Government
of South Australia

Budget Improvement Measures

Restoring Sustainable State Finances

Second report by the
Sustainable Budget Commission

August 2010

25 August 2010

The Honourable Kevin Foley MP
Treasurer
State Administration Centre
200 Victoria Square
Adelaide SA 5000

Dear Treasurer

Enclosed is the final report of the Sustainable Budget Commission (the Commission).

It deals with the 'budget improvement measures' reference in its initial Terms of Reference. It also addresses the post-election remit to the Commission on government advertising.

This has been a most challenging task. The 2009-10 Budget announced a savings target of $750 million over three years, comprising savings of $150 million in 2010-11, $250 million in 2011-12 and $350 million in 2012-13. In total, including this announcement, savings announced by the Government but yet to be identified as specific measures amount to about $700 million in 2013-14. The identification of savings measures over and above this amount is important to strengthen the budget position of the State and provide greater budget flexibility in the future. The Commission has identified a 'menu' of savings options well in excess of the amount of savings the Government needs to achieve. The Commission has endeavoured to find most of this through reduced expenses, but in some cases increased cost recovery, and general revenue increases, have been required as well.

None of the proposed savings would be painless. The size of the task means budget improvement measures identified by the Commission cannot be confined to eliminating waste, although that has been a focus of the Commission's efforts. The Commission's recommendations include the reduction in, or elimination of, some programs that have merit. The impact of revenue measures needs to be weighed against the alternative of larger expenditure savings. Equity and efficiency considerations have been taken into account by the Commission in identifying revenue options.

Notwithstanding reservations held by individual Commission members in relation to specific measures, overall the Commission believes the budget improvement measures in the report represent an appropriate menu from which the Government can make savings choices reflecting its own priorities.

The Commission would like to bring to your notice, and that of the Government more generally, the particular perspective of Monsignor Cappo on the savings choices available to the Government.

Monsignor Cappo is very concerned that the decisions of the Government regarding the savings choices do not negatively impact on individuals, families and community social cohesion. He cannot support decisions that reduce or diminish services available to vulnerable and disadvantaged people or that diminish the social fabric of South Australia.

To that end, Monsignor Cappo urges that a 'social and community needs' filter be applied to the Government's decisions on all savings measures.

How the Government chooses to deliver budget savings is of course for it to decide. *How much* savings must be delivered is ultimately for the Government to decide as well. As noted above the Government is committed to delivering around $700 million of savings in 2013-14 through previous savings announcements. Delivery of larger savings than that is important to reduce the risk to the budget from adverse economic developments and provide the Government with greater budget flexibility in future years.

The Commission recommends a significant pruning of the current South Australian Budget. But the intent is to position the State for growth with public finances that are sustainable.

The Commission believes the Government faces only two choices for restoring sustainable budgets. The first is to adopt large and painful savings measures now. The second – the default option – is to delay the savings, and face a much more painful, compounding, savings task in future.

This report also flags areas for ongoing review as sources of potential additional savings in future.

Finally, this report makes additional recommendations to reinforce disciplined budget processes, building on the recommendations in the Commission's first report.

The Commission again wishes to record its appreciation of the tireless and dedicated efforts of the Commission Secretariat, led by its Executive Officer, Andrew Francis. The compilation of the specific savings measures from agency responses and other inputs has been a massive task. The drafting of this report itself has been a major exercise. The task has been completed in a little over four months.

All members of the Secretariat are listed at the end of this letter. The Commission thanks each and every one of them for their unstinting efforts.

Yours sincerely

Geoff Carmody (Chair)

Monsignor David Cappo AO

Professor Jennifer Westacott

Bruce Carter

Chris Eccles

Jim Wright

Secretariat

Mr Andrew Francis, Executive Officer
Mr Christopher McSporran
Mr David Meier (Phase 2)
Ms Heather Watts (Phase 1)
Mr Brad Gay
Mr Greg Raymond
Mr Sandy Burness
Mr Simon Crotti (Phase 2)
Ms Ana Beveridge

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1. What's covered in this report?

This report by the Sustainable Budget Commission (the Commission) addresses the three outstanding issues raised in its Terms of Reference:

- Development of a menu of budget improvement measures allowing the Government to deliver its already announced savings. The Commission also sets out a case for further savings over and above this initial amount.
- Recommending changes to government advertising to reduce its costs.
- Recommending what role, if any, the Commission might play in the future.

The Commission's recommendations on these matters:

- Imply very tough action on budget spending and revenues, plus ongoing discipline restricting new spending.
- Propose a shift in the mode of government advertising towards lower-cost options, plus restrictions on the scale of that activity.
- See no ongoing role for the Commission, but suggest establishment of an independent Sustainable Budget Oversight Unit to assist the Government translate announced budget discipline measures into budget outcomes.

The Commission also makes other recommendations to improve budget decision-making processes, building on the recommendations in its first report.[1]

2. Can the South Australian budget process be improved?

The short answer is: 'Yes'.

The Commission found that **overall decision-making discipline** could be improved, keeping budget program spending within revenue limits. Restoring modest net operating surpluses as soon as possible should be the Government's top priority.

Budget programs can be **more tightly focussed on areas of higher priority**, and shifted away from lower priority areas. This is not to deny the merits of the latter. The Commission concludes that, in more straitened circumstances, the 'cut-off point' on the priority list for deserving programs must be moved up.

For higher-priority programs, **greater attention to cost-effective service delivery** is crucial. The objective is not to curtail such services. Rather, the challenge is to deliver the services more efficiently. The Commission found that the efficiency with which core government programs, such as health, are delivered could be improved significantly. This offers the prospect of cost savings without a commensurate reduction in outcomes. Other States are already doing this. There is no insuperable barrier to South Australia doing so as well — if it wants to do so.

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1 *Sustainable Budgets: Principles and Processes*, First report by the Sustainable Budget Commission, December 2009.

3. How can South Australia restore sustainable budgets?

The short answer is: 'With considerable difficulty, but the alternative is worse'.

Savings targets such as those announced in the 2009-10 Budget are means to an end: sustainable State finances. Sustainable State finances require restoration of modest net operating budget surpluses, and a reversal of the current increasing trend of State debt as a proportion of State revenue.

Savings targets are also affected by developments after their announcement. Increased revenues not forecast at budget time reduce the difficulty of achieving them — if the revenue gains are not spent. Increased spending to finance new policy promises go the other way. So do budget expenditure over-runs.

In determining an acceptable budget position across the forward estimates the Government needs to consider:

- the previously announced savings which are already factored into budget bottom lines;
- changes to revenue estimates subsequent to the 2009-10 Budget;
- changes to expenditure, including election commitments and cost pressures, since the 2009-10 Budget;
- based on past experience, the need to accommodate revenue and expenditure decisions in future years;
- the sustainability of the budget outcomes, including the ability to manage adverse economic and financial developments; and
- the impact on the State's credit rating and investment/financial reputation.

The Commission accepts that the appropriate balance between these considerations is a matter for judgement by the Government. However, it is important that the issues are resolved in the 2010-11 Budget. Delaying action will only result in the task becoming more difficult.

4. How did the Commission decide its savings measures?

The Commission sought advice from all government agencies on possible options for budget savings, including reduced expenditures, increased cost recovery, and increased general revenue. The Commission is grateful to those agencies that cooperated fully in this process.

The Commission also considered other savings options, including 'contracting-out' options and asset sales.

In reviewing agency savings proposals, and other options, the Commission tried to avoid a 'one size fits all' percentage reduction in all agency spending. It reviewed individual savings proposals and has developed a menu of proposals from which the Government can choose.

The Government may have different views on program priorities as well. For that reason, the Commission prepared a menu of savings options well in excess of the savings needed to be adopted by the Government. This provides the Government some choice in its selection. The Commission recognises that the choices facing the Government will still be difficult.

The Commission assessed existing programs against the following broad criteria:

1. Is the program an essential government activity?

2. If so, could this activity be better undertaken by other levels of government? Is there avoidable duplication across levels of government?

3. If the activity is best undertaken by the State government, is it delivering quality services at 'best-practice' cost? Is there avoidable duplication within the State government level?

4. Is the activity one where beneficiaries are clearly identifiable, and where cost-recovery is appropriate? In such cases, is there full cost-recovery?

5. Are there areas where increases in general revenue are appropriate?

In considering the third of these questions, the Commission considered independent comparisons of the cost-effectiveness of service delivery across Australian States and Territories, such as those regularly published by the Commonwealth Grants Commission and the Productivity Commission.

In general, for essential government programs where South Australia is spending more than the Australian average, the Commission concluded the evidence suggested less efficient service delivery rather than above average service quality was the reason. That suggests scope for generating budget savings without impairing service quality.

5. What savings measures has the Commission recommended?

The Commission has compiled a menu of savings measures amounting to $1.8 billion in operating savings by 2013-14. Of these, 70 per cent are reductions in spending, 10 per cent are increases in cost recovery, and 20 per cent are increases in general revenue.

About $1.3 billion of the total comprises specific agency savings, and about $500 million is from whole-of-government measures.

The largest 43 measures would generate savings of about $1.1 billion in 2013-14.

Local government impacts of the Commission's proposals would probably require councils to increase their own revenues.

The broader economic impacts of the proposed savings would be limited. In any case, continuing unsustainable budget spending will lead to much more painful adverse impacts in future.

6. Can government advertising costs be reduced?

The short answer is: 'Yes, but we need to know what is actually being spent first'.

The Commission agrees that comprehensive and accurate information on government advertising expenditure should be compiled, commencing from 2009-10. It is concerned that a comprehensive data set is not already available, and publicly reported. This deficiency hampers effective management as part of the budget process.

The Commission also recommends that:

- The current suspension of some government advertising should be made permanent.
- Advertising media should be directed to lowest-cost options, and to digital media, in particular.
- Advertising spending by all agencies should be reviewed annually by central agencies and budget bids for such activity should be required and subject to the same scrutiny as all other budget bids.
- Implementation of these arrangements and monitoring the savings generated should be the responsibility of the Sustainable Budget Oversight Unit, reporting to the newly established Sustainable Budget Cabinet Committee (see Section 9 of the executive summary below).

7. Why is the Commission proposing painful policy measures?

Some of the measures recommended in this report are painful.

These measures are proposed as a menu, from which the Government might choose sufficient initiatives to reach the savings target recommended by the Commission.

Once these are in place, however, the State Budget position will be back on a more sustainable path. That allows budget program growth to resume — provided it stays within sustainable budget constraints.

This is the crucial point.

The Commission recommends a significant pruning of the current South Australian Budget. But the intent is to position the State for growth with public finances that are sustainable.

The alternative is increasing pressure on State finances, reduced public services, increasing taxation burdens, higher borrowing costs, a less competitive State as an investment destination, and slower overall growth in living standards.

The Commission concludes the choice is between:

- a ‘step down’ in Budget expenses now, designed to restore sustainable state finances by 2013-14, and sustained thereafter, followed by restoration of more sustainable growth in budget magnitudes, and State living standards, from that baseline; or
- less disciplined budget settings, progressively pushing the State’s finances into unsustainable territory, and necessitating a larger correction in budget policy settings later, the result of which will be further reductions in State living standards.

The Commission’s menu of budget improvement measures is offered as a prescription to facilitate a step-down, by 2013-14, to a leaner, more focussed public sector. This allows both public and private sectors scope for stronger, sustainable growth in future.

In short, budget restraint now will set South Australia up for stronger growth later — and conversely.

8. Is there a need for further budget reviews and reforms?

The short answer is: ‘Yes’.

The Commission believes that reconsideration of existing Government policies, existing programs and their structures will be important to reinforce the maintenance of the savings needed to restore sustainable budget settings.

To this end, the Commission has recommended numerous changes and reviews. While not an exhaustive list, these recommendations include the following:

- Health: focus on efficient pricing for hospital services and a sustainable health budget.
- Families and Communities: an independent external review, by end-March 2011, to determine the most cost-effective way of providing the necessary services.
- South Australian Housing Trust: change operations to a more sustainable footing.
- Justice: improve the efficiency of the Courts Administration Authority and the Crown Solicitor’s Office.
- Education: focus on more flexible and cost effective service delivery.
- Industry assistance: reduce such assistance, including for major events attraction.
- Defence SA: merge with a larger Department, and maintain a leaner Board.
- Department of Trade and Economic Development, Bio Innovation SA, and Zero Waste: abolish, with remaining functions to be allocated to other Departments.
- Environmental agencies: rationalise existing agencies to generate efficiencies.
- State concessions: review these to improve targeting to those most in need.
- Local government: reduce duplication by shifting functions best handled at the local government level to councils.
- ‘No forced redundancies’ policy: review, and, preferably, terminate this policy in the interests of more flexible and efficient public service employment.
- Workers’ compensation: review to determine scope for more efficient operation.
- Statutory bodies: review the need for the large number of these (451) and scope for rationalisation.
- Government assets and businesses: review the need to hold existing government assets and continue to operate existing government businesses.

