

# For the Future:

Economic and Financial Outlook for the ACT

ISBN-13: 978-0-642-60383-8  
ISBN-10: 0-642-60383-9

© Australian Capital Territory, Canberra June 2006

Material in this publication may be reproduced provided due acknowledgement is made.  
Produced for the Department of Treasury by Publishing Services (Department of Urban Services).

Enquiries about this publication should be directed to the Department of Treasury  
GPO Box 158, Canberra City 2601.

Publication No 06/0456

<http://www.act.gov.au>

Telephone: Canberra 13ACT1 or 132281

<b>Message from the Chief Minister</b>	<b>1</b>
<b>Part One:</b>	
The State of the ACT	3
Revenue	5
Public Sector Superannuation	7
Health	8
Schools	9
Fees and Charges	11
Planning	13
Economic Development	13
Tourism	14
<b>Part Two:</b>	
The Strategic and Functional Review of the ACT Public Sector and Services: a Catalyst for Change	16
<b>Part Three:</b>	
The Government's Response to the Strategic and Functional Review of the ACT Public Sector and Services	18
Streamlining the ACT Public Service	19
Reducing Public-Sector Employee Costs	20
- Superannuation	20
- Government Fleet	21
- Office Accommodation	21
- Legal Services	21
Strengthening the Budget System	21
Adoption of the GFS Accounting Measure	22
Reforming the Public Health System	22
A Public Education System for 2020	24
Revenue Measures	25
Reforming Municipal Services	26
Reforming Community Services	27
Reforming the Justice System	28

Reducing the Burden of Regulation	29
Reforming the Planning System	29
Reforming Economic Development	30
Sport, Recreation and Tourism	31
Reforming Emergency Services	31
Reforming Infrastructure and Asset Management	32
Community Sector	32
<b>Part Four:</b>	
For the Future	34

# Message from the Chief Minister

In November 2005 the ACT Government announced that it had commissioned a broad-ranging review of government structures and programs. The Strategic and Functional Review of the ACT Public Sector and Services, headed by Michael Costello and Greg Smith, looked into every area of Government spending and assessed that spending against all of our priorities.

Good governments regularly review their processes. This review was just one part of the Labor Government's commitment to good economic and financial management. It provided an opportunity to take stock and get an objective analysis of the way our resources were flowing, and how well our priorities were being met. It created an opportunity to safeguard the future of this city and its people.

The Government drew on the Review in shaping the reform process outlined in this document.

Since self-government, the cost of service delivery in the ACT has been 20 per cent above national benchmarks, right across the board. Successive governments have used land sales and fortuitous stock-market gains to fund this expenditure—they have had to, because the Territory's expenses have always remained ahead of its revenue-raising capacity.

Service provision and economic management are the core responsibilities of governments, and they are complementary roles. A strong economy means higher living standards and better overall well-being, more jobs and greater job security. It means more people can buy homes and strive to reach their personal potential. A strong economy—and sound financial management—create the conditions for a Government to meet its people's needs.

We Canberrans have become used to high cost government services. We expect a lot from our hospitals and schools—and we get what we expect. But it is time to ask whether that is really a consequence of our high expenditure. High quality need not, and should not, necessarily mean high cost. High quality means targeted services, streamlined processes and a commitment to meeting high priority needs. It means investing in an education system that truly meets the needs of all children. It means planning for a future in which more of us will need hip replacements and cataract surgery, or a bed

in an aged-care facility. It means setting the scene for more business, more investment and more innovation.

There is no crisis today. But there will be one in the future if we do not find the right balance today.

If we want our children—and *their* children—to have the same quality of life, the same access to services, the same confidence in their government, as we enjoy now, we must change the way we do things. We must put our finances on a more stable footing. We have to acknowledge that land sales are not an endless source of revenue. We need to be realistic about how a jurisdiction the size of the ACT goes about service delivery. We must accept the reality of our ageing population, and prepare for a future in which there will be fewer school-aged children and more elderly people than ever before in our history.

This is the most comprehensive and far-reaching reform process undertaken in this city for many years. It will change the face of the public service and keep our economy, and our services, up with the very highest of standards. It is reform that will serve our community today and safeguard our future.

A handwritten signature in black ink that reads "Jon Stanhope". The signature is written in a cursive, flowing style.

Jon Stanhope MLA

Chief Minister and Treasurer

# Part One:

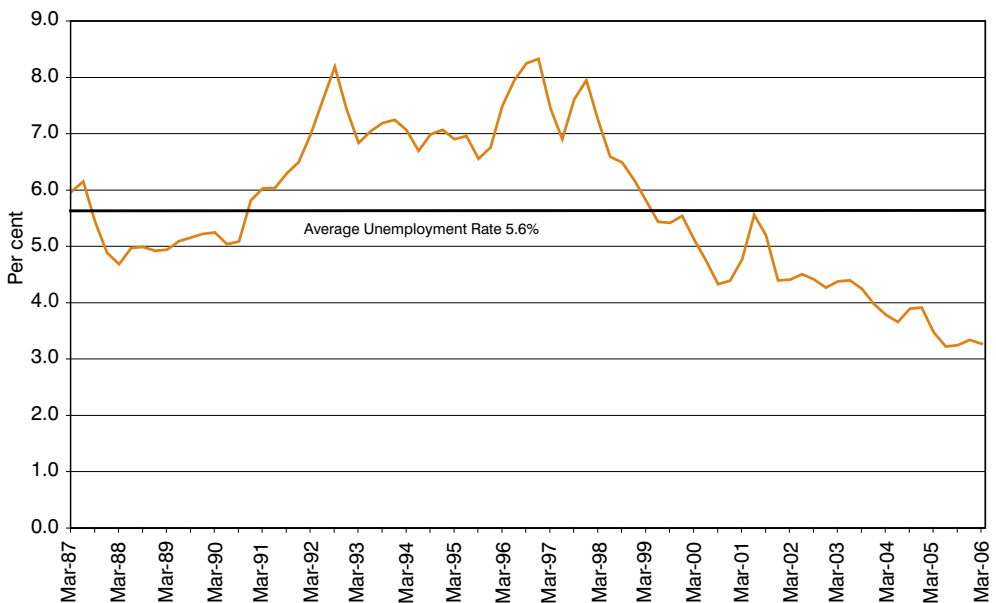
## The State of the ACT

The ACT has a very strong economy and one that continues to grow, with State Final Demand expected to increase by 3 per cent in 2006-07.

We have one of the strongest balance sheets of all States and a AAA credit rating.

Employment growth is strong. Over the past four years, over 11,000 new jobs have been created across the Territory and, at 3.2 per cent our unemployment rate remains the lowest of any jurisdiction.

### Quarterly Unemployment Rate - Trend Data



Source: ABS Catalogue No. 6202.0 Table 11.

Business and employer confidence is consistently high—and above the national average.

The city is thriving, with nearly \$4.5 billion worth of developments approved in the past four years alone.

Over the next 18 months, this activity will give rise to new inner-city accommodation, enhanced retail and high quality office accommodation and will provide a modern working environment for some of Australia's most innovative industries.

Canberra's historic dependence on public-sector employment has diminished over time:

- in the decade to November 2005, private-sector employment in the ACT grew from 92,000 to 109,000;
- since Labor came to office in 2001 the number of ACT small businesses has grown substantially and measures of activity and success—surveyed confidence levels, export orientation of firms, Research and Development spending and innovation activity, and so on—are at record highs;
- the ACT now has the highest concentration of knowledge-based industries in Australia;
- business expenditure in research and development has more than doubled in the past four years, to \$61 million;
- there has been a 20 per cent increase in international student enrolments since 2002;
- ACT exports of goods and services are near a historic high of \$763 million in 2004-05; and
- there are now more than 1,000 Information and Communication Technology (ICT) firms in the ACT and the Territory has secured the National ICT Centre of Excellence.

