costs are proposed to be capped at current published forward estimates through the implementation of the ACT Auditor General's recommendations.
- A range of regulatory functions and resources are proposed to be relocated to the Department from other agencies to streamline regulatory activity.

7.8.1 CORRECTIVE SERVICES

Community Corrections

Community corrections recurrent costs per offender in the ACT are the second highest of any State or Territory behind Western Australia, and at \$15.7 per offender per day, are 39% higher than the national average of \$11.6.

Recurrent expenditure in the ACT in 2004-05 was \$7.2 million. Reducing the ACT cost per offender per day to the national average would reduce the overall costs to around \$5.1 million, a saving of \$2 million.

Based on the information available, it is difficult to conclude that the relatively higher expenditure leads to better rehabilitative outcomes for offenders in the ACT. The single indicator used in the Report on Government Services to measure outcomes in community corrections is completion rates. While reported ACT completion rates are high, Tasmanian rates, for example, are even higher⁴.

Similarly, the higher costs could not be attributed to diseconomies of scale in a small jurisdiction. Tasmania has a recurrent cost per offender per day of \$9, well below the national average, while it has fewer community corrections offenders on average than the ACT.

⁴ The Report does, however, caution against interstate comparisons against this indicator.

Given the level of disparity between the ACT and national costs, the Department should make a concerted effort to reduce costs to a level closer to the national average. Recognising that a cost reduction of \$2 million would be difficult to achieve in one year, a reduction in costs by approximately \$500,000 per annum until the costs are in line with national average would be more realistic.

A reduction of \$2 million represents a reduction of about 28 per cent, and would be achieved by a 28 per cent reduction in staffing numbers. This represents a reduction of about 20 FTE staff.

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

Prison Project and Costs

The cost per prisoner per day in the ACT is \$252, which is 48 per cent higher than the national average of \$170, and 31 per cent higher than the next most expensive jurisdiction, Victoria. The higher cost is driven by the cost of the remand centres in the ACT rather than payments to NSW for prisoners, which are based on NSW costs⁵.

The ACT prison is planned to commence in the 2007-08 financial year, with set up costs being incurred from 2006-07 onwards. The prison is designed to replace the Belconnen and Symonston remand centres, and accommodate sentenced prisoners currently being held in NSW prisons.

The prisoner population in NSW has considerably increased over the past few years. In 2001-02, the average daily prison population was 7,764. This had increased by 15 per cent to 8,926 in 2004-05 (an average of 5 per cent per annum). The prison utilisation rate has also increased similarly to 110 per cent in 2004-05.

With occupancy in NSW prisons currently increasing, continuing reliance on NSW prisons puts the ACT at risk of access problems or increased costs arising from the need to build more prisons in NSW. A further factor to consider is the significant level of inefficiency in the current remand centres' configuration. Consequently, it would be financially imprudent not to proceed with the new prison.

The expected operating costs of the prison based on a benchmarking exercise undertaken in 2003 by JACS are included in the forward estimates. These costs are outlined in the table below:

⁵ The Department advises that, subject to a number of variables, the costs per prison per day for both sentenced prisoners and remandees will drop to \$203 per prisoner per day, or about 19 per cent above the national average, with the construction of the new correctional facility, the Alexander Maconochie Centre.

Table 7.8.2: Prison Estimated Operating Costs

	2005-06 \$'000	2006-07 \$'000	2007-08 \$'000	2008-09 \$'000
Remand Centres	7,683	7,960	2,749	-
NSW Sentenced Prisoners	8,750	8,969	10	10
Court Transport Unit	1,159	1,201	1,244	1,289
New Prison Operating Costs	-	-	14,620	20,195
One Off Set Up Costs	-	600	2,221	-
Prisoners in NSW	-	-	1,442	-
Total Justice and Community Safety	17,592	18,729	22,285	21,493
Health Costs	1,190	1,233	1,277	1,323
Total Costs	18,782	19,962	23,563	22,817

Notes:

- New prison costs based on \$16.286 million in 2002-03 prices, indexed by ACT labour cost index, and multiplied 0.75 in 2007-08 to reflect part year operation.
- Other ACT costs based on 2005-06 budgets indexed by ACT labour cost index.
- 2007-08 remand centre costs based on 4 months operation while the prison is being established.
- NSW prisoner costs based on based on 2005-06 budget, indexed by 2.5 per cent.
- Corporate costs are excluded, and these estimates assume that corporate costs remain unchanged following commencement of prison operations.

The Review has accepted the forward estimates based on this benchmarking. A detailed modelling of costs, based on staff allocation and rostering, is yet to be undertaken.

The key parameters of the prison are well established, and the Review recommends that modelling of the recurrent costs be completed by 30 June 2006, with the aim of holding costs within the forward estimates.