9. Can the Sustainable Budget Commission be terminated now?

The short answer is: 'Yes, but ...'

The Commission concludes there is no need for a 'standing' Sustainable Budget Commission. The central agencies, and especially the Department of Treasury and Finance, are required to look after the State's books and are well equipped to do so. Their advice to governments is crucial.

That said, the Commission can see a case for an independent body to assist governments translate announced budget discipline measures into budget outcomes. Inevitably, agency Chief Executives are heavily preoccupied with meeting the demands of their Ministers. An independent body that can 'stand back' from the day-to-day business of government, and monitor, report and advise on where budget discipline needs support, could be a useful addition to government sources of advice.

The Commission considered whether this function could be performed by the Auditor-General. However, the Commission judges that the focus of the body it has in mind is heavily policy-focussed and budget-specific.

The Commission has therefore recommended the Government establish a small, highly-focussed, Sustainable Budget Oversight Unit, with appropriate support from key central agencies, to monitor, report and make recommendations in relation to delivery of Government savings decisions arising from the Government's response to this report.

This Unit should report directly to the newly-established Sustainable Budget Cabinet Committee.

The Commission also concludes there may be a case for making this Unit a permanent part of the budget process, dealing not only with periodic reviews but also with budget over-runs after the tabling of the Budget each financial year.

10. Who decides whether sustainable budgets are restored?

The short answer is: 'The Government'.

The longer-term answer is: 'The electorate'.

Governments inevitably respond to the insatiable political pressures they face. That's their job. But they do so confronted by the hard arithmetic of scarce budget resources. That's their constraint.

Electorates can influence government choices between insatiable political pressures and responsible budgets. If they push too hard in their demands on governments, they will pay the cost of restoring sound government finances when the inevitable crisis emerges.

Governments — and their electorates — really face only two choices when developing government budgets.

The first choice is to exercise modest doses of discipline, year after year, to ensure the budget does not stray far from a sustainable 'bottom line' path. This typically means running modest net operating surpluses and modest net debt.

No big deviations from this path either way keeps the books looking good and avoids the need for big doses of painful budget medicine. Investors are kept happy. This supports economic growth. (This also helps keep ratings agencies on side, giving governments a triple-A credit rating 'tick'.)

The second choice is to be less disciplined. This is easier in the short term. But only quite small lapses in discipline, added each year, can quickly become a habit. These small lapses can then build up a large net debt problem that starts feeding on itself (eg, through compounding public debt interest payments). The books start looking less good. Ratings agencies and other external parties (eg, potential investors) become more wary about prospects.

Left unattended, this small annual lapse in budget discipline can mushroom into a major public debt crisis, requiring draconian austerity measures to overcome. This is the unfolding story in parts of Europe today. It has been a problem for Australian governments in the past. It should be said that this is not the case in South Australia today.

The Australian economy is performing remarkably well given current global circumstances. South Australia is sharing in this good performance. This is a good time for Australian governments to commence the task of reducing budget deficits and repairing budget balance sheets.

The Commission concludes that South Australia should follow such a path.

The South Australian Budget is not in crisis. The State retained its triple-A credit rating on the basis that it would deliver the announced savings noted above. Developments since then mean there is a case for further savings to be made as well. The economic and political costs of the adjustment may be painful. But the corresponding costs of delaying or ignoring the need for more budget discipline are much greater.

The Commission has made recommendations intended to restore a sustainable budget path and, hopefully, keep it on that path.

It is up to the Government to decide what recommendations it will adopt.

11. Recommendations

Volume 1 of this report contains 45 specific recommendations. These are listed below with reference to the sections in the full report in which they appear. They are repeated throughout the full report in the relevant sections. The rationale for recommendations is discussed in the relevant sections of the report.

Recommendation 8 covers the very detailed list of individual agency-specific budget improvement proposals recommended by the Commission. Agency specific proposals, covering expenditure, and cost recovery measures, are summarised and presented in full detail in Volume 2 of this report.

Recommendation 9 covers the list of whole-of-government budget improvement measures recommended by the Commission. Whole-of-government proposals, both expenditure and revenue, are summarised and presented in full detail in Volume 2 of this report.

Recommendation 1: Improving overall budget discipline

The Sustainable Budget Cabinet Committee (SBCC) should determine the appropriate budget ‘bottom line’ targets for the forthcoming budget and forward estimates period, based on advice from the Department of Treasury and Finance (DTF), as the first step in the annual budget cycle. Cabinet should endorse achievement of these targets as the overriding priority for all subsequent budget decisions. In aggregate, all subsequent budget proposals should be consistent with these targets. Spending envelopes for specific agency programs should be developed consistent with the approved accrual budget of the agency. Program budget supplementation should be discouraged, and only granted in exceptional circumstances.

Recommendation 2: More transparent reporting of forecast savings initiatives

When governments announce savings initiatives expected to apply in future years, and included in forward estimates, these should be separately reported in the budget papers showing forecast budget 'bottom line' measures, especially those reporting the forecast net operating balance and the net financial liabilities-to-revenue ratio. The reporting should provide a breakdown of the forecast savings between (i) those allocated to agencies, and (ii) those not allocated to agencies. In subsequent years, this information should be updated. In addition, in subsequent years, the total savings for the year in question should be split between (i) achieved savings, and (ii) unachieved savings. An agency-specific breakdown of this latter split should be available in the budget papers as well.

Recommendation 3: More focussed use of budget resources

SBCC scrutiny of specific programs should begin with an assessment of whether or not they are core functions of government. What constitutes 'core functions' is necessarily partly subjective. However, establishing and policing property rights, law and order, funding health and basic education, and protecting the vulnerable, are widely agreed to be core functions. As part of the budget improvement process over the forward estimates period, this assessment should be applied to all budget-financed programs. Only programs deemed to be core functions of the South Australian Government should be financed. For others, funding should be cut or phased out.

Recommendation 4: More cost-effective service delivery

Major South Australian government programs should be benchmarked against 'best practice' performance across all Australian state governments. Where appropriate, agency funding for these programs should be limited to that required for 'best practice' service delivery, either immediately, or over a short, defined period within the forward estimates years. Agency Chief Executives should be required to manage their programs within these 'best practice' funding limits, without expectation of supplementation.

Recommendation 5: Budget responses to unexpected economic strength

Stronger economic growth might provide unexpected improvement in budget revenues. There would be risk management benefits if the additional revenue went to the budget bottom line.

Recommendation 6: Bases for addressing the savings task

The Commission recommends the bulk of the savings task should fall on (i) eliminating unnecessary costs and delivering key government programs as cost-effectively as possible, and (ii) eliminating or phasing-out lower priority spending programs.

Recommendation 7: Setting program priorities within appropriate constraints

Governments must determine program priorities within budget constraints. The Commission strongly recommends that program priorities be consistent with appropriate overall budget constraints delivering sustainable budgets over time.

Recommendation 8: Agency-specific budget improvement proposals

The Commission recommends that the Government adopt enough agency-specific budget improvement proposals, that, combined with adopted whole-of-government proposals, will be sufficient to meet the savings task.

Recommendation 9: Whole-of-government budget improvement measures

The Commission recommends that the Government adopt enough whole-of-government budget improvement proposals, that, combined with adopted specific agency proposals, will be sufficient to meet the savings task.

Recommendation 10: Government advertising

The Commission recommends that the Government should:

- ensure quantification of all elements (media and non-media) of advertising related expenditure, with this to be included in the Department of Premier and Cabinet's Annual report from 2009-10 onwards;
- make permanent the current suspension of some government advertising;
- ensure implementation of these arrangements and monitoring the savings generated by making them the responsibility of the Sustainable Budget Oversight Unit (see Recommendation 42 and Section 10);
- maintain the current Premier's Communications Advisory Group (PCAG) assessment process for all campaigns with a total spend above the set thresholds (refer Appendix D);
- review the PCAG guidelines annually;
- review annually all agencies' advertising strategies and minimise duplication through collaboration of agencies with common advertising themes;
- rationalise the number of advertising templates and styles; and
- extend PCAG membership to include a non-marketing officer with experience and skills in program effectiveness evaluation.

Recommendation 11: Health

The Commission recommends:

- commitment to a top-down sustainable funding model that funds activity growth, higher than CPI costs for medical goods and services, and the national benchmark efficient price for health services;
- commitment to a budget and financial management framework that limits overall health funding to the top-down sustainable funding model allocation and ceases the practice of mid-year health supplementation;
- the implementation of specific proposals to achieve the benchmark efficient price; and
- the Commonwealth Government fully fund those health services which are the agreed responsibility of the Commonwealth (eg, aged care places). The resultant reduction in State funding should be applied to the South Australian Government's savings task.

Recommendation 12: External review of the Families and Communities portfolio

The Commission recommends an external review of the Families and Communities portfolio should be conducted. The review should be undertaken by an independent party, and identify reforms that will deliver efficiency improvements.

The review should commence as a priority and be completed by no later than end-March 2011.

Recommendation 13: Courts

The Commission recommends that measures to increase the efficiency of the court system should be explored and implemented as a priority. The objective should be improving efficiency while maintaining fair access to justice. These measures may not offer immediate savings, but should lead to a reduced backlog of court cases, and over time a reduction in the level of resources required.

Recommendation 14: Department of Justice

The Commission recommends that the Justice portfolio structure should be disbanded and the South Australian Police Department, the Department for Correctional Services, the Courts Administration Authority, the emergency services sector agencies (through SAFECOM) and the Attorney-General's Department should operate as independent administrative units reporting through their respective Ministers.

Recommendation 15: Crown Solicitor's Office

The Commission recommends that, with the exception of constitutional law advice and core 'public policy' issues, where the experience in the private sector is likely to be more limited, all legal work required by agencies should be purchased from a panel of preferred legal service providers. The Crown Solicitor's Office should be able to tender for this work on a competitively neutral basis.

Recommendation 16: Children's services, education and further education

The Commission recommends that the Government continue to focus on the cost efficiency of delivery of education services, with a view to flexibility in its delivery beyond current constraints.

Recommendation 17: Industry assistance

The Commission recommends that the Government should cease selective industry assistance and significantly reduce sporting and arts events attraction and assistance.

The Commission recommends that the Department of Treasury and Finance should be the agency responsible for assessing policies with economic implications both before and after implementation.

Recommendation 18: Incorporate Defence SA into a department

The Commission recommends that the operations of Defence SA be merged into a larger department, with a leaner board.

Recommendation 19: Department of Trade and Economic Development

The Commission recommends that the Department of Trade and Economic Development should be abolished with residual functions transferred to the Department of Primary Industries and Resources (PIRSA) and the Department of the Premier and Cabinet.

Recommendation 20: Bio Innovation SA

The Commission recommends that the operations of Bio Innovation SA cease and that any residual contracts be administered by the Department of Further Education, Employment, Science and Technology. If the operations of Bio Innovation SA do not cease then it should still be merged with the Department of Further Education, Employment, Science and Technology.

Recommendation 21: Integration of regional natural resource management service delivery

It is recommended that the Government consider the long term reform direction for the integration of regional natural resource management service delivery, and explore opportunities to improve coordination between agencies to improve service delivery and realise efficiencies.

Recommendation 22: Environment Protection Authority

It is recommended that there be an independent review of EPA functions with a view to ceasing those which are non-legislated, achieving a greater level of cost recovery, and withdrawing from policy and planning activities.

Policy and planning functions should be structurally separated from the EPA and be performed within the non regulatory component of the portfolio (eg, the Department of Environment and Natural Resources — DENR).

The practice of hypothecating revenues from the Solid Waste Levy should cease.

Recommendation 23: Cease major Zero Waste programs

The Commission recommends that the majority of Zero Waste's programs cease, with waste policy functions brought within DENR.

Recommendation 24: State Government concessions

The Commission recommends that State Government concessions should be targeted at sections of the community most in need. This may be assisted by Commonwealth reforms to concession card eligibility.

Recommendation 25: Provision of local government services

The Commission recommends:

- services or programs best delivered by local government should not be provided and/or duplicated by state government agencies; and
- as an extension to the boundary reforms of the 1990s, further boundary reform (ie, larger and fewer councils) be undertaken to strengthen the revenue base of local government in South Australia.

Recommendation 26: Workforce policy

The Commission recommends that:

- there should be a non-voluntary separation policy for managing staff who are excess to agency requirements;
- entitlement and pay provisions (eg, minimum notice periods and severance pay) should be established with regard to other jurisdictions' policies for the treatment of excess employees, redeployment and involuntary severance arrangements. Consideration should also be given to aligning public sector practice with current private sector practice; and
- there be a review of the use of Chief Executives' powers to separate employees who are poor performers, with a view to strengthening the existing provisions, where necessary.

