

## 2 STRUCTURAL REFORM

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### Overview

In November 2005, the Government initiated the Strategic and Functional Review of the ACT Public Sector and Services. The context of the review was sustained public spending well above State/Territory averages since self-government, and increasing downside risks to revenue, along with emerging expenditure pressures expected over the next decade, low population growth and an ageing population.

Drawing on the Review's findings, along with other budget processes, the Government has initiated a major structural reform of the ACT Public Service. The reforms include:

- simplifying administrative structures to reduce overheads and improve policy development and service delivery;
- strengthening management processes within government;
- combining activities of similar type that are transactional in nature, to reduce the internal costs of government; and
- combining functions to provide, where practicable, a single interface to a group of service users or a sector of the community;

For many years, the ACT's expenditure effort has remained 20-25 per cent above the standardised level as assessed by the Commonwealth Grants Commission (this is the level the Commission assesses as necessary to support an average level of service if a jurisdiction operates at average efficiency).

The continued spending above average levels has been sustained largely by proceeds of land sales, stock market gains on superannuation investments and, on occasions, by deficits (or relatively smaller surpluses compared to other jurisdictions).

This is unsustainable. Land-based revenues will be a decreasing proportion of the overall revenues in the future. Through its reform agenda, the Government is making a significant structural adjustments that will have an impact on expenditure, accompanied by revenue measures.

While the ACT's expenditure effort is well above the national average, its revenue effort remains around the national average. Because the ACT has a relatively narrow revenue base, this has translated into a ratio of taxation per capita below the national average.

On the expenditure side, savings will be achieved from back-office reforms, more efficient and effective structures, and a range of cross-agency efficiencies and better use of resources.

In health, the area of largest expenditure and heaviest growth pressure, a strategy has been developed to recognise and accommodate unavoidable demand growth while constraining overall expenditure increases through efficiencies and demand management. These improvements aim to bring expenditures closer to national benchmarks while maintaining good outcomes.

In school education, direct savings will be achieved through school rationalisation and better resource management. Total spending on government schools will be maintained over the next four years, but with a substantial shift from operating costs to capital improvements.

For the business sector, the Government will focus on business support, advice and mentoring, and greater leverage off the ACT's natural advantages in attracting business. Spending on direct assistance and marketing programs will be scaled back towards national benchmarks.

Overall, the structural reform program will be favourable to business. A sound and sustainable budget surplus is good for business. So are simplified regulation and simplified government structures.

## **Context of the Structural Reform**

### **Revenue and Expenditure Efforts**

The Australian Capital Territory is a city-state of approximately 325,000 people. Being a small city-state, and having a service-based economy, brings both advantages and disadvantages.

Being small creates some diseconomies of scale for state-like activities. Against this, the ACT is compact and does not have the high costs of rural and remote areas. The ACT population is younger, participates more in the workforce, has higher incomes, and is better educated and healthier than the Australian population overall. These factors reduce service needs. On the spending side, the ACT therefore receives a very small net subsidy from the GST distribution arrangements relative to the average of the States and Territories.

On the revenue side, the ACT has disadvantages relative to other jurisdictions largely because the main employers in the ACT (Commonwealth agencies) do not pay payroll tax. The GST grants formulae take some account of this and other revenue disadvantages, with the result that the ACT has total tax and tax-based revenues (including both its own taxes and its share of GST) broadly similar to the average of the States.

While the socio-demographic profile in the Territory suggests relatively lower service needs, since self-government the Territory budget has provided for higher than average general government expenditures.

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

**Table 2.1**  
**Ratio of Actual Effort to Standardised Assessments**

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

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

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

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

### **Medium to Long Term Risks**

In the medium to long term, the Territory faces a number of risks in relation to economic growth, and particularly its population base. This base drives the revenues of the Territory, both tax and user charge revenues and even the ACT's share of GST grants.

While Canberra has long sustained a relatively strong rate of economic activity growth, its weak population growth for a number of years has been a constraint on future growth potential.

Population growth in the Territory has remained below the national growth rate for the past decade, averaging around 0.7 per cent per year.

The effect of low population growth is reflected in the tight labour market, with supply constraints lowering the expected employment growth in 2005-06 and 2006-07.

Another class of risks relates to direct budget pressures from the changing population and demographic base.

The impacts of ageing are just beginning to emerge, particularly in the area of aged accommodation. A significant proportion of health expenditure relates to the last few years of life. Death rates in the Territory have remained the lowest in the country for many years due to the relatively younger and healthier population. The more severe economic and budget impacts of ageing – in particular the rapid fall in the rate of growth of the working age population and an increase in mortality – are still at least five to 10 years away.