Recommendation 152 and 153:

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

7.8.2 OFFICE OF THE DIRECTOR OF PUBLIC PROSECUTIONS

There are considerable concerns in relation to the resourcing and performance of the Office of the Director of Public Prosecutions (DPP). The rate of successful convictions has been very low and this may in part be attributed to lack of resources to engage suitably skilled staff.

The Review proposes additional funding of \$0.5 million per annum for the Office, to allow a shift towards more senior staff.

Recommendations 154 and 155:

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

7.8.3 COURT ADMINISTRATION

The ACT costs for court administration are close to national average. The courts have recently been reviewed by the ACT Auditor General, whose findings indicate that:

- the accountability for management and expenditure of court administration was unclear and needed to be improved;
- a costing study needed to be undertaken to understand the cost drivers in court administration and to identify possible efficiencies; and
- there is under-use of court time, lack of integration between administrative areas of the courts and opportunities for efficiencies through reform of the registry processes.

All parties accepted the Auditor General's recommendations, and work has commenced on implementation. Implementing the Auditor General's recommendations should enable the Courts to operate within budget, and accordingly, the Review recommends that Courts expenditure be capped at the current forward estimates amounts.

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

7.8.4 LEGAL SERVICES

The ACT Government Solicitor (GSO) is the primary legal services provider to Government and a number of agencies, but the ACT Government has no legal services policy. Across government legal services are discussed in detail Chapter 5.

The Review is proposing that legal services be consolidated in Justice and Community Safety with:

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

- a small number of statutory authorities and corporations that are required to operate commercially, use outsourced legal services.

7.8.5 REGULATORY ARRANGEMENTS

Regulation is defined as any laws or other government ‘rules’ which influence or control the way people and businesses behave⁶. Under this definition, regulation is not limited to legislation and formal regulations; it also includes ‘quasi-regulation’ (such as codes of conduct, advisory instruments or notes etc).

The cost of regulatory activities in the ACT is approximately \$76 million, including staffing costs of approximately \$55.3 million.

Current Regulatory Arrangements

The regulatory arrangements that currently exist within regulatory agencies in the ACT Government include:

- independent statutory bodies responsible for both the regulation and policy for specific activities or industries;
- independent statutory office holders fully responsible for all aspects of regulatory control;
- statutory office holders who share decision making responsibility with an independent board with, in most cases, the board having responsibility for disciplinary matters; and
- arrangements where the regulatory powers are delegated from the Minister or Departmental Chief Executive.

The regulatory activities are either:

- aligned to a range of other policy or administrative activities within a Department having common interests with overall responsibility for similar issues (for example, a range of public health protection regulations within ACT Health); or
- grouped together on the basis of the discharge of a range of regulatory responsibilities that require similar skills or activities (for example, the general licensing and fair trading responsibilities undertaken by the Office of Fair Trading); or
- sit within specialised organisations that are responsible for the regulation of a specific industry or activity (for example, the Gambling and Racing Commission).

The following table provides a summary of the regulatory activities across government agencies:

⁶ The Australian Government *Taskforce on Reducing the Regulatory Burden on Business*.

Table 7.8.3: Summary of Regulatory Activities across ACT Government Agencies

Operational Unit	Staff Costs \$'000	Other Costs \$'000
Chief Minister's Department		
Environment Protection	2,500	1,089
ACT WorkCover	4,914	3,246
Department of Urban Services		
Roads ACT	20	-
Road User Services	2,466	827
City Rangers	430	205
Domestic Animal Services	809	431
Parks and Open Space – Charitable collections	163	20
Road Transport – Driver, Vehicle and Parking Policy	1,639	274
Road Transport – Road User Services	1,375	72
Parking Operations	2,528	1,171
National Transport Reforms	-	284
Road Safety – CTPI premiums	107	40
Public Transport and Road User Services	528	190
ACT NOWaste	221	3,507
Department of Treasury		
Revenue Management Division	5,373	4,390
ICRC	792	363
Emergency Services Authority		
Fire Safety	920	182
ACT Planning and Land Authority		
Territory Plan	331	21
Statutory Planning	130	8
Land Information Centre – Commissioner for Surveys	112	5
Development Assessment	3,598	69
Construction Occupation and Land Regulation	13,115	110
Leasing	1,434	215
Regulatory Reform	211	7
Department of Economic Development		
Gambling and Racing	2,759	1,056
Small Business Commissioner	300	46
Strategic Policy – boxing control	20	-
ACT Health		
Pharmaceutical Services	182	10
Radiation Safety Section	164	37
Environmental Health	778	49
Communicable Disease	629	76
Department of Disability, Housing and Community Services		
Children's Services Unit	626	28
Department of Justice and Community Safety		
Community & Health Services Complaints Commissioner	807	299
Office of Fair Trading	2,682	991
Registrar-General's Office	2,597	1,421
TOTAL	55,260	20,744

Proposed Regulatory Structures

The diversity, complexity and size of the regulatory activities undertaken across the ACT Government precludes the establishment of a single entity that would be responsible for all aspects of the identified regulatory activity.