While the future will doubtless bring new opportunities, the priority the Government places on building a conducive environment for business will not change.

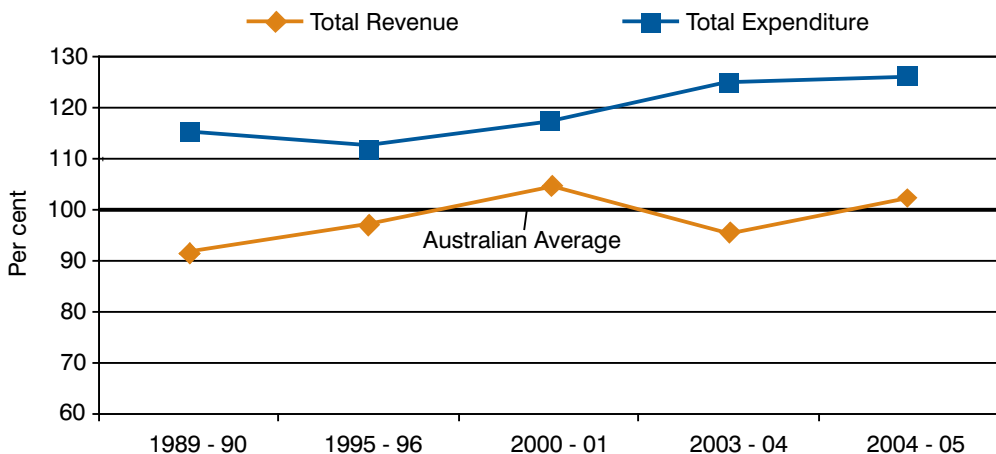


## Revenue

While the ACT economy is strong, the historic realities of the national capital mean that the ACT Government has had to fund all services from an unchangingly narrow revenue base. Unlike other jurisdictions we do not have large manufacturing or resource sectors. And we cannot collect payroll tax or rates from the Australian Government—still by far the ACT's largest single employer and a major owner of property.

With its historic reliance on land-based revenues, the ACT is vulnerable to cyclical changes. While this sometimes delivers an unlooked-for windfall, which has allowed us to sustain public spending at about 20 per cent above national averages, our reliance on land sales is unsustainable even now and will become more so in the future.

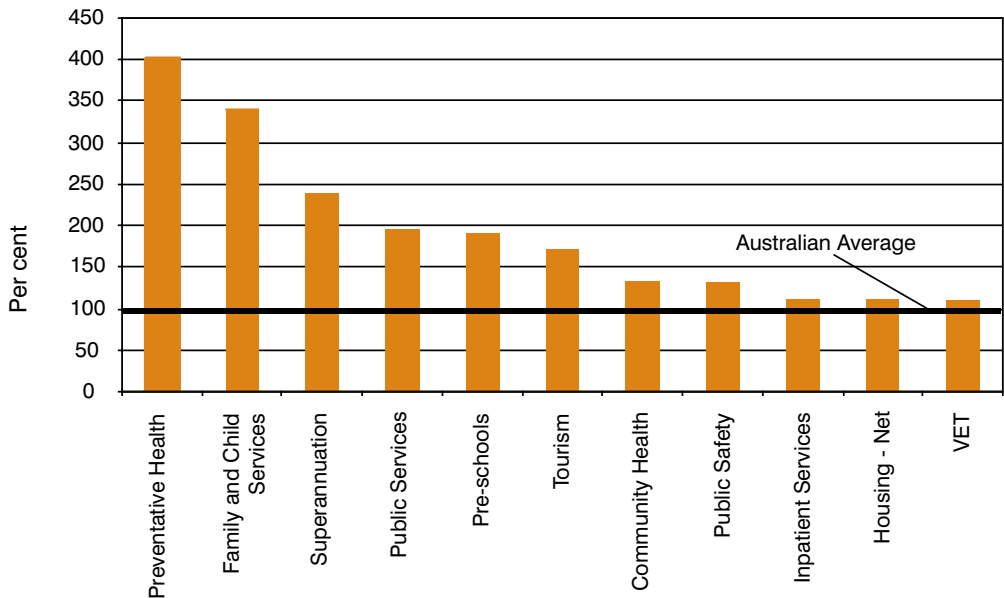
### Ratio of Actual Effort to National Benchmark Revenue and Expenditure 1989-90 to 2004-05



Source: Commonwealth Grants Commission *Relative Fiscal Capacities of the States*

The ACT's higher-than-average expenditure is not limited to any specific service areas. Almost all areas of government service delivery are more costly than the national average.

## Level of Service Provision by Commission Category 2004-05



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

In the early years of self-government the imbalance between the ACT's revenue and its expenditure was partially disguised by transitional Commonwealth funding. When this ceased, the ACT continued to carry the imbalance, relying on a combination of the proceeds of land sales and lower surpluses (or higher deficits) than the average of the States and Territories.

This cannot continue indefinitely. Land revenues will become a smaller proportion of the revenue base over time. We will not be able to rely upon this source of income to the same extent in the future.

Over recent years expenditure in some areas has grown at rates above the national average. Most of this has been an unavoidable response to emerging pressures in areas such as disability and child protection, the bushfires of 2003 and the need to remedy long neglect of wages for nurses and teachers. But, unavoidable or not, the investment has brought home quite starkly the precariousness of the ACT's customary ways of delivering services—and funding them.

As a small city-state, the ACT cannot afford to maintain some of the public-sector structures inherited from the past. We cannot continue to tolerate the inefficiencies of duplication. We cannot maintain a large number of small advisory or statutory bodies. The purpose of the ACT Public Sector should and must be to serve the community and the Government with maximum efficiency and effectiveness, at minimum cost.

## Public sector superannuation

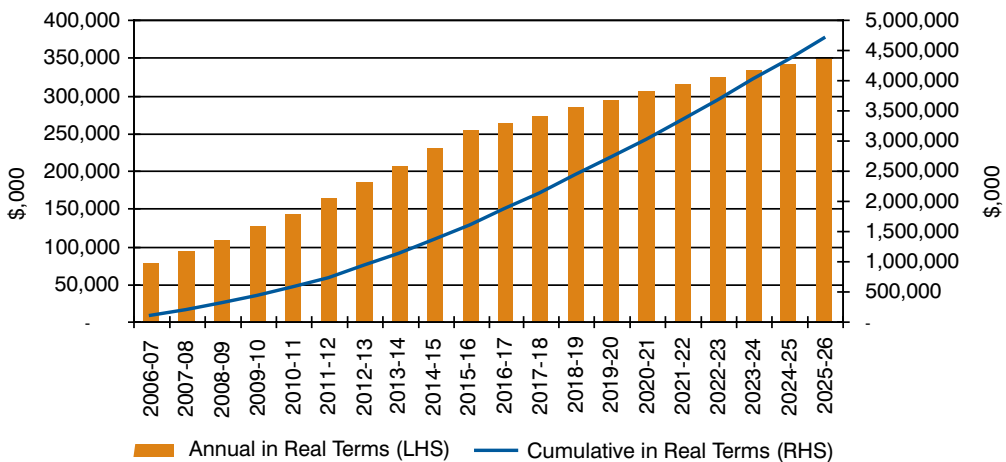
ACT Public Service superannuation arrangements have been more generous than those available to public-sector employees in other States and Territories. Most Canberrans working in the private sector also receive a lower level of employer contribution than that paid to ACT Government employees.

Our high level of public-sector employer contribution not only imposes significantly higher direct costs on the ACT Budget, it contributes to higher service-delivery costs across the whole ACT Public Service.

Even if these costs could continue to be borne over the short term—and there is no doubt that this Government could have chosen to do nothing—they threaten to cripple governments of the future. Superannuation cash payments are forecast to increase by more than 700 per cent over the next 30 years. By 2038-39, the cost to the ACT Budget of public servants' superannuation under the current schemes is forecast to increase from the present \$60 million, to almost \$450 million a year in real terms.