Health costs in the Territory have grown at an average rate of more than 10 per cent over the past few years. The drivers of this cost are partly ageing (which will worsen rapidly in the second and third decades of this century) but more particularly the high costs associated with many new medical procedures and technologies (including the effect on acute hospital bed days).

Continuing the trend growth in health expenditure of the past five years is not sustainable. If this trend continued, health expenditure would represent more than 50 per cent of Budget expenditures by around 2020 (currently health represents around 24 per cent of the Budget).

The ACT has very substantial assets – roads, trees subject to conservation interest, government schools, surrounding land tracts, urban recreational spaces, public swimming pools, many with considerable unused capacity yet all requiring management and substantial maintenance expenditure.

Land revenues will become an increasingly smaller proportion of the revenue base. Structurally, the budget cannot rely on these revenues to the same extent as has occurred in the past.

## **The Reform Package**

The Government has adopted a strategic approach to addressing the medium to long-term risks. Cutting expenditure across all service areas to national averages would be simplistic, and contrary to community expectations.

The strategy therefore is to introduce both revenue and expenditure measures as part of a broader structural reform package. On the revenue side, the measures are designed to expand the revenue base, achieve parity with other jurisdictions where appropriate, and recover costs incurred in delivering services.

The measures on the expenditure side are underpinned by strategies to draw on the advantages of ACT's scale, and a refocus of existing programs to achieve effective outcomes in the priority areas of health and education.

## **Expenditure Measures**

The key elements of the expenditure side of the reform package are:

- seeking economies of scale where activities take a common transactional form;
- folding currently separate functions and agencies into existing departments;
- seeking economies of scope by broadening policy reach across related functions.

These approaches reduce the back office costs of services, reduce duplication and provide simpler and better access to services. The expenditure side measures aim to ensure sustainable spending on priority services and growth areas.

The financial impact of the expenditure measures are included in Chapter 5.2 on Expenditure Initiatives and the individual agency chapters in Budget Paper No. 4.

### *Shared Services Centre*

In 2005, following a review of information technology services, the Government expanded InTACT to create a Shared IT Services Group to provide all IT infrastructure, IT management and systems development and application support across government except for

the education portfolio. Similarly, a range of procurement activities from across agencies were brought under shared services arrangements in Procurement Solutions.

As part of the structural reform in this Budget, a single Shared Services Centre will be established, incorporating transactional activities relating to human resources, finance, information technology, records management, procurement and publishing services. Strategic capacity will remain with individual departments/agencies. Benefits will include:

- better sharing of skills and experience between the staff, and ongoing training;
- economies of scale, and greater adherence to whole-of-government policies and standards;
- the development of a strong, service-oriented culture; and
- multi-skilling, job rotation and enhanced career development of the staff.

### *Streamlining Administrative Structures*

New Administrative Arrangement Orders coming into effect on 1 July 2006 bring together a number of key functions in various Departments:

- the central functions of the Department of Economic Development are being absorbed into the Chief Minister's Department. This recognises the central importance of economic development and its inter-dependence with other whole-of-government policies, economic strategy and business development functions;
- sport and recreation functions transfer to the Department of Territory and Municipal Services to allow integration of management of facilities such as sportsgrounds and pools with sport programs;
- the Stadiums Authority is brought within a departmental structure in the Department of Territory and Municipal Services;
- the functions of the ACT Tourism Corporation are brought within a departmental structure in the Department of Territory and Municipal Services. The Board of the Corporation will be retained in an advisory capacity;
- the environment functions of the Chief Minister's Department will transfer to the Department of Territory and Municipal Services to achieve the integration of all urban and non-urban land management functions;
- transport functions are brought together in an Office of Transport within the Department of Territory and Municipal Services. ACTION transfers to this Office to better integrate policy and service delivery;
- emergency services are brought under a departmental structure, while maintaining the various statutory powers and responsibilities of the Chief Officers of each operational service; and
- a range of regulatory functions across various government agencies are merged into a single office within the Justice and Community Safety Portfolio.

### *Streamlining Regulation*

A Central Regulatory Office is being established 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 area regulation (currently within ACT Health);
- 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 Office will bring together capability from across the government to undertake licensing, registration and accreditation, dispute resolution and consumer and trader assistance, compliance and enforcement/litigation, and consumer and trader education.

The amalgamation of the responsibilities will allow for the development of a single government shopfront that administers a significant range of business and occupational licensing. This will enable a 'One-Stop-Shop' approach to a greater range of industry interaction with government.

### *Streamlining Community Sector Purchasing and Grants*

The value of grants programs is being maintained. However, all grants are being combined 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 established.

All service purchasing from the community sector is to be consolidated in a single area in the Department of Disability, Housing and Community Services (DDHCS). This will create a single government interface and reduce the administrative burden on the community sector of dealing with multiple departments and multiple areas within the same department. Funding is being provided to develop arrangements for a single contract, incorporating appropriate performance measures, with each community sector organisation.