Recommendation 27: OHS&W arrangements

The Commission recommends the following in relation to OHS&W issues:

- **Governance arrangements** — the Public Sector Workforce Relations unit of DPC role on OHS&W be restricted to a purely advisory and data collection role. Chief Executives should manage agency OHS&W performance and outcomes in accordance with their legislated 'responsible officer' obligations.
- **Workers compensation insurance arrangements** — the Government should remain self-insured on the grounds that it is currently the most cost effective option. This position should be reviewed from time to time.
- **Injury management arrangements** — all government injury management service centre activities should be competitively tendered.
- **Legal advice** — all legal advice for government claims and injury management services should be competitively tendered.
- **Review of WorkCover reforms** — an independent review of the application of the 2008 WorkCover changes and their effectiveness in the public sector should be undertaken.

Recommendation 28: Facilities management

The Commission recommends that facilities management works for all agencies of government be subject to a competitive tender process. Private sector bidders should be able to tender for all or part of the work requirement.

Centralised government contract administration and management should be streamlined and costs reduced.

Recommendation 29: Building management

The Commission recommends that the management of all government accommodation should be put to competitive tender. Standards for government accommodation fit-outs should be established and a competitive tender for the managing contractor role for all government fit-outs should be undertaken.

Recommendation 30: Government ICT

The Commission recommends that the results of the Information and Communication Technology (ICT) cost assessment and benchmarking analysis be used by the ICT Board and the Office of the Chief Information Officer (OCIO) to inform:

- the analysis of future ICT capital projects and future reporting to Cabinet on the Government's ICT spending;
- ICT investment prioritisation and provision of advice to the Department of Treasury and Finance on the merits of individual projects, as part of the Budget process;
- future reform concerning consolidation of ICT services, clustering of similar agencies with like needs, and strengthening across government procurement practices; and
- investigation of new service delivery models, including opportunities to centralise within government, or external provision of services.

The Commission also recommends that major reforms and new service delivery model proposals, including consolidation within government and external service provision, be subject to rigorous analysis of net benefits and that business cases have a high level of oversight and governance.

Recommendation 31: Procurement governance and legislative changes

The Commission recommends that:

- the *State Procurement Act 2007* be repealed and the State Procurement Board abolished;
- the *Public Finance and Audit Act 1987* be amended to encompass procurement;
- the Treasurer issue Procurement Instructions (PIs) to replace the current State Procurement Board policies and guidelines;
- Chief Executives be held accountable for procurement outcomes and compliance with centrally set PIs; and
- the Procurement Policy and Governance Group within the Department of Treasury and Finance be reduced with a focus on policy matters only.

Recommendation 32: Benefits of purchase pooling

The Commission recommends that a strategic spending analysis be undertaken by Shared Services SA to identify purchasing activities amenable to improved price outcomes through use of whole-of-government purchasing power in addition to those outlined in this report.

Recommendation 33: Review of non price and service specification in government policies

The Commission recommends that all government policies seeking to achieve indirect outcomes through procurement should be reviewed. The review should:

- document all the specification elements;
- assess their effectiveness in achieving the other policy objectives;
- estimate the additional cost to government of including these specification requirements; and
- consider other program responses to achieve these other policy objectives.

Recommendation 34: Statutory bodies

The Commission recommends that the Government:

- develop guidelines for establishing statutory bodies, including on what functions should be performed outside departmental structures, when and in what circumstances a new statutory body should be formed, and what legal and statutory form the body should take;
- undertake an assessment of existing bodies against these guidelines to reduce duplication and overlap and determine whether they are well governed, performing to meet Government objectives, and are still required in their current forms;
- develop a standard for legislation to set up statutory authorities to make board accountability clear and consistent; and
- develop guidelines on when and in what circumstances non-statutory advisory bodies can/should be developed.

Recommendation 35: Review and sale of surplus assets

The Commission recommends that the Department of Treasury and Finance continue its work of identifying land and buildings that are surplus to core government activities or inefficiently used. The Department, with support of Chief Executives, should generate options for the Government to consider for the disposal of those properties.

Recommendation 36: Government businesses — SA Lotteries

The Commission recommends that the Department of Treasury and Finance undertake a detailed assessment of the future options for SA Lotteries, including sale options.

Recommendation 37: Government businesses — HomeStart Finance

The Commission recommends that HomeStart Finance should be the subject of a thorough 'root and branch' review. This review should be independent of HomeStart Finance.

Recommendation 38: Government businesses — Land Management Corporation

- The Government needs to clearly specify the non-commercial objectives assigned to the Land Management Corporation.
- The Land Management Corporation's regulations and Charter should be amended to better reflect its identified role.
- A review of the Land Management Corporation's Performance Targets should be undertaken, with the Performance Statement to include rolling ten-year targets.
- The Industrial Premises Development Scheme should be wound up.
- Business cases for the Land Management Corporation's projects should examine the scope for greater private sector involvement and alternative methods for delivering the Government's objectives.

Recommendation 39: Government businesses — ForestrySA

The Commission recommends that the Government should sell ForestrySA. The Commission concludes there are no public policy arguments for the State to be involved in a commercial plantation forestry operation.

Recommendation 40: Government businesses — other government businesses

The Commission recommends that the Government should regularly reconsider its need for continued ownership of its other business enterprises.

The Commission recommends that the Government consider whether some Public Non Financial Corporations (PNFCs) that remain could be operated at reduced cost or more effectively if they were fully integrated into existing government departments.

Recommendation 41: ‘Locking-in’ announced savings

The Commission recommends that announced budget savings initiatives be allocated to agencies as specific, properly-costed, program initiatives as soon as possible. Ideally, this should be done before savings initiatives are publicly announced. Where this is not possible, savings initiatives should be translated into specific agency measures within, say, six months of announcement, and supplementary announcements advising of the agency allocation of these savings released. For example, savings announcements made at budget time, but not allocated to agencies, could be the subject of agency allocation statements released as part of the Mid-Year Budget Review (MYBR).

Recommendation 42: Independent monitoring of savings delivery

The Commission sees no case for its own continuation. It should be terminated.

However, the Commission recommends the Government establish a small, independent, Sustainable Budget Oversight Unit, appropriately resourced from key central agencies, to monitor, report, and make recommendations in relation to delivery of Government savings decisions made as a result of this report and other subsequent reviews.

This Unit should report to the Government, through the SBCC, at least annually in the lead-up to the tabling of the Budget each year, and possibly also as part of the Mid-Year Budget Review (MYBR) process.

Ideally, the Unit’s reports to the Government should also be published, in the interests of a transparent process.

There may be a case for making this Unit a permanent part of the budget process, dealing not only with periodic reviews but also with budget over-runs after the tabling of the Budget each financial year.

Recommendation 43: Cabinet process

The Commission recommends that Cabinet decisions affecting the budget, arising outside the budget process, should only be made in exceptional circumstances and ideally be concentrated in the MYBR.

Recommendation 44: Measurement, reporting and evaluation

The Commission recommends that the Government implement a centrally-driven measuring, reporting and evaluation framework of programs and projects for both operating and investing expenditure.

Recommendation 45: Revenue forecasting

With input from the Department of Treasury and Finance, the Government should attempt to qualitatively assess the budget effects of the economic cycle. Temporary or unsustainable revenue increases should not be used to fund ongoing expenditures.

SECTION 1. IS THERE A PROBLEM?

Key points:

- South Australia retained its triple-A rating after the 2009-10 Budget on the basis that the savings that had been announced in that budget, and previously, would be achieved. Developments since then mean that there is now a case for further savings to be achieved.
- Recognising this, the Government established the Sustainable Budget Commission to recommend measures to achieve the targeted savings and restore sustainable state finances.
- This, the Commission's final report, recommends budget improvement measures that would provide the Government a menu from which to choose savings sufficient to meet its objectives.
- This final report also makes further recommendations to improve budget processes, building on those in the Commission's first report, and points to areas where further reviews could help to support ongoing sustainable budgets.

1.1 What's the problem?

The global context

The Global Financial Crisis (GFC) is not over.

Its adverse economic and employment effects have been muted, especially in Australia. The global economy has recovered faster than expected from the recession caused by the 2008 financial crisis.

But the GFC's financial causes have not been eliminated. In fact, they have intensified and mutated. Globally, private debt remains large, and now public debt has ballooned as well.

The surge in developed country public debt is a downside of economic stimulus packages intended to counter the immediate fallout of the GFC on output and jobs.

World financial markets appreciate this. For example, there's growing concern about European debt (including public debt). Burgeoning budget deficits and debt in the western world generally are renewing market concerns about the sustainability of the present situation.

This *balance sheet* problem — ballooning public debt — remains a threat to world recovery, wherever it happens to be concentrated. 'Exit strategies' reducing public sector deficits and public sector debt are now a key policy focus.

Financial sustainability is the core concern. Markets rely a lot on confidence and trust. They work well when there is confidence in the stability of economic and financial conditions. They work well when there is trust that governments are doing a good job managing public finances, and borrowing responsibly.

But when confidence and trust are eroded, economies deteriorate. Banks stop lending to borrowers (including each other). Risk margins are added even to 'riskless' government bonds issued by debt-laden governments. Investment is cut, activity declines, and jobs are lost.

This can become a 'vicious circle' producing stagnant or declining living standards.

The GFC remains. It has morphed into ongoing concern about whether economic and employment growth is sustainable, especially in the western world, and related concern about *unsustainable* public debt.

The South Australian budget context

The 2009-10 South Australian Budget included the benefits of announced but yet to be achieved savings in calculating the budget bottom lines in future years. The State's triple-A credit rating was retained on the basis that those savings would be delivered. It is important that specific measures are identified that will deliver these announced savings targets.

South Australian Budget sustainability, and related economic prospects, are being assessed by investors, businesses more generally, and ratings agencies, against the sombre global backdrop.

South Australia is not Greece, Spain or Portugal — far from it.

On some scenarios South Australia is in danger of walking down the steepening path to unsustainable debt.

As this path steepens, continuing downwards becomes easier than trying to reverse direction.

But this is only true in the short run. Just ask the Government of Greece.

A balanced assessment of South Australia's public finance situation is important.

The bad news is that in the absence of corrective action, including the achievement of previously announced savings targets, much larger public debt (and inevitable future increases in tax and other burdens to pay for it) is in prospect.

The good news is that South Australia can avoid these outcomes if substantive corrective action is taken as soon as possible.

The choice is one for South Australians — and, on their behalf, for the South Australian Government.

1.2 Sustainable Budget Commission and Terms of Reference

What is the Sustainable Budget Commission's role?

The establishment of the Sustainable Budget Commission (the Commission) was announced by the Government on 4 June 2009.

The Commission Members are:

- Mr Geoff Carmody (Chair);
- Mr Bruce Carter;
- Monsignor David Cappo AO;
- Professor Jennifer Westacott;
- Mr Chris Eccles; and
- Mr Jim Wright.

The Commission has been supported by a Secretariat from the Department of Treasury and Finance (DTF) and the Department of the Premier and Cabinet (DPC).

The Commission's original Terms of Reference are as follows:

The functions of the Commission will be to report to the Government on proposals to reform the budget determination process and to identify budget improvement measures to return the State Budget to a sustainable net operating surplus.

Initial Task

The initial task of the Commission will be to report to the Government on an appropriate process including timelines for the development, consideration, agreement and delivery of the 2010-11 State Budget. The Commission may also recommend changes to Budget and Cabinet processes to better support the full critical analysis of financial decisions of the Government.

The Commission will also advise the Government on the appropriate date for the presentation of the 2010-11 Budget.

Budget Improvement Measures

Building on already identified savings, the Commission will recommend measures to the Government to achieve the savings targets contained in the budget forward estimates. The Commission will have the capacity to review all Government expenditures and revenues.

To assist in that task the Commission may:

– *Review the efficiency and effectiveness of Government service delivery and seek to identify any opportunities to save costs through removal of duplication of resources to achieve policy outcomes.*

– *Identify expenditures in areas of diminishing priority against the priorities outlined in South Australia's Strategic Plan and outcomes and objectives agreed under funding arrangements with the Commonwealth Government.*

In March 2010, the Government also referred the issue of government advertising to the Sustainable Budget Commission for review, advice and recommendations, including:

The appropriate level of government advertising having regard to the cost and public policy considerations.

The appropriate use and mix of advertising media to meet the appropriate level of government advertising.

Whether alternative forms of government communication are available to meet the Government's legitimate non-political advertising requirements (eg, internet based information services).

The Commission's initial task

The Commission's first report covered budget processes and timelines for the 2010-11 Budget. That report was released in February 2010.[2]

Budget improvement measures

This second Commission report is devoted mainly to the second element of its Terms of Reference: budget improvement measures.

These measures — whether savings via lower expenses or through increased revenues — are not intended as some exercise in fiscal and political masochism. They are designed to set South Australian public finances firmly on a sustainable path.

Sustainability in this context covers both sustainable budget balances and sustainable public debt.

In turn, these sustainability targets are means to over-arching public policy ends, including, most importantly, sustainable delivery of priority government programs for the benefit of the South Australian community.

This report presents the Commission's recommendations for specific budget improvement measures. The Government will decide which specific measures should be adopted in the 2010-11 Budget.