The Government has put in place a long term strategy to fund superannuation liabilities in the PSS and CSS schemes—and this will play a major role in meeting the huge costs in 30 years' time. However, maintaining employer superannuation contributions at 15.4 per cent for new employees would add significantly to the task of any future government.

### Projected Superannuation Payments in Real Terms (2006-07 Dollars)



Source: ACT Treasury

## Health

The ACT has high-quality health care, but it comes at a great cost.

Expenditure on health increased from \$415 million in 2000-01 to \$636 million in 2004-05. The average annual increase in spending was 11.2 per cent.

Continuing this rate of growth is not sustainable. If it persisted, health expenditure would represent more than 50 per cent of ACT budget expenditures by around 2020 (it currently represents about 24 per cent).

We in the ACT spend more than the national average on health, particularly on community and population health, even though our needs are relatively lower. As a city of high incomes, high employment, high educational attainment and with a relatively young population, we enjoy good overall health. On a range of risk factors, the ABS National Health Survey<sup>1</sup> indicates that we have better outcomes than the national average.

For example, we have:

- the lowest proportion of daily smokers (18.7 per cent compared to the national average of 22.4 per cent);
- the lowest proportion of the population getting no exercise (23.5 per cent compared to the national average of 30.4 per cent); and
- the lowest rate of obesity (11.8 per cent compared to the national average of 15.1 per cent).

Yet health expenditure continues to outstrip even the generous budgeted growth rates. In recent years, forward estimates have provided for a growth rate of 5.5 per cent a year. Actual growth has been almost double that level. These increases have been partly due to the ageing of the population and partly due to the high cost of many new medical procedures and technologies. Understanding the genesis of this regular overspending gives us an opportunity to refine our priorities, reduce our unit costs and direct resources to where they are most needed.

---

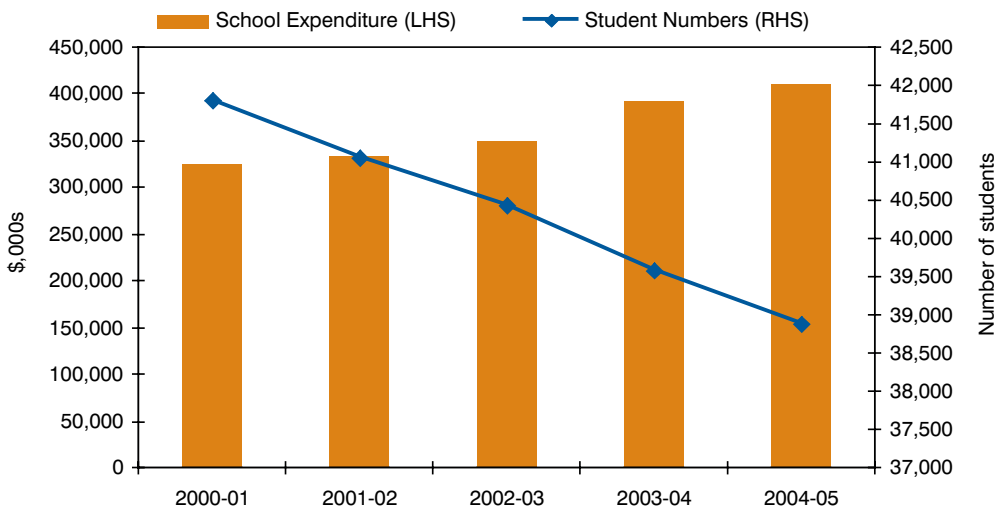
<sup>1</sup>ABS, *National Health Survey, Summary of Results*, 2001, Cat. No. 4364.0

## Schools

The ACT public education system has historically been of good quality, with a strong philosophy of meeting the diverse needs of all students and helping all students reach their potential. But this area of service provision too is under considerable pressure, as community needs and expectations shift and the city's demography alters.

Government school systems across the country are losing students to the non-government sector. The ACT is no exception. Yet the number of schools has remained unchanged in recent years at 95, and the cost of running them has increased substantially. Between 2000-01 and 2004-05 the number of full-time students decreased by 7 per cent. School expenditure over the period increased by 27 per cent.

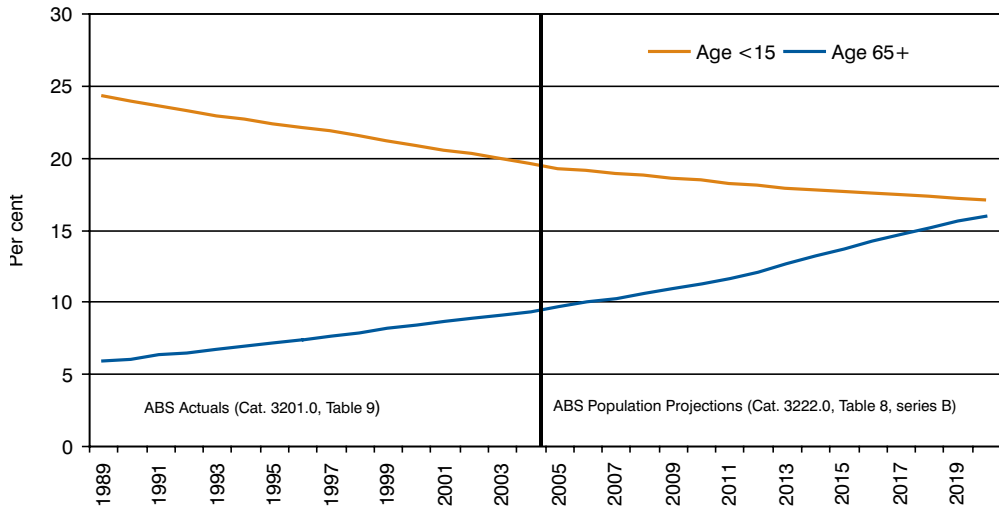
### Expenditure on Government School Education and Number of Students



Source: ACT Department of Education and Training Census of Enrolments, ACT Department of Education and Training Annual Reports

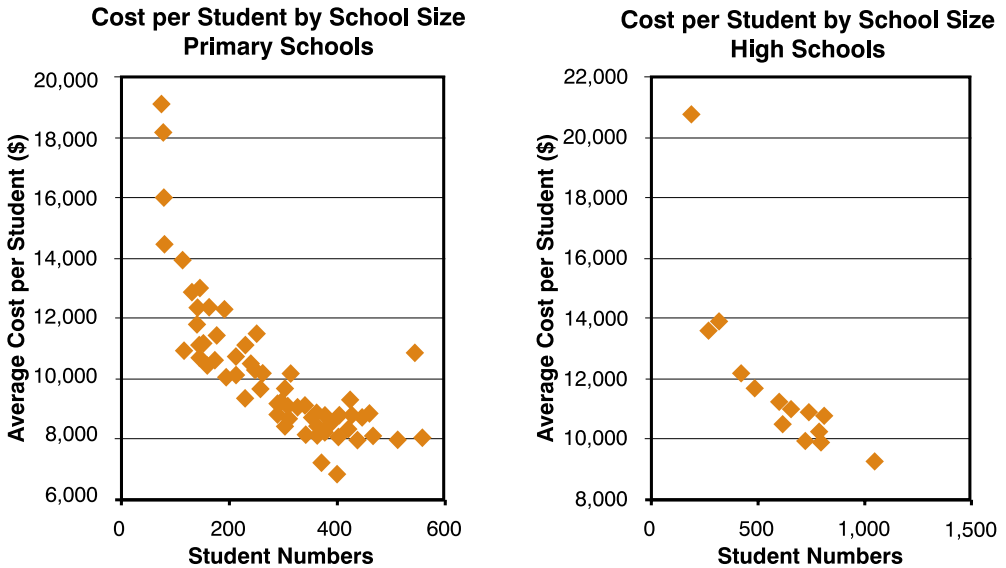
Compounding the loss to the private system has been a distinct demographic shift, with an ageing and mobile population causing enrolments to decline in some suburbs and creating an emerging need for new schools in others.