A similar approach is being adopted for clients with complex and multiple needs – an intensive services unit is being established in DDHCS to better integrate human service delivery. The unit will develop and implement one case management plan covering the full range of services for every client.

### *Reducing Cost of Administration*

The Budget includes a range of saving measures across government agencies. These include:

- progressively replacing six-cylinder sedans in the government fleet with four-cylinder cars, and reducing management costs and the size of the fleet;
- reducing the costs of advisory boards and committees; and
- reducing accommodation usage across government agencies.

## *Health Services*

Health is being provided with an expenditure envelope and a growth path that is realistic, affordable and sustainable. Funding levels have been based upon an assessment of sub-sector projections of demand and health inflation. The growth rates incorporated in the funding envelope are:

- Acute Care Services – 8 per cent per annum;
- Mental Health – 6 per cent per annum;
- Cancer Services – 8 per cent per annum;
- Community Health – 2.5 per cent per annum;
- Population Health – 3 per cent per annum; and
- Health and Community Care Program – 9 per cent annum.

The expenditure envelope also incorporates efficiency targets that will bring the cost per separation to within 10 per cent of the benchmark over the next five years.

Incorporated in this new strategic approach will be a streamlining of hospital services, with The Canberra Hospital focusing on high-level hospital services, and Calvary Hospital on general hospital services.

Expenditure in community health will be refocussed to prevent unnecessary admissions to hospital, in particular by having appropriate support systems for people at risk of multiple admissions and for those discharged from hospital.

Overall, the Government's strategy sets a growth path for health that provides budget certainty – future pressures will be managed within these limits through appropriate trade-offs across all areas of health services.

## *Education*

The reform package renews and revitalises the Government school and preschool systems to:

- achieve better educational outcomes for students;
- improve confidence in the government school system and make it a more attractive choice for parents and students; and
- deliver government schooling in more efficient ways.

The renewal will ensure that public schools remain viable and provide a breadth and diversity of programs for students by:

- addressing ageing infrastructure and utilising it better. A program of school renewal is proposed which will increase choice, diversity and opportunity, and involve some rationalisation;
- providing \$90 million to upgrade schools and infrastructure across the system, and investing an additional \$20 million for classroom IT support; and

- increasing funding for school maintenance by \$3 million per annum from 2008-09 to ensure learning environments are maintained to a quality standard. This is an increase of more than 25 per cent over the current maintenance effort.

Significant reductions in central office costs will be achieved to bring them closer to national benchmarks.

### *Economic Development*

The Government's role in business assistance is being refocussed, with emphasis on further leveraging off the Territory's competitive advantages and on establishing an environment that results in businesses seeing the ACT as a good place in which to operate. Support to business will be underpinned through a climate of:

- sound economic management and strong fiscal policy;
- a responsive and cost-effective public service;
- an education and training system responsive to business needs;
- streamlined planning and land release processes; and
- stable industrial relations.

Within this framework, expenditure is being brought into line with national averages. Spending adjustments will be achieved through a package of measures including:

- reduced expenditure on discretionary grants; and
- rationalisation of marketing activities.

There will be a \$1 million boost to information, mentoring and support programs.

In order to address skills shortages, a new body - the ACT Skills Commission - is being established. This will replace the existing Canberra Partnership Board and the Small and Micro Business Advisory Council. The ACT Skills Commission will provide leadership and coordinate effort in one of the key areas impacting on the prospects of economic development today — skills shortages.

### **Revenue Measures**

Details of the specific revenue measures are provided in Chapter 4.

### *General Rates*

While the Territory does not budget separately for municipal services, there is an imbalance between revenue and expenditure on such services. The Government is introducing a base adjustment of 6 per cent. This will support additional maintenance expenditure of \$5 million per annum on municipal assets.

General Rates have been capped at CPI, while the cost of services increases at a higher rate. To maintain parity between revenues and expenses, the annual increase in General Rates will be based on the Wage Cost Index.



### *Fire and Emergency Services Levy*

Most jurisdictions in Australia impose a fire or emergency services levy. The Government has made substantial investment in emergency services, with an increase in expenditure of \$21 million since 2002-03. A Fire and Emergency Services Levy will be introduced through the rating system. This will raise \$20 million per annum.

### *Ambulance Levy*

The cost of Ambulance services have increased considerably. The quality of service in the ACT is high, with responses within the shortest timeframes in the country. The Ambulance Levy will be increased from 1 January 2007, raising an additional \$3.3 million per annum.

### *Water Fee*

From 1 July 2006 the Government will introduce a water fee to be incorporated into the Water Abstraction Charge (WAC), which will increase the WAC by 30 cents per kilolitre. As well as providing the Government with a return on a valuable resource, this initiative will assist in managing the demand for water.