The estimates of savings provided in this report are based on agency estimates using the best available information at the time the report was prepared.[3] In consultation with agencies and the Department of Treasury and Finance, the Commission has attempted to validate the estimates provided.

The total size of these savings proposals reflects the Commission's desire to provide an extensive menu to Government from which it can choose measures to meet any savings target it decides to adopt. The initial target is those savings previously announced, but, as discussed in Section 3 of this report, the Government may choose to adopt further savings. The Commission concludes that there is a strong case for doing so. The larger the up front savings, the greater is the budget flexibility available to the Government in future years, and conversely.

This report also builds upon and expands the principles and processes set out in the Commission's first report.[4]

This second report also deals with the Government's March 2010 remit to the Commission on government advertising.

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2 *Sustainable Budgets: Principles and Processes*, First report by the Sustainable Budget Commission, December 2009.

3 The information and associated data used for this report was finalised as at 11 August 2010.

4 *Sustainable Budgets: Principles and Processes*, First report by the Sustainable Budget Commission, December 2009.

General government sector focus of the Commission

This report is primarily concerned with the activities of the general government sector.[5] It presents specific recommendations to achieve the savings task for the general government sector that restores sustainable State public finances.

The general government sector includes all government agencies that provide services free of charge, or at prices significantly below the cost of production, or that provide regulatory services.

Throughout this report, unless otherwise specified, terms such as 'within government' refer to the general government sector and the agencies classified therein.

References to government businesses, outside of the general government sector, and how they can affect the general government sector, are contained in Section 9 of this report.

1.3 Structure of this report

Volume 1

The remainder of Volume 1 of this report is organised as follows:

- Section 2 presents the Commission's general findings on budget processes and policy. These summarise the Commission's views about current decision-making processes, consequences, and opportunities for improvement. The Commission regards the recommendations in this section as essential for securing budget sustainability over time.
- Section 3 discusses the savings previously announced by the Government that have yet to be identified as specific measures and, in some cases, have yet to be allocated to individual agencies. It also discusses the factors the Government should consider in deciding whether to adopt further savings measures above the previously announced targets.
- Section 4 sets out the Commission's framework and broad rationale behind the specific savings proposals.
- Section 5 provides an overview of the Commission's budget improvement recommendations.
- Section 6 deals separately with the Commission's findings in relation to government advertising.
- Section 7 presents an additional set of budget savings options, with illustrative estimates of their potential savings if implemented. These cover alternative, more ambitious, generally whole-of-government, and probably more difficult paths to delivery of any savings target.
- Section 8 reviews areas where further structural reforms in key areas of service delivery would help sustain the savings proposed, and add further savings and/or improved service delivery over time. Broad directions for review and/or reform are indicated. These measures would generally require further consideration and development before they could be adopted as specific savings measures. The Commission would support this work being done because any achievable savings would help to meet ongoing budget measures.
- Section 9 discusses the treatment of government assets and government businesses, their performance, and links between them and the general government sector.

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5 In accordance with the Australian system of Government Finance Statistics (GFS), entities owned and/or controlled by the Government of South Australia are grouped into one of three sectors: the general government sector, the public non-financial corporations sector, or the public financial corporations sector.

- Section 10 addresses the requirement to lock-in these savings over time in the interests of financial sustainability. Ongoing governance and monitoring of the delivery of the savings adopted by the Government will be essential. This section amplifies and augments some of the findings in Section 2 and in the Commission's first report.

- Appendix A presents a consolidated list of the Commission's recommendations.

- Appendix B presents an appropriate cost recovery framework as a guide for government decisions on this matter.

- Appendix C presents the definitions of the Commonwealth Grants Commission expenditure categories.

- Appendix D provides a copy of the Premier's Communications Advisory Group (PCAG) advertising guidelines.

- Appendix E provides an interstate comparison of payroll tax rates and thresholds.

- Appendix F provides biographical details on members of the Commission.

- A glossary and explanation of acronyms are appended to this report.

Volume 2 (presented as a separate document)

Volume 2 provides an overview of each agency and presents full details of the agency-specific expenditure and cost recovery proposals the Commission believes the Government should consider. Volume 2 also presents full details of the whole-of-government expenditure and general revenue savings proposals the Commission believes the Government should consider.

The information and associated data used in this report was finalised as at 11 August 2010.

SECTION 2. BUDGET PROCESS IMPROVEMENTS

Key points:

- The Commission has concluded that current budget processes can be further improved.
- Budget discipline supporting sustainable overall budget outcomes needs to be bolstered.
- There is a need to tighten the focus of budget programs, concentrating more on higher-priority services, given current overall budget constraints.
- For higher-priority programs, greater attention to cost-effective service delivery is warranted.

In this section of the report the Commission summarises its general findings about improvements to South Australian budget processes and their consequences.

2.1 General findings on budget processes

The Global Financial Crisis (GFC): a budget revenue speed bump

The GFC adversely affected the world economy, consumer and business confidence, and, as a result, forecasts for Australian economic activity. Forecasts for the Commonwealth and State budgets were inevitably affected, especially through large downwards revisions to budget revenue forecasts. South Australia did not escape these effects.

This largely cyclical impact should be reversible as the world economy recovers. However, that recovery remains uncertain and subject to significant financial market risks, especially in northern hemisphere developed economies. Even so, the Australian economy seems likely to weather any such financial storms relatively well.

Despite that, the GFC helped expose the need for a 'budget buffer' in the South Australian Budget. Without such a buffer, the State's finances can switch from 'sustainable' to 'under threat' very quickly. This has indeed occurred.

The Government recognised this, and responded by announcing further savings targets in the 2009-10 Budget. It also established the Sustainable Budget Commission to advise it on how these savings could be delivered.

Budget processes: the Commission's high-level findings

At the highest level, the Commission found current budget processes could be improved in three key areas:

1. The ***achievement*** of sustainable budget outcomes needs to be the overriding priority of budget decision making.
2. The ***focus*** of budget programs needs to be tightened in order to conform better to sustainable budget constraints on available resources.
3. The ***delivery*** of core government programs needs to be made more cost-effective.

Brief elaborations on each of these findings follow.

More disciplined decision making

At the aggregate level, disciplined budget decision-making requires adherence to some essential constraints:

- A firm eye on appropriate overall budget 'bottom line' measures, including the net operating balance and net financial liabilities, and adherence to such targets.

- Only implementing new spending on the basis of equally certain funding. Committing to firm expenditures relying on unspecified future savings has obvious risks to the budget bottom line. However it should be acknowledged that a public commitment to deliver unspecified future savings is better than no commitment at all.

- Ensuring a whole-of-government and full Cabinet decision-making process so that all budget proposals are considered against wider budget priorities and targets. The role of government is to allocate scarce resources across competing priorities. This is inevitable given the tension between unlimited political demands for government support and very limited economic resources to supply them. Government-wide decisions on resource allocation cannot be achieved if major spending proposals are considered in isolation.

- There must be a very clear expectation that agencies need to manage within their allocated budgets. Ministers and Chief Executives need to take responsibility for managing priorities within their areas of responsibility so that unexpected cost increases can be managed. They need to be given authority to make whatever changes to the costs of service delivery or agency activities are needed to ensure they do not overspend.

The Commission concludes that, at present, in some key spending areas, there is insufficient financial management and budgeting discipline. In these key areas Chief Executives and their agencies have over-spent on a regular basis.

There appears to be no strong, effective, disincentive discouraging this over-spending. As a result there is little if any incentive for other Chief Executives to stay within their budgets. If they do, their results become the baseline for further requests for savings to make up for over-runs elsewhere.

Only in exceptional circumstances should major expenditure decisions be made outside the budget process.

Better-focussed budget measures

Consistent with a disciplined budget approach, scarce resources require governments to focus on those programs regarded as 'core functions' for governments. Recognising that there are divergent views on what constitutes a core function of government, relevant considerations include whether:

- Programs deliver specific social objectives or respond to market failure (industry support programs, in particular, requiring this justification for government involvement).

- Particular levels of government are better placed to deliver service functions.

The Commission noted that the South Australian general government sector currently includes a large number of small programs across a wide variety of activities. In a budget-constrained environment, the need for such widespread small programs should be rigorously tested.

More cost-effective program delivery

Budget programs need to be delivered effectively and efficiently. Especially for the larger core government functions, cost-effective program delivery is crucial. Even modest slippage from ‘best practice’ service delivery can lead to higher costs in relation to the larger essential programs such as health, education and family and community services.

The Commission found evidence to suggest more could be done to improve cost-effective service delivery through the South Australian budget in key policy areas. This included evidence from independent comparisons of the cost-effectiveness of service delivery across Australian states.

The Commission found that program design could also be dramatically improved. This included the need for much clearer costs and benefits to be established as part of the budget process. Agencies must be able to establish the clear benefits of a program to the community and the full costs associated with its implementation, including costs that would fall to other agencies. There were a number of examples where agencies had incurred additional costs because of the design of a program or regulation by another agency.

Finally, programs should be subject to a structured and regular review process. This would be consistent with the Commonwealth practice of conducting formal triennial reviews of most program areas. There appear to be many programs where there has not been a continuous process of renewal and updating in respect of cost effectiveness and the quality of services being delivered.

2.2 The consequences of these budget process findings

The consequences of these budget process problems include the following:

- Insufficient ***overall budget discipline*** results in adverse ‘bottom line’ developments. These include net operating balance deficits and growing net financial liabilities.

- Less disciplined budget processes lead to ***less focussed*** deployment of scarce budget resources. This tends to produce a multiplicity of programs whose relevance to core priorities of government can be questioned, whatever their intrinsic merits. Once established, these programs tend to continue, rather than being scrutinised afresh at budget time each year. This dilutes scarce budget resources across a wide range of programs, rather than concentrating them on the programs for which government intervention is essential. A ‘zero base’ budget process, or a Canadian-style approach that asks ‘what programs must be kept’, rather than ‘what programs can we cut’, might help re-focus the budget process. The Commission has not adopted this approach in this report. However, it may be worth considering in the future.

- Across all programs that should be retained as core government functions, ***inefficient and ineffective program delivery*** hurts those needing the programs involved. It also dilutes scarce budget resources that otherwise could be deployed for other core policy programs.

- Any lack of cost-effectiveness of program delivery degrades the overall quality of government. On average, services are poorer, costs are higher than they need to be, and there is ongoing pressure to reduce services more because of budget constraints.

The Commission notes that the 2009-10 Budget savings measures, totalling $750 million over the three years to 2012-13, have been included in forecast budget bottom line measures, but are not allocated to agencies. Earlier savings announcements have been included in forecast budget ‘bottom lines’ and have been allocated to agencies, but are not all identified as specific measures. This public commitment to deliver savings is valuable. However an approach where the savings are identified as specific measures at the time of the announcement may be seen as indicating a higher level of commitment by the Government. In the interests of transparency, the Commission makes a recommendation on this issue in Section 2.3 below.

2.3 Towards more sustainable budget processes

The Commission notes that the budget process problems summarised in Sections 2.1 and 2.2 are not unique to South Australia. They reflect the conflict between political pressures and scarce state resources encountered everywhere.

They are not peculiar to one political party, either. Some states do better than others in dealing with these conflicts, and the state ranking can vary over time.

The Commission's first report proposed a sustainable budget framework which included a top down or 'deterministic' budget process.[6] In accordance with this framework the Commission believes that agencies should only be allowed to put forward proposals where they are invited to do so.

The Commission makes four general recommendations supporting sustainable budget processes.

Recommendation 1: Improving overall budget discipline

The Sustainable Budget Cabinet Committee (SBCC) should determine the appropriate budget 'bottom line' targets for the forthcoming budget and forward estimates period, based on advice from the Department of Treasury and Finance (DTF), as the first step in the annual budget cycle. Cabinet should endorse achievement of these targets as the over riding priority for all subsequent budget decisions. In aggregate, all subsequent budget proposals should be consistent with these targets. Spending envelopes for specific agency programs should be developed consistent with the approved accrual budget of the agency. Program budget supplementation should be discouraged, and only granted in exceptional circumstances.

Recommendation 2: More transparent reporting of forecast savings initiatives

When governments announce savings initiatives expected to apply in future years, and included in forward estimates, these should be separately reported in the budget papers showing forecast budget 'bottom line' measures, especially those reporting the forecast net operating balance and the net financial liabilities-to-revenue ratio. The reporting should provide a breakdown of the forecast savings between (i) those allocated to agencies, and (ii) those not allocated to agencies. In subsequent years, this information should be updated. In addition, in subsequent years, the total savings for the year in question should be split between (i) achieved savings, and (ii) unachieved savings. An agency-specific breakdown of this latter split should be available in the budget papers as well.

6 *Sustainable Budgets: Principles and Processes*, First report by the Sustainable Budget Commission, December 2009, pages 21-26.