## ACT Population by Age Groups, 1989 to 2020



These factors have combined to leave the ACT government school system with a surplus capacity of 31 per cent. Across our pre schools, primary schools, high schools and colleges there are about 18,000 empty desks.

The populations of some schools have shrunk dramatically. And the costs per student in these low-enrolment schools are much higher than they are in larger schools. For example, costs per student in government primary schools with enrolments of fewer than 200 range as high as \$19,000. In schools with enrolments of between 400 and 600, costs per student are about \$8,000.



Source: ACT Department of Treasury based on ACT Department of Education and Training data

While small schools do have some attractive qualities, such as heightened expenditure is inequitable, particularly when it is based entirely on location rather than student need.

The costs of up-keep in smaller schools is also higher, and infrastructure in some cases is becoming run down.

There is another potential complication with smaller schools—particularly high schools. When population size falls beyond a particular point a school must, of necessity, limit its curriculum choices. In some cases, students at small schools lack the choices—and the resources—students at more sustainable schools take for granted.

## Fees and Charges

The ACT raises revenue at around its capacity, which is of course lower than the national average, and yet our expenditure levels are well above the national average. This position is not sustainable. While expenditure levels need to be reduced, revenues also need to rise to support the services the ACT community expects.

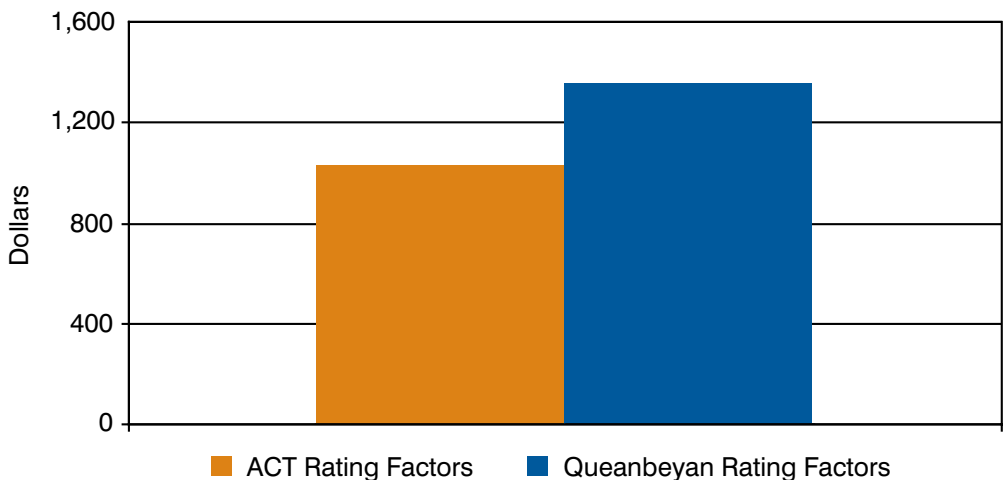
The ACT is not a high-taxing jurisdiction. ABS figures from March this year showed that combined state and local taxation per capita in the ACT was 11 per cent lower than the average of all States and Territories. And the ACT

is committed to eliminating a raft of business taxes over the next few years, in accordance with the Inter-Governmental Agreement.

It is time the ACT brought its charges into closer alignment with those in other jurisdictions. It is time that the charges levied better reflected the actual cost to Government of providing services.

To give one example, the rating factors applied to property owners in the ACT have been relatively lower than those applied just across the border, in NSW. An ACT average unimproved land value of \$198,835 results in general rates in the ACT of \$1,031. If Queanbeyan rating factors were applied to the same unimproved land value, the owner would get a rates bill of \$1,361—32 per cent higher.

### **Comparison of Rates—ACT and Queanbeyan Rating Factors Applied to the ACT Average Unimproved Land Value 2004-05**



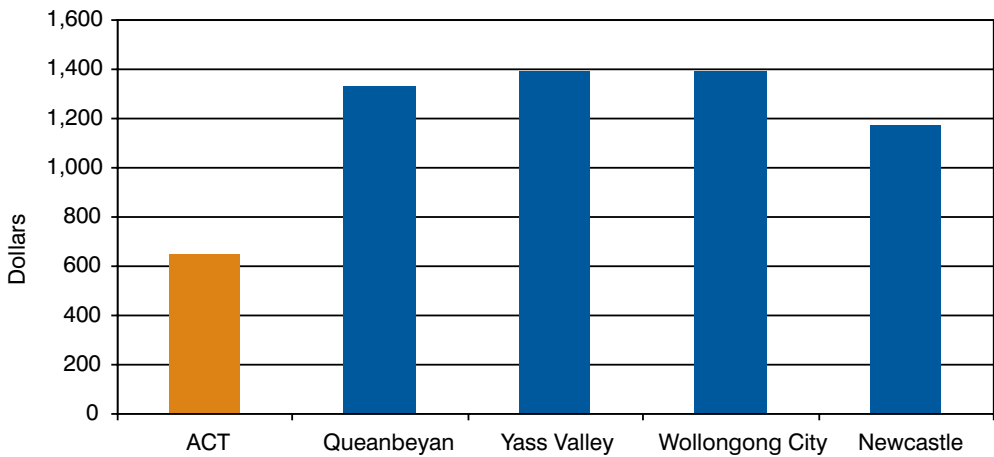


## Planning

Development application fees in the ACT are already considerably lower than in comparable regional centres.

The Government is reforming the land planning system, building upon its earlier improvements which established the Land Development Agency and the ACT Planning and Land Authority, protecting land with high environmental values and streamlining many planning processes. This work remains a high priority for the future.

### Development Application Fees for a \$350,000 House 2004-05

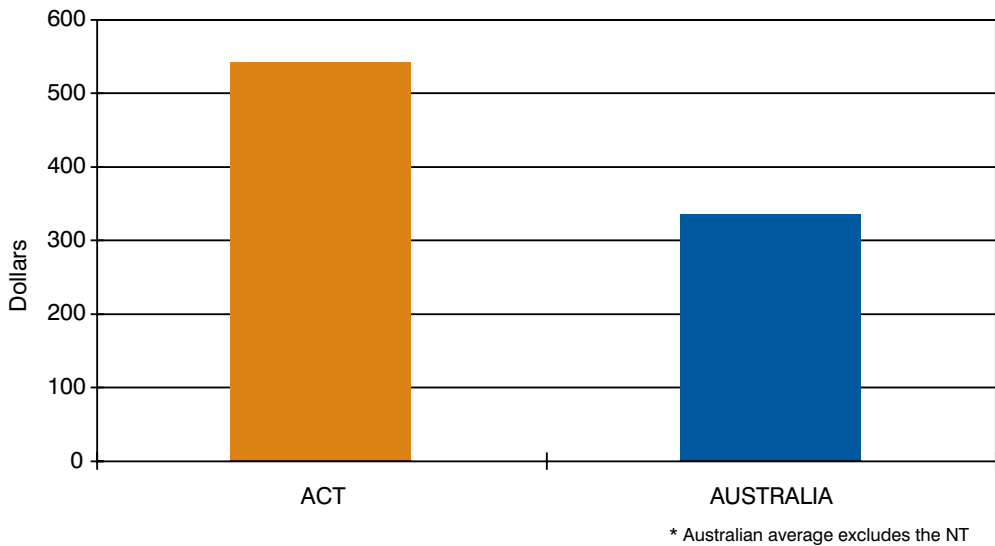


## Economic Development

ACT Government expenditure on economic development is generous but there are indications that the traditional grants-based business assistance programs have achieved as much as they can in the prevailing climate.