There are a number of activities that require highly specialised skills that may be managed through government shopfronts, and/or are more closely aligned to the broader activities of the host department than to a specialised regulatory agency.

These include regulatory activities related to:

- administration of government taxes and rates;
- educational services;
- planning and land management;
- specialised health services;
- transport regulation (including drivers licences and vehicle registration); and
- environmental protection.

The remaining regulatory activities are currently spread across a number of government agencies, and for such activities, efficiencies and increased effectiveness can be achieved through the establishment of a Central Regulatory Office that is responsible for a broad range of business, occupational and consumer regulation.

Central Regulatory Office

In general, effective regulatory oversight requires a capability to undertake licensing, registration and accreditation, dispute resolution and consumer and trader assistance, compliance and enforcement/litigation, and consumer and trader education. These functions are similar across a number of regulatory activities, and there are opportunities to achieve economies of scale through grouping together the regulation of similar activities or those requiring similar skills.

Savings will also be achieved through reducing duplication of business systems. For example, ACT WorkCover is currently expending funds on the development of an integrated database to capture information on compliance activity, while the Office of Fair Trading already has a well-developed system to cover all licensing and regulatory activities.

More focused and simplified regulatory arrangements will also lead to more effective government interaction with industry. This will enable a 'One-Stop-Shop' approach to a greater range of industry interaction with government. This would reduce situations like the current arrangements where, for example, a café owner is required to deal with at least three different agencies to establish a café with an outdoor service area.

The current functions to be incorporated into the central regulatory office are those currently performed by the Office of Fair Trading, the Registrar-General activities,

and ACT WorkCover. In addition, the following activities performed within agencies could be incorporated:

- tobacco licensing and smoke-free area regulation (currently within ACT Health);
- occupational licensing of construction industries (currently within ACTPLA);
- approvals and administration of a range of business activities associated with the use of public land (outdoor café approvals and hawkers licences);
- the licensing and regulatory responsibilities of the Independent Competition and Regulatory Commission (ICRC); and
- regulatory activities related to parking operations.

The amalgamation of the responsibilities would allow for the development of a single government shopfront that administers a significant range of business and occupational licensing.

The Central Regulatory Office would not be responsible for the development of policy in relation to the Acts and regulations that it administers. The separation of policy and regulatory functions is already common in a number of areas. For example, in respect of competition policy, the ACCC is responsible for the regulation of the Trade Practices Act and the Commonwealth Treasury advises government on the policy issues. The separation enables a clear delineation of responsibility between regulatory and policy functions.

The following table provides a summary of the resources to be included in the Central Regulatory Office.

Table 7.8.4: Functions for amalgamation within a single regulatory office

Agency	Staff (FTE)	Costs \$'000
Office of Fair Trading	35	3,763
Registrar-General's Office	43	4,018
WorkCover	68.2	8,160
Tobacco Licensing	1	118
Smoke-Free area Regulation	1	118
Construction Occupation Licensing (including Architects Board)	24.5	1,988
Outdoor Cafes, Hawkers and Charitable Collections	1.8	691
ICRC	10	1,142
Parking Operations	48	3,686
TOTAL	232.5	23,684

Benefits and Savings

In summary, efficiencies will arise through:

- removing duplication of corporate or overhead services;
- correcting the under-utilisation of the resources;

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- maximising capacity to share systems and equipment and the staging of regulatory activities over a year (both licensing and regulation) to achieve greatest productivity can be delivered from the least resources possible; and
- streamlining and simplifying the legislative and administrative structures associated with ACT Government regulation.

Savings in staff costs are estimated at \$4.7 million, representing 46.5 FTE. It is proposed that in the first year, \$1 million be reinvested to support the development of systems and processes and change management.

Recommendations 157, 158, 159 and 160:

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

Further Regulatory Reform

Regulation is one of the key functions of government. In certain instances, it may be the most effective means of achieving outcomes for the society. To ensure that regulation achieves its stated objectives it must, however, be well designed and targeted. As a general principle, the efficiency of new and amended regulation should be maximised to avoid unnecessary compliance costs and restrictions on competition.

The Council of Australian Governments (COAG) has agreed that all governments will undertake work to reduce regulatory burden, and in particular, address six priority cross-jurisdictional 'hot spot' areas where overlapping and inconsistent regulatory regimes are impeding economic activity⁷.

⁷ These include rail safety regulation; occupational health and safety; national trade measurement; chemicals and plastics; development assessment arrangements; and building regulation.