Recommendation 3: More focussed use of budget resources

SBCC scrutiny of specific programs should begin with an assessment of whether or not they are core functions of government. What constitutes 'core functions' is necessarily partly subjective. However, establishing and policing property rights, law and order, funding health and basic education, and protecting the vulnerable are widely agreed to be core functions. As part of the budget improvement process over the forward estimates period, this assessment should be applied to all budget-financed programs. Only programs deemed to be core functions of the South Australian Government should be financed. For others, funding should be cut or phased out.

Recommendation 4: More cost-effective service delivery

Major South Australian government programs should be benchmarked against 'best practice' performance across all Australian state governments. Where appropriate, agency funding for these programs should be limited to that required for 'best practice' service delivery, either immediately, or over a short, defined, period within the forward estimates years. Agency Chief Executives should be required to manage their programs within these 'best practice' funding limits, without expectation of supplementation.

These recommendations, and the others later in this report, should be read in conjunction with the Commission's recommendations in its first report.[7]

2.4 Rationale for Commission's savings recommendations

The Commission's specific savings recommendations are presented in Sections 5 to 8 below.

The broad rationale for these recommendations is summarised in Section 4.

That rationale assumes the Government accepts the Commission's four recommendations on discipline, transparency, focus and delivery presented in Section 2.3 above.

7 *Sustainable Budgets: Principles and Processes*, First report by the Sustainable Budget Commission, December 2009, pages 2-5.

Key points:

- The 2009-10 Budget announced a saving target of $750 million over three years, comprising savings of $150 million in 2010-11, $250 million in 2011-12 and $350 million in 2012-13.
- Including the 2009-10 Budget announcement, savings targets announced by the Government but yet to be specified as individual savings measures amount to $709 million per annum in 2013-14.
- The Commission believes a significantly higher level of savings is necessary to deliver a sustainable budget position. The Commission recognises there is a trade-off for the Government: the larger the up front savings, the greater is the budget flexibility available to the Government in future years, and conversely.
- The Commission has set out its own views on the magnitude of the savings task faced by the Government in this report. This section of the report attempts to quantify that task in broad terms.
- In pursuing its Terms of Reference from the Government, the Commission has provided a menu of budget improvement measures for the Government larger than is needed to meet any reasonable quantification of the savings task.
- The Government could use this menu to help it identify measures to achieve the savings target needed to ensure a sustainable budget and retention of the State’s triple-A credit rating. Of course, the precise savings target chosen is a matter for the Government itself.
- The Commission would encourage the Government to look at election commitments in the context of the savings options identified by the Commission. There may be merit in not delivering some election commitments, or at least delaying some of them, and as a result implementing fewer additional savings, over and above those already announced but still to be achieved.
- The Commission concludes that spending restraint should make up the bulk of the savings task. However, increased cost recovery and taxation, as well as other measures, will also probably be needed.

3.1 Rationale for 2009-10 Budget estimate of the savings task

The 2009-10 Budget was tabled in Parliament on 4 June 2009. Budget estimates and the 2009-10 savings targets were based on the Government’s decision that the budget ‘bottom line’ targets in Table 3.1 should be achieved in the forward estimates years (2010-11, 2011-12, and 2012-13).

Net operating balance target

The 2009-10 Budget papers included the following statement on the net operating balance target:

> *To achieve at least a net operating balance in the general government sector in every year (of the forward estimates period).*[8]

(Text in parentheses added)

Target for the ratio of net financial liabilities-to-revenue

The Government has stated its commitment:

> *To achieve net lending outcomes that ensure the ratio of net financial liabilities to revenues continues to decline towards that of other triple-A rated states.*[9]

Further the Government has stated its commitment:

> *To ensure that risks to state finances are managed prudently to maintain a triple-A rating.*[10]

Forecast outcomes published in the 2009-10 Budget

The following table sets out the (then) expected budget outcomes for 2008-09, the Budget estimates for 2009-10 and estimates across the forward estimates, as published in the 2009-10 Budget papers.[11] These were based on the assumption that the savings targets announced in the Budget, or previously, and to which this report by the Commission is directed, are achieved.

Table 3.1: General government sector budget estimates as published in the 2009-10 Budget

		2008-09 Estimated result	2009-10 Budget	2010-11 Estimate	2011-12 Estimate	2012-13 Estimate	2013-14 Projection[(a)]
Net operating balance	$m	-265	-304	78	96	304	480
Net lending	$m	-932	-1,541	-1,324	-483	17	255
Net debt	$m	659	2,142	2,807	3,200	3,114	2,902
Net financial liabilities-to-revenue	%	93.1	97.1	103.3	105.7	102.9	97.6

(a) Projections for 2013-14 were based on projections for revenue and expenditure aggregates rather than the detailed analysis of portfolio expenditure and individual revenue items which formed the basis of the forward estimates up until 2012-13.

The estimated Standard & Poor's net financial liabilities-to-revenue ratio (see elaboration below) at the time of the 2009-10 Budget was 91.6 per cent in 2008-09, and projected to be 98.6 per cent in 2009-10, 104.7 per cent in 2010-11, 106 per cent in 2011-12 and 101.5 per cent in 2012-13.

8 2009-10 Budget Statement: Budget Paper No 3, page 1.6, Table 1.2.

9 2009-10 Budget Statement: Budget Paper No 3, page 1.6, Table 1.2.

10 2009-10 Budget Statement: Budget Paper No 3, page 1.6, Table 1.2.

11 2009-10 Budget Statement: Budget Paper No 3, page 1.3, Table 1.1.

Financial sustainability supports sustainable government policy delivery

South Australia's Strategic Plan Target 1.3 is to maintain a triple-A credit rating.[12]

The ratings agencies focus on broader fiscal measures than the general government sector measures that are the focus of the targets above. For example, Standard & Poor's focuses on a net financial liabilities-to-revenue ratio for the non-financial public sector, not just the general government sector.[13] Standard & Poor's has stated that a triple-A rating for South Australia requires a non-financial public sector net financial liabilities-to-revenue ratio of no more than 80 per cent to 90 per cent.

The Government's commitment to retaining a triple-A rating and the focus of the ratings agencies on the non-financial public sector means that the focus on sustainability must extend beyond the general government sector.

Financial sustainability determines whether the Government can continue to deliver services and infrastructure to South Australians over time.

In his 2008-09 Budget Speech the Treasurer noted that:

> *Large net operating surpluses allow significant infrastructure investment in schools, hospitals, prisons, water security and the public transport system.*
>
> *Large net operating surpluses allow us to meet future pressures…*[14]

Speaking in the House of Assembly on 6 May 2010, the Treasurer confirmed the role of the Commission in achieving these goals:

> *I expect that the commission will recommend to government a series of measures which will better focus our expenditure on the key priorities of government: better services for the community and increased investment in infrastructure while maintaining our AAA credit rating and keeping debt levels low.*[15]

3.2 The initial Sustainable Budget Commission savings task

The 2009-10 Budget announced a saving target of $750 million over three years, comprising savings of $150 million in 2010-11, $250 million in 2011-12 and $350 million in 2012-13. This target was additional to savings announced before the 2009-10 Budget and already factored into the budget 'bottom lines' in the forward estimates for the years from 2010-11 to 2012-13.

The new $750 million savings target was also included in budget 'bottom line' estimates for the forward estimates period. However, these savings were not allocated to agencies at budget time. This was to allow the Government to consider specific budget improvement measures recommended by the Sustainable Budget Commission.

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12 Government of South Australia, South Australia's Strategic Plan 2007, Objective 1: Growing Prosperity, page 13.

13 Calculation of the Standard & Poor's ratio is based on net debt adjusted for advances plus unfunded superannuation liabilities divided by total revenue, whereas the Uniform Presentation Framework measure of NFL-to-revenue is calculated as net debt plus unfunded superannuation plus employee entitlement liabilities less equity held in public corporations divided by revenue.

14 The Hon. K.O. Foley MP, 2008-09 Budget Speech, Budget Paper 2, page 2.

15 The Hon. K.O. Foley MP, Ministerial Statement, House of Assembly, 6 May 2010, Hansard.

The 2009-10 Budget also announced an addition of $75 million to the 2008-09 Budget savings target (see section 3.3 below) for 2012-13, taking the total for the 2008-09 savings target to $225 million in 2012-13. The additional $75 million was allocated to agencies in the 2009-10 Budget.

3.3 Outstanding savings targets announced earlier

The following savings targets were announced prior to the 2009-10 Budget, have been allocated to specific agencies, and have been incorporated in the budget 'bottom lines' in the forward estimates for the years from 2010-11 to 2012-13. All remain partly unachieved.[16]

The 2008-09 Budget savings target and progress to date

The 2008-09 Budget announced a savings target of $250 million over three years: $25 million in 2009-10, $75 million in 2010-11 and $150 million in 2011-12. As noted above, in the 2009-10 Budget the Treasurer announced an addition of $75 million to this target in 2012-13, taking the total for the 2008-09 Budget target to $225 million in that year.

The agency-specific details of the first tranche of savings of $25 million per annum starting in 2009-10 were presented in the 2009-10 Budget papers.

Table 3.2 below shows the level of as-yet unachieved savings relating to the 2008-09 Budget savings task.

1600 full time equivalent employee reduction target and progress to date

In the 2008-09 Mid-Year Budget Review (MYBR) the Treasurer announced that the Government would ask agency Chief Executives to reduce full-time equivalent employees (FTEs) by 1,200 by the end of 2009-10.[17] A further staff reduction of 200 FTEs was sought in both 2010-11 and 2011-12.

The savings from this announced reduction were factored into agency budgets. Chief Executives are able to achieve the reduction by identifying positions that are no longer required. A Targeted Voluntary Separation Program (TVSP) was available for a short period to facilitate this initiative.

A total of 1,187 employees (1,096 FTEs) accepted a TVSP during the period. Of these, 947 employees (869 FTEs) were directly creditable against the target of 1,200 FTEs for 2009-10, and generated ongoing savings of $69 million (indexed) per annum. A further 240 employees (228 FTEs) accepted a package that was funded via a loan arrangement or directly by the agency and contributed to other savings of the agency (including the announced FTE reduction savings targets for 2010-11 and 2011-12).

Table 3.2 below shows the level of unachieved savings (converted to costs to the budget) relating to the FTE savings task.

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16 Savings are "unachieved" in this context if they have not been specified as individual savings measures.

17 2008-09 Mid-Year Budget Review, page 6.

The efficiency dividend savings target and progress to date

The Treasurer announced an annual ongoing efficiency dividend savings initiative in the 2006-07 Budget. This was measured as a ¼ per cent per annum of total employee expenses. The savings were allocated to agencies and it has been an agency responsibility to manage the efficiencies necessary to deliver the savings.

Table 3.2 below shows the level of unachieved savings relating to this efficiency dividend savings task.

The CPI adjustment savings target and progress to date

The Government's indexation policy for cost escalation over future budgets provides for indexation of the cost of supplies and services expenditure in line with projections of the consumer price index (CPI).

Over recent years this projection has been assumed at 2 ½ per cent.

In the 2009-10 Budget, agency budgets were adjusted to take account of the lower estimates for inflation announced in the 2009-10 Commonwealth Budget. The Commonwealth subsequently increased its inflation forecast but agency budgets were not increased in response. Consequently agencies will have to meet a savings requirement if inflation turns out to be in line with the revised (higher) Commonwealth forecast. This is the outcome assumed in Table 3.2 below.

Summary: the total outstanding savings target

Table 3.2 below shows the breakdown of the total announced savings targets still to be achieved or allocated to specific agencies. These savings are incorporated in the budget 'bottom lines' forecasts and projections.

Table 3.2: Total outstanding savings target ($ million)[a]

	2010-11	2011-12	2012-13	2013-14
2008-09 Budget target[b]	46	119	196	200
1600 FTE target[c]	28	45	56	59
Efficiency dividend[d]	5	11	27	44
CPI adjustment	28	47	46	47
2009-10 Budget target	150	250	350	358
Total — as per forward estimates	**257**	**472**	**675**	**709**

(a) Table may not add due to rounding.

(b) Reflects the original savings target contained in the 2008-09 Budget less the first tranche of measures ($25 million indexed) which were presented in the 2009-10 Budget.

(c) Reflects the original savings target contained in the 2008-09 MYBR less the savings achieved through the TVSP scheme.

(d) Reflects the incremental efficiency dividend from 2009-10 less savings achieved from agencies through TVSP loan arrangements or self funded TVSPs which amount to $9 million in 2010-11 increasing to $20 million by 2013-14.

In the 2009-10 Budget the Government announced that it would seek to achieve a considerable amount of the 2009-10 Budget savings target through wage restraint: specifically, through wage restraint targeting 2.5 per cent per annum for all employee groups. However, no savings from wage restraint have been factored into the savings in Table 3.2 above.

In the 2009-10 Budget Speech, the Treasurer noted that:

> *To achieve a proportion of this savings task, the government will pursue wage outcomes across the public sector of no more than 2.5 per cent per year.*[18]

Wage restraint is necessary to protect jobs.