While much has been achieved under the Economic White Paper, and while its four core strategies will endure, it is time for a refocusing of the nature of the assistance provided to individual businesses, with a greater emphasis to be placed on environmental measures, managerial support and advisory services. These will create an environment that establishes the Territory as the place of choice to do business—a place where businesses have access to the tools and skills that can accelerate their growth and development.

## Government Expenditure on Economic Development Per Business



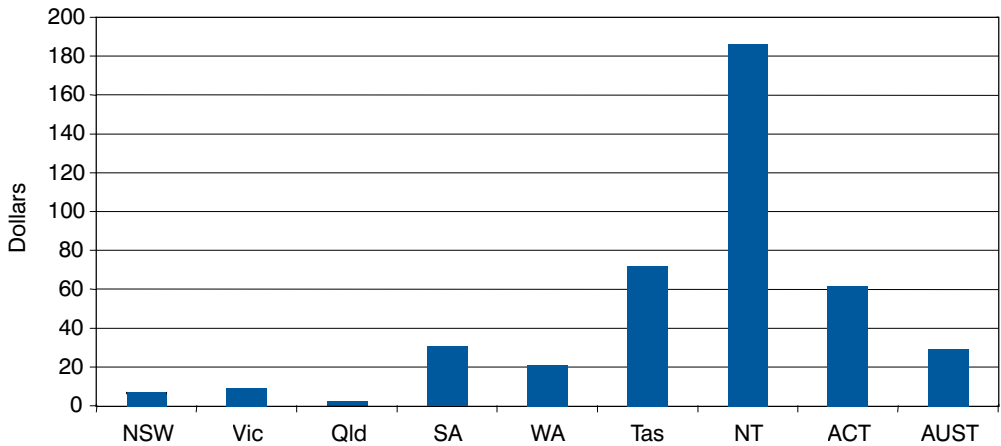
Source: *State and Territory Budget Papers 2005-06*; and *ABS, Counts of Business 2005 Summary Tables 8161.055.001*

## Tourism

In 2004, ACT Government expenditure per capita on tourism was \$62—111 per cent higher than the national average of \$29 per capita. Government expenditure per visitor is also high - in 2004 it was \$133 for the ACT, 42 per cent higher than the national average.

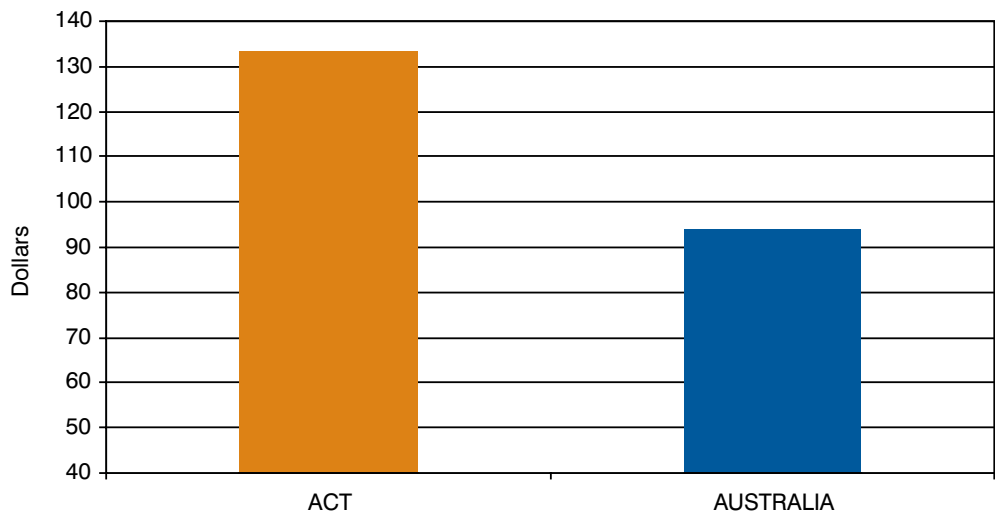
Corporate overheads in Australian Capital Tourism consume 16 per cent of ACT Government expenditure on tourism. And there are issues of duplication, with the ACT's marketing efforts replicating to a large extent activities undertaken by the National Capital Authority and by the individual national attractions themselves.

### Tourism Expenditure Per Capita



Source: State and Territory Budget Papers and ABS Demographic Statistics Cat No. 3101.0

### Tourism Expenditure Per Visitor 2004



Source: National and International Visitors Survey and ABS Demographic Statistics Cat No. 3101.0

## Part Two:

### The Strategic and Functional Review of the ACT Public Sector and Services: a Catalyst for Change

The Strategic and Functional Review is the most comprehensive analysis of government services and structures to be undertaken since the advent of self-government.

It was commissioned by the ACT Government in recognition that while the ACT economy is strong, the Government's own revenue base is narrow, and, if untouched, will become more so.

The Government asked the Review to benchmark ACT Government expenditure against government expenditure in other jurisdictions, and to identify options for improving efficiency, not least through the reshaping of government structures. The review was also asked to examine the potential for reductions in expenditure or increases in revenue.

Since self-government, successive ACT Governments of all political complexions have relied on volatile revenue sources. As we have seen over the course of recent months, a projected deficit can worsen dramatically, then move swiftly in the other direction, to the point where it turns, almost overnight, into a surplus. Dependence on volatile sources of income has, to an extent, disguised the truth about the ACT—we have been living beyond our means. Looming pressures in areas such as health, along with more gradually building costs in areas such as superannuation and the need for structural change in the government school system, mean we cannot keep on this course.

The Government believes it is possible, over time, to bring real, and long-lasting, fiscal balance to the books, for the first time since self-government, while maintaining and even improving upon the outstanding outcomes that are being achieved in priority areas such as health, education, law and order and emergency services.

At the time he announced the commissioning of the review, the Chief Minister said "The first responsibility of any government is sound financial management, and this review will sharpen our capacity to deliver to all Canberrans the kind of world-class services to which they are accustomed,

while ensuring that our systems are flexible enough and robust enough to accommodate change and meet unforeseen contingencies.”

The Review confirms that the ACT has a very strong balance sheet, but that strong action is required to expand the Government’s own revenue base and to reduce government expenditure.

It highlights the fact that the ACT has long sustained public spending at well above State/Territory averages and that we have relied largely upon unsustainable land-based revenues to support this higher spending.

The Review notes that the long-term imbalance between revenue and expenditure has existed since the first days of self-government, though it was partially disguised in the early years by transitional payments from the Commonwealth. Since then, the imbalance has been sustained only through a combination of proceeds from land sales and lower surpluses (or higher deficits) than the average of the States and Territories.

As land revenues will become a smaller proportion of the revenue base in future years, this approach cannot continue. If not addressed, the imbalance between revenue and expenditure is likely to widen over time, as an ageing population and increasing health costs impose greater pressures.

The Review finds that while government spending in the ACT on State-type services, such as health and education, is about 20 to 25 per cent higher than the national benchmark to deliver average levels of service, our outcomes do not necessarily reflect that increased level of expenditure. Indeed, the Review notes that evidence suggests our greater educational outcomes and better health status are primarily due to the higher socio-economic profile of our population, not our higher levels of expenditure on services.

The Strategic and Functional Review stresses that the underlying fiscal gap in the ACT does not need to be closed immediately. Indeed, it suggests that attempts to do so would be unnecessarily disruptive. It states unequivocally that the Territory has a strong balance sheet and does not face an immediate cash or fiscal crisis.

The review suggests a number of revenue and expenditure measures that would help turn around the budget operating balance over the forward years, while ensuring that the Government’s real priorities remain achievable and sustainable.

The Review also emphasises that long-run fiscal sustainability requires the structures and operations of government to be simplified and streamlined in keeping with the ACT’s small scale.

## Part Three:

### The Government's<sup>TM</sup> Response to the Strategic and Functional Review of the ACT Public Sector and Services

Canberrans place a high value on government services and the ACT Government makes no apologies for having invested intensively in a number of areas of need since coming to office in 2001.