### *Utility Land Use Permit*

This measure will extend current revenue received from the use of Territory land. It will apply a charge on utilities which occupy and access unleased Territory land. The Utility Land Use Permit fee will apply from 1 January 2007 and will be based on a rate per linear kilometre of land used.

### *False Alarm Fee*

Over the past three years, 50 per cent of Fire Brigade responses have been for system-initiated false alarms. The Brigade has no alternative but to respond to a fire alarm. Currently, an average of 13 system-initiated false alarms occur per day.

A False Alarm Fee of \$200 for residential and community sites and \$500 for commercial and industrial sites for the 3<sup>rd</sup> and subsequent system-initiated false alarms is being introduced to recover some administrative costs and act as an incentive to property owners to fix faults.

### *Other Measures*

Other measures include:

- increases in CIT Fees, which have remained unchanged since 1999;
- an increase of 6 per cent in bus fares;
- an increase in Ambulance Transport Fees;
- an increase in Development Application Fees to the level of adjoining local councils;
- the introduction of fees for a range of Workcover activities, and cost recovery for successful prosecutions; and

- a change in indexation for fees and charges from CPI to Wage Cost Index.

## Summary of Savings and Revenue Measures

The following table provides a summary of across government and agency savings, and revenue measures. Further details are provided in the relevant Chapters Budget Paper numbers 3 and 4.

**Table 2.2**  
**Summary of Savings and Revenue Measures**

	2006-07 Estimate \$'m	2007-08 Estimate \$'m	2008-09 Estimate \$'m	2009-10 Estimate \$'m
<b>Across Government Savings</b>	<b>30.0</b>	<b>49.2</b>	<b>52.1</b>	<b>55.6</b>
<b>Agency Savings</b>				
<i>Disability, Housing and Community Services</i>				
Reducing Corporate Overhead and Support Expenses	0.6	1.2	1.6	1.6
Removal of Overmatching on SAAP	1.0	1.0	1.0	1.0
<i>Territory and Municipal Services</i>				
Integration of Policy Functions	2.5	4.1	4.2	4.3
Consolidation of the Community Partnerships Program	0.3	0.3	0.3	0.3
Consolidation of Libraries	0.5	1.0	1.6	1.6
Australian Capital Tourism Corporation Rationalisation	3.0	4.0	4.0	4.0
Rationalisation of Sustainability Function	1.5	1.5	1.6	1.6
Abolish Local Centre Revitalisation Management	0.9	0.9	0.9	0.9
<i>Justice and Community Safety</i>				
Consolidation of Human Rights Commission	0.4	0.4	0.4	0.4
Regulatory Reform Amalgamations	1.9	3.8	3.8	3.8
<i>Chief Minister's Department</i>				
Rationalise Business Grants	5.4	7.5	8.7	5.8
Rationalise Small Business Commissioner Functions	0.4	0.4	0.4	0.4
Rationalise Public Service Management and Industrial Relations	0.4	0.4	0.5	0.5
<i>Education and Training</i>				
Central Office Benchmarking	2.2	6.4	6.7	6.9
Rationalisation of Training and Adult Education	1.5	1.5	1.5	1.5
<i>Towards 2020: renewing our schools' - School Rationalisation</i>	1.6	6.4	11.8	14.2
Teacher Contact Hours	2.9	6.3	3.9	3.9
Curriculum Development	2.9	3.0	3.0	3.1
<i>Cultural Facilities</i>				
Reduction in Corporate Overheads	0.5	0.5	0.5	0.5
<i>Canberra Institute of Technology</i>				
Improving efficiency in CIT cost structures	0.8	1.5	1.5	1.5
<i>Independent Competition and Regulatory Commission</i>				
Reduction in Overheads	0.1	0.1	0.1	0.1
<b>ACTION</b>				
Administrative Savings	1.0	4.0	4.0	4.0
<i>ACT Planning and Land Authority</i>				

**Table 2.2 Continued**  
**Summary of Savings and Revenue Measures**

	2006-07 Estimate \$'m	2007-08 Estimate \$'m	2008-09 Estimate \$'m	2009-10 Estimate \$'m
Rationalisation of Planning Functions	1.0	2.1	2.1	2.2
<i>Whole of Government</i>				
Changed Superannuation Arrangements	1.5	4.4	7.3	10.1
<b>Total Agency Savings</b>	<b>34.8</b>	<b>62.7</b>	<b>71.3</b>	<b>74.2</b>
<b>Revenue Measures</b>	<b>63.2</b>	<b>75.3</b>	<b>79.6</b>	<b>85.1</b>
<b>Total Structural Adjustment</b>	<b>128.0</b>	<b>187.2</b>	<b>203.0</b>	<b>214.9</b>