Achieving the above outcome was estimated to save up to $290 million in 2012-13.[19]

3.4 New (pre-election) policy commitments

During the 2010 State Election the Labor Party announced new policy commitments with budget implications.[20]

The Commission understands that the estimated cost and impact of election commitments on the net operating balance is around $163 million in 2010-11 increasing to $246 million in 2013-14. The impact on net lending is even higher across the period.

The Commission notes that every dollar spent on meeting election commitments detracts from the budget outlook presented in the 2009-10 Budget. From that perspective it makes sense to weigh up the merits of particular election commitments against the savings initiatives that would be required to finance them. The Commission would urge the Government to re-examine individual election commitments from this perspective.

3.5 Budget effects of updated economic forecasts

Since the 2009-10 MYBR was released several factors have affected the budget estimates. The 2010-11 Commonwealth Budget, stronger than expected Australian economic performance, and updates to forecast Budget results for other Australian states have been followed by updates to South Australia's forecast budget revenues.

The unexpectedly rapid return to more normal economic conditions in Australia after the 2008-09 slow-down has produced significant GST revenue revisions in the early years of the forward estimates period.

These have resulted in an increase of $360 million in GST revenues forecast for 2010-11, declining to an increase of $220 million by 2013-14.

Improved economic conditions compared with the MYBR forecasts have resulted in increases to State own-taxation revenues of $75 million in 2010-11, rising to $198 million in 2013-14.

In isolation, these revenues would have improved the net operating balance by nearly $1.7 billion over the period 2010-11 to 2013-14 since the MYBR. This includes $435 million in 2010-11, $437 million in 2011-12, $433 million in 2012-13 and $418 million in 2013-14.

Outweighing these revenue increases are the impacts of spending commitments made in the election and the earlier announcements made as part of the MYBR, including changes to land tax rates and thresholds to provide broad-based relief to land taxpayers.

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[18] 2009-10 Budget Speech: Budget Paper No 2, Page 5.

[19] 2009-10 Budget Statement: Budget Paper No 3, Page 2.5.

[20] News Release 'Keep South Australia Moving Ahead' Thursday, 18 March 2010.

Despite these overall improvements, forecasts of taxation and GST revenue across the forward estimates are still lower than estimates made prior to the GFC as part of the 2008-09 Budget.

3.6 Critical and unavoidable expenses bids

The Commission understands that, to date, a significant number of requests for increased operating expenses have been submitted to the SBCC. In respect of these requests, additional spending of $149 million in 2009-10, $189 million in 2010-11, $189 million in 2011-12, $165 million in 2012-13 and $173 million in 2013-14 has been allowed for in the fiscal aggregates presented below in Table 3.3.

The Commission suggests the appropriate SBCC and Cabinet responses to such bids are (i) to rigorously test their necessity, and (ii) if satisfied that they are essential, to require the agencies responsible to provide offsetting savings from within their portfolio responsibilities to the maximum extent possible.

3.7 Updated fiscal outlook

Table 3.3 below sets out the revised fiscal outlook assuming that the Government adopts enough of the budget improvement measures identified by the Commission to achieve the savings identified in Table 3.2.

Table 3.3: General government sector projected budget estimates[(a)]

		2009-10	2010-11	2011-12	2012-13	2013-14
Net operating balance	$m	166	-282	-55	103	58
Net lending	$m	-1,127	-1,724	-905	-449	-215
Net debt	$m	-1,643	-3,252	-3,561	-4,006	-4,328
Net financial liabilities-to-revenue	%	86.8	99.4	100.1	99.9	100.4
Net financial liabilities-to-revenue (S&P)	%	90.8	102.5	101.3	99.0	99.3

(a) Estimates as at 11 August 2010.

The main differences from the fiscal outlook published at the time of the 2009-10 MYBR are the net operating surplus now forecast for 2009-10 and the movement back into net operating deficit projected in 2010-11 and 2011-12. The 2009-10 forecast outcome has improved due to stronger revenue collections, one-off Commonwealth grant receipts and delays in departmental program expenditure that result in carry-over expenditures worsening the 2010-11 outlook. The deterioration in the 2010-11 and 2011-12 outlook primarily reflects the timing of contributions for the Adelaide Oval and revised financial arrangements for the South Australian Health and Medical Research Institute (SAHMRI) building.

A number of considerations need to be taken into account in assessing the appropriateness of the fiscal outlook, the most important of which have been outlined in the previous sections above. To summarise, the net operating position should be in surplus and the surpluses should be sufficiently large to make an adequate contribution to funding the State's capital expenditure to avoid a marked deterioration in the State's net financial liabilities-to-revenue ratio.

It is clear that in the absence of the savings task already identified that the net operating position would remain in substantial deficit and the net financial liabilities-to-revenue ratio would continue to deteriorate placing at risk the State's triple-A credit rating.

The medium term scenario analysis set out at the end of this section highlights the longer-term consequences of not acting now.

The fiscal outlook after delivery of the announced savings targets will return the net operating balance to surplus over the course of the forward estimates. However, in the absence of stronger than forecast revenues it provides only limited scope for new expenditure over the next 4 years while still retaining a net operating balance surplus by the end of the forecast period. For example, without further improvements to revenue, new expenditure measures of $20 million per annum in each of the next three budgets would completely eliminate the projected net operating balance surplus in 2013-14. This is considerably lower than the net new spending experience of the past 5 years — $380 million per annum — which has been achievable in large part on the back of very favourable international and domestic economic conditions (and, thereby, revenue) prior to the onset of the GFC.

This outcome would not meet the Commission's definition of sustainability. It contains no risk buffer for adverse developments and, as noted above, virtually no scope for net new expenditures across the forward estimates. Based on Table 3.3 above, the Standard & Poor's net financial liabilities-to-revenue ratio is not on a clear downward path across the forward estimates and remains above the Standard & Poor's target range of 80-90 per cent. However, see discussion below in section 3.8 on the sensitivity of the net financial liabilities-to-revenue ratio to the discount rate.

Table 3.4 below sets out the budget outcomes if the Government adopted a far more aggressive savings target of an additional $150 million in 2011-12, $350 million in 2012-13 and $500 million in 2013-14. The important figure is the $500 million by 2013-14; the pattern of savings in the years leading up to 2013-14 is somewhat less critical, although early action would help make the 2013-14 savings more likely. This more aggressive savings target would result in total savings of $1.2 billion in 2013-14.

Table 3.4: Budget outlook with a more aggressive savings target[(a)]

		2009-10	2010-11	2011-12	2012-13	2013-14
Net operating balance	$m	166	-282	95	462	592
Net lending	$m	-1,127	-1,724	-755	-90	319
Net debt	$m	-1,643	-3,252	-3,411	-3,497	-3,285
Net financial liabilities-to-revenue	%	86.8	99.4	99.1	96.8	94.1
Net financial liabilities-to-revenue (S&P)	%	90.8	102.5	100.4	96.0	93.4

(a) Estimates as at 11 August 2010.

The outlook presented in Table 3.4 meets most of the sustainability criteria, provides limited scope for additional expenditure over future years, would help support a substantial capital program while limiting State debt levels, and provides a risk margin to manage an adverse impact on the economy.

Budget sustainability is not a black and white test. Savings of $1.2 billion in 2013-14 would deliver a sustainable budget outcome, if backed up by sound fiscal policy subsequently, while savings of only $700 million in 2013-14 would leave the budget vulnerable in a number of respects. Between these outcomes there is trade-off: higher up front savings allows more future budget flexibility, and conversely. For example the Government could adopt savings in 2013-14 of less than $1.2 billion and commit to lower net new expenditures across the forward estimates in order to maintain acceptable budget outcomes. Lower net operating surpluses in future years may also be more sustainable if infrastructure investment is constrained.

The strategy to be adopted is a matter for the Government. The important point from the Commission's perspective is that there is a commitment to deliver sustainable budget outcomes. The Commission has identified a menu of budget improvement measures that totals about $1.8 billion. The Commission does not suggest savings of this magnitude be made or even that they would be desirable. The purpose is to provide the Government with as extensive a menu as possible to meet the savings target it decides to adopt.

3.8 Medium term projections

Governments and private sector organisations often undertake longer term budget modelling. This type of modelling is best regarded as 'what if' scenario analysis, rather than detailed forecasting.

Such scenarios extend beyond the forward estimates period. These longer term scenarios are based on numerous simplifying assumptions. They should be used mindful of their inevitable limitations. Even with the best forecasting tools, error margins increase the further into the future the scenarios are projected.

Two critical assumptions are the discount rate and the allowances for future capital spending.

Sensitivity of the NFL to the discount rate

The unfunded public sector superannuation liability makes up a significant component of the net financial liabilities of the State. Changes in the value of this liability arising from fluctuations in the long term Commonwealth Bond rate used to discount the future liability result in material changes to the State's net financial liabilities and thus their ratio to total revenue. This volatility was explained in the 2009-10 Budget.

> *A 1.0 percentage point reduction in the discount rate would increase unfunded superannuation liabilities by $2 billion. An increase in the discount rate of 1.0 percentage point would decrease unfunded superannuation liabilities by $1.6 billion.*[21]

The inverse relationship between the discount rate and unfunded superannuation liabilities is non-linear. The movement described above is centred on the prevailing discount rate and unfunded superannuation liability at the time of the 2009-10 Budget.

The rating agencies recognise the variability in the ratio that results from these changes to the discount rate and take them into account when assessing the State's indebtedness. In particular, Standard & Poor's has noted that when measuring net financial liabilities for the non financial public sector against their benchmark of 80-90 per cent for South Australia it is important to recognise that this benchmark was set at a time when the State used a much higher discount rate.

The Commonwealth uses a discount rate of 6 per cent on the grounds that it represents the average interest rate over time of Commonwealth long term bonds. Individual states adopt different approaches from South Australia's use of the current long term Commonwealth bond rate. This uncertainty over the 'correct' discount rate to use needs to be recognised when considering net financial liabilities-to-revenue ratios.

The estimates in Tables 3.3 and 3.4 above use a discount rate of 5.3 per cent to calculate the unfunded superannuation liability.

Table 3.5 below shows the sensitivity of the net financial liabilities-to-revenue ratio to variations in the discount rate. It also shows the benefits to the ratio of achieving a higher level of savings. If the discount rate used to value the unfunded liability was 7.5 per cent (and the savings achieved as per Table 3.2), this would lower the net financial liabilities by around $3 billion in 2013-14 and the net financial liabilities-to-revenue ratio would be around 17 percentage points lower. Achieving savings of $1.2 billion per annum by 2013-14 rather than $700 million per annum would result in a reduction in the ratio of six percentage points in 2013-14.

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[21] 2009-10 Budget Statement: Budget Paper 3, page 7.9.

Table 3.5: Sensitivity of NFL-to-revenue ratio to the discount rate

	2010-11	2011-12	2012-13	2013-14
Total outstanding savings target achieved as per table 3.2				
S&P NFL-to-revenue ratio @ 5.3 %	102.5	101.3	99.0	99.3
S&P NFL-to-revenue ratio @ 7.5 %	82.7	82.2	81.0	82.1
Total savings of $1.2 billion achieved as per table 3.4				
S&P NFL-to-revenue ratio @ 5.3 %	102.5	100.4	96.0	93.4
S&P NFL-to-revenue ratio @ 7.5 %	82.7	81.3	78.1	76.2

Investing expenditure

The medium term projections include an allowance for investing expenditure beyond the forward estimates equivalent to maintaining the State's asset stock in real per capita terms plus an additional $150 million investment per annum. That is, the amount of investing expenditure is $150 million above the level of depreciation plus inflation and population growth. This provides for an expansion of the State's asset base over time in addition to the needs associated with infrastructure to meet the demands of a growing population. The growth in the State's capital stock over the five years to 2009-10 has exceeded this benchmark by an average of 2.1 per cent per annum.

Some of this capital program is already allocated to annual capital expenditure programs and announced major projects that extend beyond 2013-14. The residual amount would be allocated through future decisions of the Government.

The new Royal Adelaide Hospital expenditure is scheduled to impact on the budget on completion of the project in 2016-17. That cost is included in addition to the general capital program assumption.

Illustrative scenarios

Carefully used, scenarios can illustrate potential outcomes based on the assumptions that underpin them.

While recognising their limitations, the Commission believes the Government should consider medium term budget scenarios (ie, beyond the forward estimates) in assessing the implications of current and proposed budget policy settings.

Such longer term information could be used at the start of the annual budget cycle when the Government determines its priorities and strategies, and also later, when the Government decides the specific initiatives to be included in the budget.[22]

Five 'what if' longer term scenarios are presented below to illustrate the consequences of different budget outcomes. Scenarios 1 to 3 are presented first. Scenarios 4 and 5 are then presented as a sensitivity analysis showing potential variances due to different assumptions about revenue growth.

The scenarios range from a 'do nothing more' plus 'historical' net new spending scenario, to a scenario illustrating the impact of higher up front savings allowing increased net new spending in future years.