Some of this investment has been in response to unanticipated events—the heavy investment in bushfire recovery activities since the 2003 bushfires fall into this category, as does the massive investment in emergency services to better equip the ACT to confront future events on such a scale (including possible terrorist threats).

Some of the investment has been made in response to the Gallop and Vardon Inquiries, which identified systemic and long-standing deficiencies in disability and child protection services.

These investments were necessary, appropriate and proportionate, but they do help highlight the need to make best and most effective and efficient use of government revenue.

There is no immediate budget crisis facing the Territory. But that does not mean we can put off the decisions that need to be taken. We need to act now, and decisively, to safeguard the future. We must address not just short-term budget difficulties, but the underlying structural legacies that, left untouched, will prevent this or any future ACT Government ensuring that the Canberrans of the future can enjoy the same high level of government services enjoyed by Canberrans today.

The Government is determined to maintain priority outcomes, particularly in the areas of health and education, and to better position the ACT to meet future challenges.

These aims will be met. The Budget will be back in surplus over the current term of Government.

There will be continued significant investment in health and education and we will preserve our good outcomes in policing, emergency services and vital community services.

The Government's revenue base will be broadened and strengthened, giving future governments greater capacity to respond to future demands and pressures.

To achieve these goals the Government will:

- reduce the number of public sector agencies;
- bring agency costs closer to the national average;
- implement further reforms in government information technology, property and procurement;
- invest in infrastructure maintenance; and
- further streamline planning processes.

## Streamlining the ACT Public Service

The Review found that the ACT could not afford to maintain public-sector structures inconsistent with its small, city-state status. In line with that recommendation, the business functions of the Department of Economic Development will be absorbed into the Chief Minister's Department and its sport and tourism functions into the Department of Territory and Municipal Services.

A number of statutory authorities will also be absorbed into departments, to reduce overheads while maintaining core functions. These changes include the absorption of ACTION, Australian Capital Tourism Corporation and the Stadiums Authority into the Department of Territory and Municipal Services. The functions of HealthPact will be resumed by the Health Promotion Unit of ACT Health (with its grants programs maintained) and the functions of the Small Business Commissioner will be delivered from within the Chief Minister's Department.

The ACT Government calls upon the services of a large number of advisory boards and committees, some of which attract sitting fees and all of which incur administrative costs. These bodies will be reviewed and their number reduced. Appropriate levels of community engagement will be preserved.

The Review found that the creation of a Shared Services Centre for corporate service functions would deliver improved service and achieve savings through

efficiencies of scale and improved processes. It found that consolidated arrangement would also provide better career paths and training opportunities for employees.

The ACT Public Service has already moved some way towards a common corporate services approach. A number of pay centres have been amalgamated and Procurement Services and InTACT deliver procurement and information technology services across most of government. The new Shared Services Centre will continue this process, bringing together operational and tactical staff responsible for the delivery of human resource, finance, procurement, information technology, telecommunication, publishing and records management services.

## Reducing Public-Sector Employee Costs

### Superannuation

The Review highlighted that ACT Public Service superannuation arrangements are more generous than those available to public-sector employees in other States and Territories, as well as more generous than those available to most private-sector employees.

The current 15.4 per cent employer contribution available to ACT public servants imposes significant strains on the ACT Budget as well as helping to push up service delivery costs. But these existing pressures are nothing compared with the pressures that will exist in two or three decades if nothing is done to limit the Government's exposure.

The ACT Government has a long-term strategy for funding liabilities in the CSS and PSS schemes. Nevertheless, the Government accepts that maintaining employer contributions at 15.4 per cent for new employees is not affordable in the long run. It will therefore adopt a statutory employer contribution rate of 9 per cent for new employees from 1 July 2006. New Members of the Legislative Assembly will have their employer contributions reduced by the same order.

To provide an incentive for new employees to make contributions to superannuation, the Government will make an additional 1 per cent contribution for employees who contribute at least 3 per cent to their superannuation. Of all state and territory governments, only Queensland provides more generous superannuation arrangements. Employees will also be able to salary sacrifice additional superannuation contributions, allowing them to take advantage of taxation savings.



The change will not affect public servants currently employed in the ACT Public Service and who contribute to existing schemes such as the CSS, PSS or PSSAP.

## Government Fleet

The ACT Government Fleet is made up of about 1,200 vehicles, including sedans, wagons and utilities. In order to reduce maintenance costs and reduce greenhouse gas emissions, six-cylinder vehicles that are not required for operational reasons will progressively be replaced with four-cylinder vehicles. The overall size of the fleet will be reduced.

## Office Accommodation

The ACT Public Service is accommodated in buildings scattered across the Territory. The Government pays about \$17 million a year in rent, and faces additional expenditure related to the maintenance of government-owned premises.

The Review found significant excess capacity in leased and owned accommodation, and recommended that this space be better utilised. The Government has decided to reduce and consolidate the number of leases and absorb the excess capacity. A target of 15m<sup>2</sup> per staff member will be pursued.

## Legal Services

Legal Services are provided to the ACT Government by the ACT Government Solicitor's Office, by in-house staff in agencies or by the private sector. To ensure greater consistency of advice, in-house staff in agencies will report through the Government Solicitor. The engagement of legal services from the private sector will be undertaken by the Government Solicitor, in conjunction with the relevant agency.

## Strengthening the Budget System

The Government recognises the need to ensure the community gets maximum value from expenditure and has already initiated a number of budget reforms, including public-sector efficiency dividends.

While the Review found that the ACT Budget processes operated effectively, it recommended they would benefit from a greater focus on community outcomes than on inputs and outputs. For future budgets, the Government will require all spending proposals from agencies to be accompanied by

options for efficiency or service offsets. Cabinet will only consider new spending proposals outside the Budget context in exceptional circumstances. Greater fiscal discipline within the public sector will also be pursued through a range of additional accountability measures.

## Adoption of the GFS Accounting Measure

For financial management and 'headline' budget reporting purposes, the Government will adopt the Government Finance Statistics (GFS) measures from the 2006-07 Budget. This is the measure now used by all other jurisdictions.

The benefits of moving to the GFS framework are that it:

- is a nationally and internationally recognised framework specifically designed for governments;
- is the primary focus of the credit rating agencies, the Commonwealth Grants Commission and economic analysts;
- measures the impact of government policy decisions on the economy; and
- provides consistency in comparing the Territory's economic performance against other jurisdictions, all of which use headline GFS measures in their budget reports.

Statements prepared under GFS financial reporting will vary significantly from the financial statements prepared in the past on the basis of Australian Accounting Standards (AAS). This is because, under GFS:

- land sales, an important revenue source under AAS, are recorded as asset sales, rather than as operating revenues; and
- volatile gains and losses on superannuation investment assets (mainly greater than expected increases or decreases in the value of shares) are excluded from the measure of revenue. This is a highly variable, but also sizeable, component of the ACT's current budget.

## Reforming the Public Health System

The Review found that the ACT has high quality health-care services, but that they are delivered at very high cost.

Health expenditure has been growing at an average rate of 11.2 per cent for the past four years. The Review noted that if this rate of growth were to

continue, health would account for more than half of total general government expenditure by the end of next decade.

The Review also observed that while the ACT spends more than the national average on health, the age and health profile of the community would suggest a lower need for health care than the national average.

The current rate of growth in expenditure on health is not sustainable. Expenditure will still grow, but not as quickly. Resources will be better targeted to ensure that patients receive the most appropriate care, in the most appropriate setting, and that the Government is able to respond to areas of emerging pressure, including mental health, cancer services and aged care.

The roles of The Canberra Hospital and Calvary will be redefined, with an emphasis on tertiary services at The Canberra Hospital and general hospital services at Calvary. Both hospitals will continue to provide emergency services.

Negotiations will commence with Little Company of Mary Health Care to clarify ownership and control arrangements to ensure that the Government is able to get better value for money from the services it purchases from Calvary. A planned sub-acute facility will proceed, boosting post-acute care and rehabilitation and reducing pressure on the acute hospital system.

The Government will also re-orient community health services to place a stronger focus on programs that have the greatest capacity to reduce the demand on acute care.

The Review found that the ACT's higher-than-average expenditure on community health was in part due to universal, free access to programs that are means tested or that attract a fee in other jurisdictions. In line with other States and Territories, people on higher incomes will in future be asked to make a contribution towards the cost of the community health services they access. Safety nets will maintain free access for people on low incomes, including holders of Health Care Cards.

The Review found that it was important that there were adequate resources for ACT Health to maintain high quality services. The Government is increasing the funding allocated to health across the budget forward estimates by an additional \$277.3 million over the next four years.

This will provide a sustainable funding envelope for health that includes adequate growth for pressure areas such as acute services (8 per cent), mental health (6 per cent), cancer services (8 per cent) and home care for the aged (9 per cent).

Nevertheless, this strong growth is lower than the average total growth rate of 11.2 per cent recorded over the past four years. It will require ACT Health to bring its cost structures more into line with other jurisdictions over the next five years.

## A Public Education System for 2020

The Review confirmed that the ACT public education system delivered high quality education, with a strong focus on meeting the needs of all students and helping each reach their potential. However, it found the system was under considerable pressure from changing circumstances and community expectations.

Across the nation, government schools are losing students to the non-government sector. The ACT is no exception. Compounding this challenge are demographic shifts which have resulted in dramatically declining enrolments in some suburbs and emerging need in others.

This combination of factors has left the ACT government school system with a surplus capacity of 31 per cent.

The Review also found that costs-per-student are very much higher in schools with low enrolments—up to \$19,000 in primary schools with enrolments of fewer than 200, compared with \$8,000 in schools with enrolments of between 400 and 600. And this expenditure is based solely on location, rather than educational need.

The Stanhope Government is committed to maintaining the ACT's public education sector as the best in Australia, and indeed the world. A child entering pre-school this year will be in our school system until 2020. We want to give that child a quality and sustainable education, right through to Year 12.

In view of changing demographics and expectations, we have developed the *Towards 2020: Renewing our Schools* proposal, which in consultation with the community, will provide students now and into the future access to quality public education delivered in appropriate and sustainable learning environments.

Under the Government's proposal, students and their families will be able to access a range of education options in public schools—including early-childhood schools and middle schools and comprehensive high schools that offer specialist programs in technology, vocational training and the arts.

The proposal also looks at closing and amalgamating a number of schools where enrolment numbers and demographics are low and building new

schools where there is demand for them, such as in Gungahlin and West Belconnen.

The Government is allocating \$90 million to refurbish schools across the Territory. From 2007-08, maintenance funding is increased by \$3 million per annum. A further \$20 million over four years is in the budget to give our students and teachers better information technology.

Funding to non-government schools will be maintained.

The Review found that the ACT has a high-quality vocational education and training sector but that services are again delivered at a high cost. Expenditure is above the national average and the structures are based on a national model more suited to larger jurisdictions. Student fees at the CIT have not been adjusted since the late 1990s, and have not kept pace with increasing costs.

The Government will maintain its commitment to vocational and educational training but will achieve efficiencies in administration. Modest fee increases will apply, to better reflect the cost of service delivery. Some changes to campus configurations will be progressively implemented to better meet the needs of future enrolments.

## Revenue Measures

The ACT Government derives about 31 per cent of its total revenue from taxes, fees and fines. The Territory's revenue-raising capacity is low, due to its inability to impose payroll tax on the city's biggest employer - the Australian Government - and the lack of a resource sector. The Commonwealth Grants Commission compensates us for this, but the fact is that we simply lack the breadth and flexibility that an average State has to raise its revenue.

The Review strongly recommended the ACT bring its charges into line with those in other jurisdictions and recommended that charges better reflect the costs to Government of providing services.

The Review found that municipal (local council type) revenues are less than the expenditure on such services. It also noted that the rating factors in the ACT are relatively lower than in bordering NSW. While rates increases in the ACT have been capped at CPI, the costs of service provision have increased at a higher rate. In response, the Government will increase general rates by 6 per cent in 2006-07. General rates, along with all fees and charges, will be indexed at the Wage Price Index.

These measures will ensure that ACT's essential municipal services and facilities can be maintained on a sustainable basis. The Government is putting an additional \$5 million per annum into maintaining roads, bridges and stormwater infrastructure.

Other revenue measures include:

- a fire levy similar to that charged in most other jurisdictions;
- a false alarm call-out fee to help recover the costs when the Fire Brigade responds to third and subsequent false alarms due to system faults;
- an increase in the ambulance levy paid by health funds;
- charges at cost recovery level for ambulance transport for people who are not covered by their health fund;
- full cost recovery for community work performed by ACT WorkCover under the *Dangerous Substances ACT 2004* and full cost recovery for investigations following successful prosecutions;
- a water fee of 30 cents a kilolitre to be charged on domestic water supply. This charge will better reflect the value of water to the Territory, and encourage demand management by consumers;
- a land rental charge for utility infrastructure, applying to sewerage, gas, water and telecommunication utilities; and
- the adjustment of development application fees to bring them into line with adjoining local councils.

## Reforming Municipal Services

The Government wants to make the best possible use of every dollar it spends on municipal services.

To that end, an Office of Transport will be established within the Department of Territory and Municipal Services, bringing together transport policy and services. ACTION will be absorbed into the Department, reducing the overhead costs associated with maintaining a separate statutory authority.

The Government will examine the scope for amalgamating community public libraries to reflect the expansion of the Civic Library and changing community needs and demographics, including an increased reliance upon home computers.

The Review found that the goals set out in the *No Waste by 2010* strategy developed by the former Government are not achievable within current budget allocations. The Government recognises the achievements of the ACT community and remains committed to reducing landfill waste, but will review targets to an affordable and achievable level.

## Reforming Community Services

The Review found that service delivery costs across the spectrum of community services (disability, public housing and child protection) are generally well above the national average.

In relation to disability services, the Review found that the ACT Government had overmatched its funding commitment by more than 9 per cent a year. As the issues arising from the Gallop Report have now been addressed and the initial need for catch-up funding has been met, this growth rate need not be sustained.

The Review also found that the ACT had overmatched its funding commitments in relation to public housing and that Housing ACT's costs were well above the national average. Further, the Review highlighted that waiting times for housing had increased, due to the low number of dwellings becoming available and the high level of demand.

The Review found that the Government's housing stock imposes high maintenance costs and that there is a mismatch between the available stock and the needs of those requiring public housing. It recommended restructuring the portfolio to better respond to tenant needs and maximising private-sector involvement in social housing.

One option to be examined in addressing mismatch is to seek the sale of 500 dwellings, with the proceeds to be reinvested in new stock.

Funding under the Commonwealth/State Housing Agreement has now been set at the matching level and the Government will move swiftly to achieve greater efficiencies within Housing ACT, reducing administration, maintenance and management costs.

To ensure that public housing is focused on those most in need, the Government will look closely at the policy of security of tenure for those who have been paying market rent for three years or more. Priority of access to those most in need will be increased through adjustments to the eligibility income test for new tenants. Naturally, the Commissioner for Housing will retain the capacity to consider other factors when determining eligibility, to enable the Government to continue to respond to the needs of individuals

escaping domestic violence or those who shoulder high support costs that significantly reduce their net disposable income. The focus will be more sharply upon helping those most in need, as swiftly as practicable.

These reforms will help the Government direct support to those most in need, better manage waiting lists, better match tenants to housing stock, speed the upgrading or replacement of older stock and reduce costs.

Funding for the Supported Accommodation Assistance Program (SAAP) will be maintained at the level required under the SAAP Five agreement between the Australian Government and the ACT.