The scenarios differ from the outlook presented in Tables 3.3 and 3.4 above because they make an allowance for additional spending in future budgets.

22 The budget cycle phases are explained in Section 6 of the Commission's first report. See Sustainable Budgets: Principles and Processes, First report by the Sustainable Budget Commission, December 2009, page 26.

The scenarios are summarised below.

Explanation of Scenarios

Scenario 1: *No further achievement of savings and net new annual spending based on recent history.*

Recent experience has been that new expenditure has averaged about $380 million per annum (based on around $100 million per annum outside of the budget process and $280 million per annum in the Budget itself) plus a further $100 million in an election year.

Scenario 2: *Achieving 100 per cent of proposed savings, as per Table 3.2 and net new annual spending restricted to $100 million per annum and $250 million per annum in an election year.*

Scenario 3: *Achieving 100 per cent of proposed savings as per Table 3.2 plus additional savings of $150 million in 2011-12, $350 million in 2012-13, and $500 million in 2013-14 (giving total savings in 2013-14 of $1.2 billion) and net new annual spending restricted to $100 million per annum and $250 million per annum in an election year.*

Scenario 4: *Scenario 3 with 0.5 per cent per annum revenue growth above baseline assumption.*

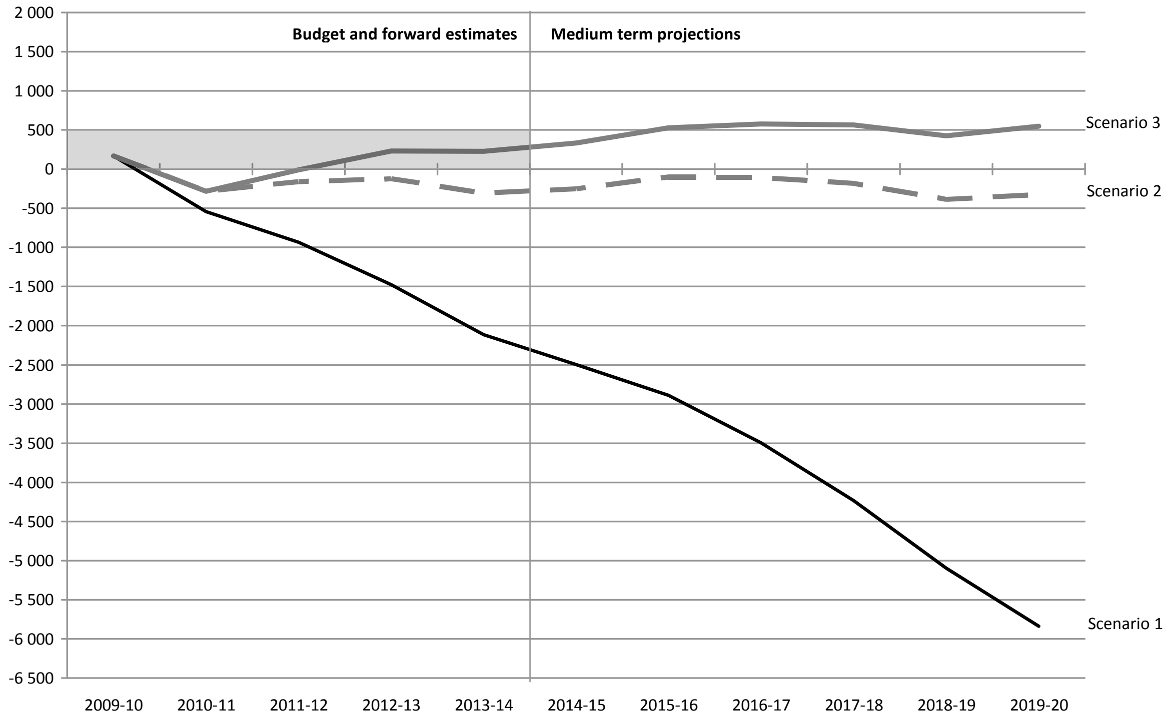
Scenario 5: *Scenario 3 with 0.5 per cent per annum revenue growth below baseline assumption.*

Scenarios one to three

Based on the latest forward estimates and longer-term budget projections, the following two charts illustrate the first three scenarios for two key budget performance indicators:

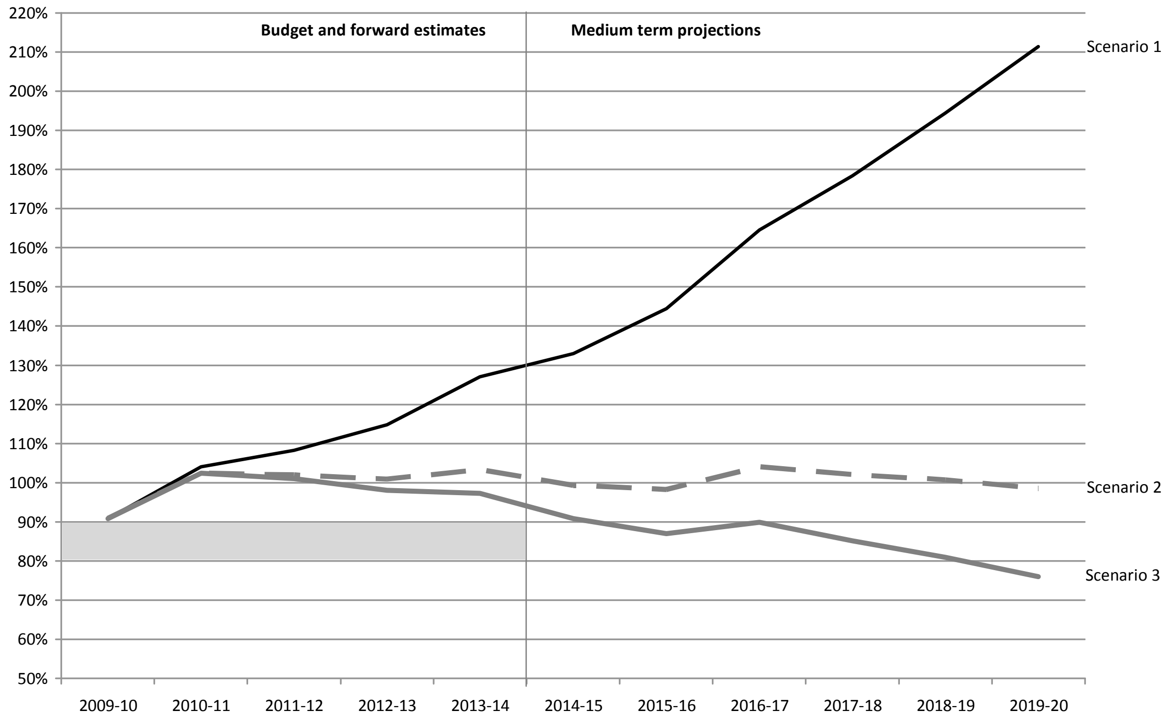
- The net operating balance; and
- The Standard & Poor's net financial liabilities-to-revenue ratio.

Chart 3.1: Net operating balance scenarios 1 to 3



Source: Department of Treasury and Finance.

Chart 3.2: Standard & Poor's net financial liabilities-to-revenue ratio scenarios 1 to 3



Source: Department of Treasury and Finance.

Scenario 3 delivers a net operating surplus consistently in the years after 2011-12 and in most years the surplus is significant. This outcome is after allowing for net new expenditure of $100 million per annum and $250 million in an election year. These surpluses would help support investing expenditure across the period. It would also provide a buffer against adverse economic developments. In contrast scenario 2 produces net operating deficits over the period. These add to net debt levels.

Chart 3.2 shows that under scenario 3 the net financial liabilities-to-revenue ratio is on a clear downward trend. In contrast under scenario 2 the ratio continues to be above 100 per cent for the majority of the period.

Scenarios three, four and five

As indicated above, scenarios 4 and 5 show the sensitivity to variations in the assumptions about revenue growth in the medium term. These scenarios are variations on scenario 3 with scenario 4 assuming annual growth in revenue is 0.5 per cent higher each year and scenario 5 assuming revenue growth is 0.5 per cent lower.

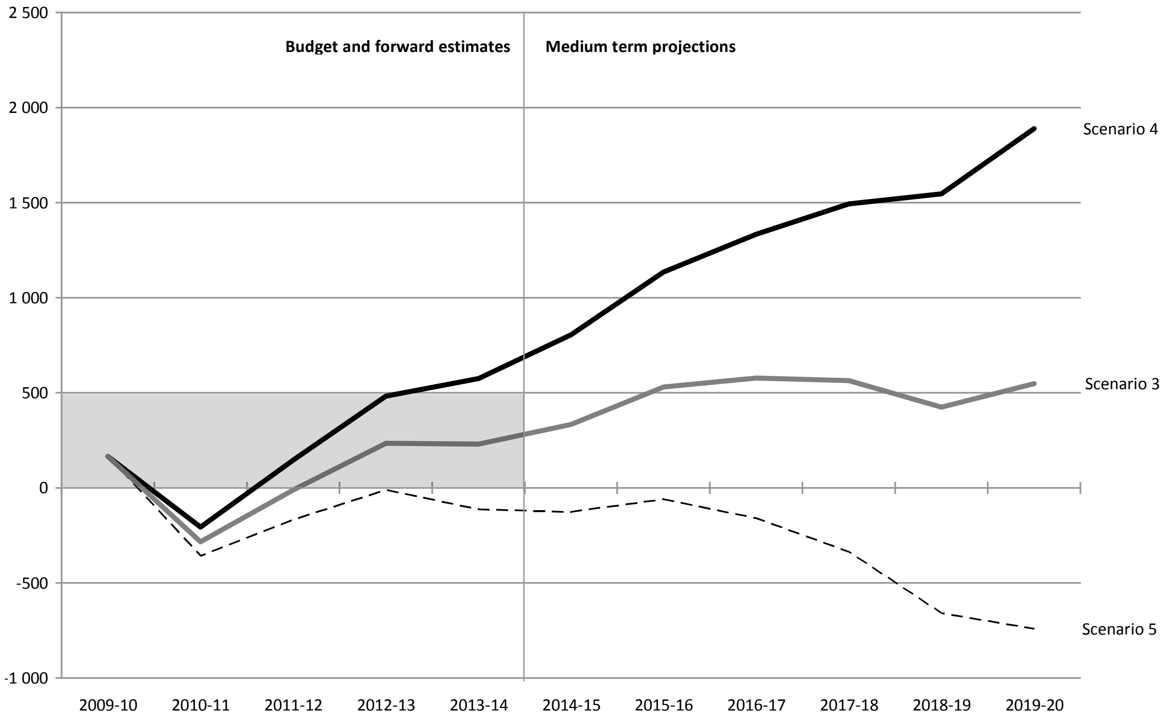
By 2019-20 scenario 4 has revenue $1.06 billion (4.7 per cent) higher than scenario 3 and scenario 5 has revenue $1.02 billion (4.5 per cent) lower.

The sensitivity analysis is not designed to reflect the volatility of year to year outcomes. State taxation growth is underpinned by an assumption of 1.5 per cent per annum growth in real household incomes per capita. In an environment of close to full employment, divergences from this projection would largely be driven by higher or lower growth in labour productivity than is inherent in this figure. The Federal Government's Intergenerational Report assumes long term labour productivity growth of 1.6 per cent per annum with a sensitivity 0.4 percentage points above and below that growth rate.

In terms of historical trends, nationally, labour productivity cycles have shown a broad range of outcomes that vary more than one percentage point above and below the long term average. However there are two 'outlier' periods of very low labour productivity growth in the late 1980s and very high growth in the mid 1990s. Ignoring these two periods productivity growth cycles have varied from 0.6 percentage points above the long term average to 0.2 percentage points below.