In relation to child protection, the Review identified a significant increase in costs associated with out-of-home care, putting ACT expenditure well above that of other jurisdictions. The Office for Children, Youth and Family Support is already introducing measures to bring costs back to the level of previous years and the Government will progressively align ACT costs with national averages, while maintaining outcomes.

In order to better integrate human-service delivery, the Government will establish an intensive services unit to manage the needs of complex clients.

## Reforming the Justice System

The Review reaffirmed the potential economic and social benefits of the construction and operation of the Territory's first prison, the Alexander Maconochie Centre, and was equally clear about the urgent need to replace the Belconnen Remand Centre.

Work on the Alexander Maconochie Centre will proceed, with costs to be contained within the forward estimate limits.

The Review highlighted issues in relation to the resourcing of the Office of the Director of Public Prosecutions. In response, the Government will provide an additional \$0.5 million a year to the Office, enabling it to engage greater numbers of qualified senior staff.

The staffing of the Human Rights Commission will be streamlined and the Government will review tribunal structures, with a view to increasing efficiency and cost-effectiveness.



## Reducing the Burden of Regulation

The Review noted the commitment made by the ACT Government through the Council of Australian Governments (COAG) to reduce the burden of regulation.

Regulatory activities cost the ACT Government about \$76 million a year, with functions currently spread across agencies. To remove duplication and reduce overheads, the Government will establish a Central Regulatory Office that will encompass the functions of the Office of Fair Trading, the Registrar-General's Office and ACT Workcover.

The Office will also assume responsibility for tobacco licensing and smoke-free regulation, approvals and administration of a range of business activities involving the use of public land, the licensing and regulatory responsibilities of the ICRC and regulatory activities relating to parking operations.

The Government will require all agencies to review their regulatory activities to ensure they meet current best practice and do not impose undue burdens on the community or business.

## Reforming the Planning System

The ACT has unique planning and land development arrangements, with the National Capital Authority and the ACT Government operating dual planning regimes. The costs of land and housing are high compared to other jurisdictions. The Review highlighted the strategic importance of both planning and social objectives, particularly those relating to affordable housing, and recommended that the Government focus more closely on providing land at a good price and in a timely manner.

The Government endorses this sharpened focus. The Planning System Reform Project initiated by the Government in 2005 will continue. The Land Development Agency (LDA) and the ACT Planning and Land Authority (ACTPLA) will be retained as separate entities, but operations will be streamlined and overhead costs reduced. The development costs of the LDA will be brought into line with current industry benchmarks.

Responsibilities for the various stages of planning will be clarified to remove overlaps and delays and priority will be given to establishing a bank of 'sale ready' residential, commercial and community land.

## Reforming Economic Development

The Review found that ACT Government expenditure on economic development was higher than the national average and that business assistance should be re-focused.

With the Commonwealth and ACT Governments still by far the two largest employers in the ACT, and in the absence of large industry, the review found that the Territory's small size and narrow economic base limited the Government's capacity to seriously influence and assist business activity and economic opportunities. It recommended that the Government focus on creating an environment that was conducive to doing business, rather than on a small number of grants and project-based assistance for individual enterprises.

The Government endorses this approach and will concentrate on creating for business:

- a responsive public service and open access to government contracts and services;
- cost-reflective and efficient utility services and other infrastructure;
- streamlined land development processes;
- regulations that meet health, safety, environmental and other standards while minimising compliance costs;
- a competitive tax regime with low compliance costs; and
- stable industrial relations.

The Government will bring expenditure on economic development into line with national averages. To achieve this it will shift the focus from the provision of discretionary grants to individual businesses towards increasing effort and expenditure on information and mentoring support services, particularly to small to medium enterprises. The business policy functions of the Department of Economic Development will be consolidated within the Chief Minister's Department, and the Government will gradually withdraw from venture-capital arrangements. The functions of the Small Business Commissioner will be absorbed into the Department.

## Sport, Recreation and Tourism

The Review recommended that the management arrangements for the Canberra Stadium and Manuka Oval be streamlined to reduce overheads and diminish reliance on Government subsidies. In response, the Government will transfer responsibility for managing these facilities to the Department of Territory and Municipal Services.

In relation to tourism, the Review found that per capita expenditure in the ACT was 111 per cent above the national average. Marketing constituted 29 per cent of expenditure by Australian Capital Tourism. Corporate overheads within the Corporation accounted for another 16 per cent.

The Review highlighted the need to clarify the roles of the Australian Government and the ACT, pointing out that much of the work undertaken by Australian Capital Tourism duplicated the efforts of the Australian Government in relation to national attractions.

The Government values the role of tourism in the ACT economy but believes resources can be better targeted and structures streamlined. Expenditure will be brought more into line with national averages by reducing the overheads associated with maintaining a separate corporation, and by rationalising marketing services within the Department of Territory and Municipal Services. Future expenditure on tourism will focus more strongly on local attractions, rather than replicating the efforts of the National Capital Authority.

## Reforming Emergency Services

The Review noted that the budget for the Emergency Services Authority had increased by 46 per cent since 2002-03. It recommended a more streamlined structure that was capable of delivering high quality and responsive services, while containing the considerable overheads associated with maintaining a separate statutory authority.

The Government places an exceptionally high priority on community protection, and has invested in major improvements to emergency services since 2003. Communications systems have been improved, new equipment has been bought, training has been considerably enhanced and the community has benefited from a major awareness campaign. Links between services within the ACT and links with services interstate have been considerably strengthened.

To build on these achievements while delivering greater efficiencies, the Government will integrate the Emergency Services Authority within the Department of Justice and Community Safety. The statutory powers of the

service chiefs will be retained. The roles of the Rural Fire Brigade and State Emergency Service will be maintained within the departmental structure.

## Reforming Infrastructure and Asset Management

The maintenance of roads, paths and other public infrastructure is one of the core pieces of business of municipal government, and the review recommended that expenditure on this work be increased and that asset management and capital planning be refined and strengthened.

The Review also recommended that the Government discontinue its involvement in a number of government businesses, particularly in areas where a strong private market exists.

In response, the Government has increased funding to the Department of Territory and Municipal Services for the maintenance of public assets. As a priority, the Department will develop a program of critical and urgent maintenance, a Chief Executive Taskforce will oversee and drive asset planning and management.

The Government will review its ownership of Rhodium Asset Solutions and the Capital Linen Service and will consider taking the standing timber in Kowen Forest, and the management of the estate, to the market for sale. Community access for recreation would be preserved as a condition of any sale.

## Community Sector

The Review found that the management of community grants was fragmented across government, with high administration costs in some cases.

In response, the Government will maintain grant funding but will secure savings by consolidating grants into two programs: Health and Community Wellbeing Grants and Territory and Municipal Service Grants. To improve access to information about grants, a GrantLink portal will be set up.

In addition, some ongoing grant arrangements will be reclassified as service agreements, giving greater certainty and security to community organisations while improving the level of transparency and accountability.

The Review found that there is considerable administrative burden on the community sector from having to deal with different departments, and sometimes, different units within the same department. Some community organisations have more than 10 contracts with one or more agencies.

In response, the Government is setting up a single area in the Department of Disability, Housing and Community Services to maintain and manage a single contract with each community sector organisation.

# Part Four:

## For the Future

The ACT Government is acutely conscious that the reforms flowing from this once-in-a-generation stocktake of the way government conducts its business are significant and will require some adjustment in community thinking and community expectations.

In many cases these are not reforms that will deliver instant dividends—in some cases the benefits will be enjoyed not by this current ACT Government at all, but by the ACT Governments of the future. But they are reforms that could not be delayed any longer.

These are reforms for the future, reforms that will ensure that Canberrans as yet unborn will enjoy the same high levels of service, the same lifestyle benefits and the same opportunities as the Canberrans of today.

Some of the reforms will involve significant challenges in implementation—and there will be some unanticipated complications and difficulties along the way. However, the Government is committed to meeting these challenges.