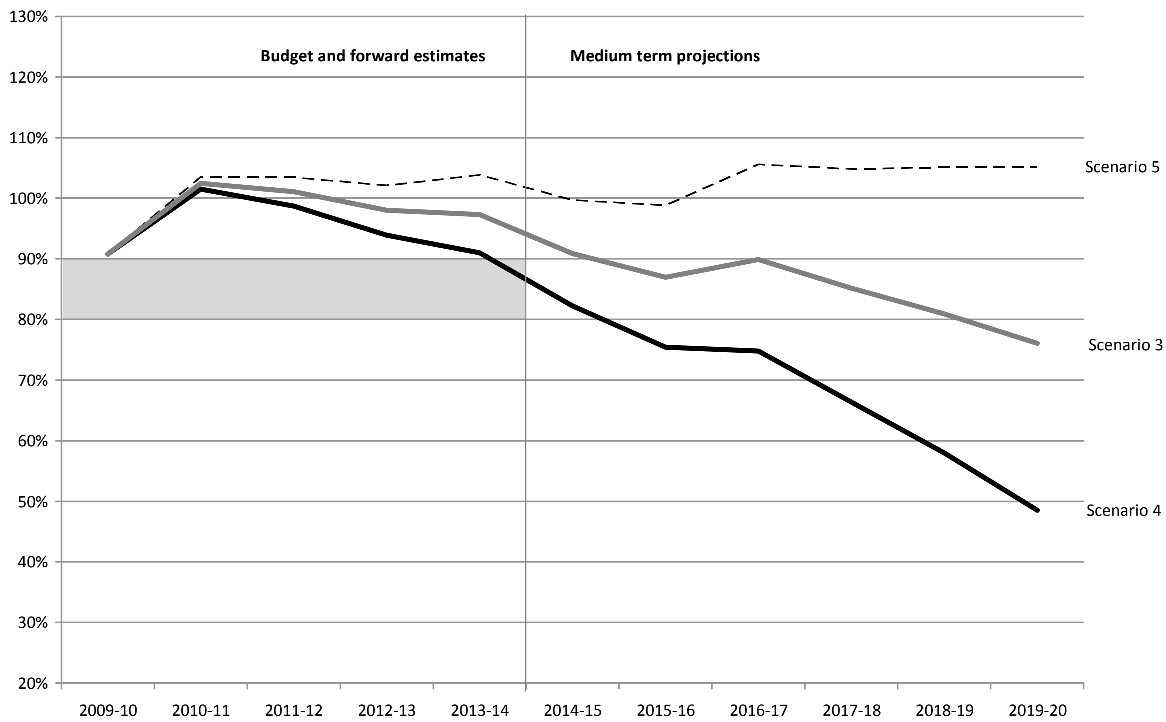
The following two charts illustrate the two key budget performance indicators as per Chart 3.1 and 3.2 for scenarios 3, 4 and 5.

Chart 3.3: Net operating balance scenarios 3, 4 and 5



Source: Department of Treasury and Finance.

Chart 3.4: Standard & Poor's net financial liabilities-to-revenue ratio scenarios 3, 4 and 5



Source: Department of Treasury and Finance.

3.9 Developing a 'budget improvement measures menu'

The Commission has provided a 'budget improvement measures menu' for the consideration of the Government. A summary of the rationale used by the Commission in selecting the measures is presented in Section 4 and an overview of savings aggregates is provided in Section 5.

The size of the menu is intended to allow the Government to make choices between options based on its own program priorities. A number of across government and general revenue measures have been included in the menu.

The Commission also notes that the scenarios above assume net new annual spending in the years ahead. The forces giving rise to such spending may be strong. As an example the election commitments and unavoidable and critical bids allowed for in the fiscal outlook presented above have an adverse impact of over $400 million on the Budget net operating balance in 2013-14. To the extent election commitments and other new spending can be avoided then the savings task can be reduced.

As a prudent risk management approach, the Commission recommends that any future 'windfall' gain to state revenues should be taken as a reduction in the underlying net operating deficit, and as a faster reduction in the State's net debt position.

Recommendation 5: **Budget responses to unexpected economic strength**

Stronger economic growth might provide unexpected improvement in budget revenues. There would be risk management benefits if the additional revenue went to the budget bottom line.

Another possibility is to deliver savings by raising revenues.

Improving cost recovery for programs where beneficiaries can be clearly identified and charged closer to the full cost of the services they receive is an appropriate part of any government response to the savings challenge. Such options are summarised in Section 5 below.

Another option is to increase general taxation revenue.

This is a more risky choice, because South Australia is already a relatively high-tax State, and further increases will affect its competitiveness as an investment destination, even if only at the margin. Ideally, increasing general revenues to meet the savings challenge should be a last resort, and applied to the minimum extent possible. Such options are summarised in Section 5 below.

Another option is to use asset sales to reduce the current budget problem.

The scope for asset sales in South Australia is more limited than in other states, because it has fewer assets remaining in government ownership. In addition, the net benefits to the budget net operating balance will reflect the net effect of (i) reduced public debt interest payments as debt is retired from asset sale proceeds, less (ii) reduced dividend incomes from the assets sold. Balance sheet benefits (eg, reduced public debt) will reflect the difference in the valuation of the assets pre-and post-sale. The merits of selling a particular asset will depend on the financial benefit and the risks of ownership.

The Commission concludes that the bulk of the savings task should fall on (i) eliminating unnecessary costs and delivering key government programs as cost-effectively as possible, and (ii) eliminating or phasing-out lower priority spending programs.

Recommendation 6: Bases for addressing the savings task

The Commission recommends the bulk of the savings task should fall on (i) eliminating unnecessary costs and delivering key government programs as cost-effectively as possible, and (ii) eliminating or phasing-out lower priority spending programs.

Could the Government choose to ignore the savings task, rather than deliver it via reduced spending, increased cost recovery, or increased general tax revenue?

The Commission concludes no such choice exists in practice. There are only two available choices:

- The Government can choose to deliver the savings ***now***. That is a painful choice.

- The Government can choose to deliver the savings ***later***. That is a more painful choice, because the size of the savings task will compound over time.

A Government decision to take no action does not eliminate the problem. Rather, it hands the decision to take action to rein in the budget to other influences at some stage in the future. These influences will include credit rating downgrades (and higher borrowing costs as a result); an increase in public debt interest payments as a proportion of total expenses (compounding rapidly); growing concerns about whether or not the State's finances are sound; and rapidly-growing pressures to raise tax burdens as the state budget position deteriorates.

The Commission concludes the only choices available to the Government are (i) to deliver the required savings now, or (ii), one way or another, to opt for a much more painful savings task later.

SECTION 4. SAVINGS RATIONALE AND APPROACH

Key points:

- The Commission reviewed budget programs and attempted to decide whether or not they should be high priority activities for government.
- Where they are, the Commission sought to establish whether other levels of government were better placed to undertake them, and to establish whether or not there is duplication of effort.
- For the remaining higher-priority programs, as far as possible, the Commission's focus is on doing things better, not curtailing available services.
- The Commission acknowledges the Government will make its own decisions about program priorities. For that reason, it has compiled a menu of savings measures significantly larger than any realistic savings target the Government might adopt.
- The Commission's primary focus is on budget expenditures. However, where warranted, the Commission also supports improved cost-recovery for services where beneficiaries can be clearly identified. In addition, the Commission recognises that some increases in taxation revenue are probably unavoidable.
- The Commonwealth Grants Commission and the Productivity Commission (and others) regularly publish comparisons of the cost of service delivery in key areas across Australian States. These show South Australian service delivery is relatively expensive in important areas, such as health.
- On the evidence available to it, the Commission concludes the South Australian results more likely reflect inefficiency than higher-quality outcomes. That suggests there is scope for budget savings without impairing service quality.

4.1 Commission's rationale for savings recommendations

The Commission's savings recommendations reflect its own judgements about priorities in relation to existing, and promised, budget programs.

The Commission's approach has been to first seek savings that could be made without affecting service outcomes, and only after that to consider measures that would cut into service outcomes.

To that end, the Commission looked for areas where there is evidence of duplication, ineffective and inefficient service delivery, and scope for improved cost recovery, as priority areas for savings. Only after these areas are exhausted does the Commission see a case for savings in other areas.

At the most general level, the Commission asked the following questions about existing and promised programs:

- Is this program a priority for Government in the current budgetary environment?
- If it is a priority, should it be undertaken at the state government level?

- If state government involvement is appropriate, how many agencies are doing the job? Is there duplication?

- More generally, is the program being delivered effectively and efficiently?

Brief comments on each of these questions follow.

Is the program a priority government activity at present?

The Commission considered whether or not some programs could be terminated.

In cases where the Commission concluded that was appropriate, that finding was usually an ‘on balance’ recommendation.

It had much to do with the need to achieve a large and challenging savings task, and the consequent need to reconsider existing budget priorities. The savings task represents a material change in budget circumstances and a consequent need to pare back total expenditures towards a leaner scale of government activity.

In many cases where the Commission recommends that a program cease it is not because it does not have net benefits. It is because its net benefits have been judged to be lower than alternative programs that deliver the same savings benefit. The need to restore the sustainability of the budget means that expenditure on such programs needs to be reduced.

Appropriate state government involvement?

Commonwealth, state and local governments can deliver government programs. They can also be delivered either ‘in-house’ or via ‘contracting-out’ to non-government suppliers, based on competitive tenders.

The Commission considered existing state budget programs against the test of whether they were more appropriately delivered by another level of government, or via ‘contracting-out’ arrangements.

In some cases, the Commission concluded that the Commonwealth was a more appropriate level of government because of the national policy settings involved. In others, local governments were seen as the more appropriate level to deliver the particular service to the community.

In others, ‘contracting-out’ was regarded as sensible, provided net budget savings could be demonstrated from that change. The Commission noted that ‘contracting-out’ was not an automatic source of budget savings. That option could only be assessed on the merits of individual cases.

Focussed agency involvement?

The Commission sought examples where the same, or very similar, programs were being delivered by more than one agency within the Government.

In some cases, a degree of duplication was accepted as inevitable.

However, where possible, the Commission sought to minimise this to improve the focus of program delivery.

Effective and efficient program delivery?

For programs that should be retained as core functions within a leaner South Australian general government sector, the Commission has made recommendations to improve effectiveness and efficiency where there is evidence that this is feasible.

To this end, the Commission considered interstate comparisons of program costs, such as those compiled by the Commonwealth Grants Commission (CGC), and through Report on Government Services (ROGS) data compiled by the Productivity Commission.

These comparisons are not necessarily definitive, given their inherent limitations. Nevertheless, they provided the Commission with guidance in some areas to investigate program delivery more closely. These comparisons are further discussed in Sections 4.5 to 4.9 below.

Health and community services, in particular, are important examples where the Commission concludes there is scope for significant savings from more cost-effective service delivery.

Revenue and cost recovery increases

If government expenditures are not contained through lower cost delivery models or the cessation of lower priority programs, revenues will need to be increased to restore and maintain sustainable budgets.

There is a trade-off. High levels of expenditure and low levels of revenue are not simultaneously sustainable. In some cases, greater cost recovery by government agencies is one option for managing and financing expenditure demands on government. However, general tax revenue is also needed to pay for the provision of public goods and services.

The Commission has looked at two issues related to revenue:

- First, an examination of programs to ensure that appropriate cost recovery is being applied. This is discussed further below.
- Second, what general revenue measures could be implemented that would assist in achieving sustainability in the overall budget? General revenue measures are summarised in Section 5. Revenue forecasting is discussed in Section 10.

As indicated in the Commission's first report "*the first priority of the Commission will be to look at the expenditure side of the budget. Revenue initiatives may be considered in the Commission's Phase 2 report. This will include an examination of programs to ensure that appropriate cost recovery is being applied.*"[23]

Applied appropriately, cost recovery can improve economic efficiency and equity. Economic efficiency is increased by providing consumers a signal about the costs involved in the production of goods and services consumed or in the administration of regulation. Equity is improved by ensuring that only those who derive a benefit from the product or create the need for the regulation pay for it.

The Commission found that a number of agencies were not applying full or significant cost recovery for a range of goods and services and regulatory activities where such recovery was appropriate.

Agencies were asked to consider cost recovery opportunities as potential savings measures.

[23] *Sustainable Budgets: Principles and Processes*, First report by the Sustainable Budget Commission, December 2009, page 26.

The Commission endorses the key principles for cost recovery shown in Appendix B. These have been adapted from work by the Productivity Commission in 2001 as part of its *Cost Recovery by Government Agencies* inquiry report.

A number of cost recovery measures have been recommended by the Commission. They are summarised in Section 5 of this report.

4.2 Specific savings criteria

Within the four general questions outlined in section 4.1 above, the Commission classified saving options against the following questions, included in its first report to the Government:[24]

- What community benefits do specific existing budget programs deliver?
- What net economic benefits do such programs provide?
- Is there a good economic rationale for government involvement in such programs?
- Is there program duplication?
- Are service levels and costs in line with those elsewhere in Australia?
- Is cost recovery from identified beneficiaries of such programs adequate?
- Are programs essential for inter-jurisdictional cooperation (eg, through Council of Australian Governments (COAG) initiatives)?
- Do the programs deliver social inclusion benefits?
- Do the programs assist in managing growth in demand for government services?
- Can programs be ranked as lower priority?
- Are government assets contributing to government balance sheet efficiency?

4.3 Commission versus Government savings priorities

The *intrinsic* merits of programs affected by the Commission's recommendations are not the focus of this report *per se*. The Commission, the Government, and others, will have different perspectives on those merits.

However, given the more straitened circumstances under which budgets must be prepared from 2010-11 onwards, the Commission is making suggestions about where it might be most sensible to find savings. This is consistent with its Terms of Reference.

The Commission recognises that decisions about program priorities involve significant value judgements.

Ultimately, elected governments, not independent Commissions appointed by them, must determine program priorities.

[24] For a more detailed and extensive discussion, see Sustainable Budgets: Principles and Processes, First report by the Sustainable Budget Commission, December 2009, especially pages 22 - 26.

In making its own judgements about existing programs, the Commission is providing a menu of savings options from which a sub-set meeting the savings task needed to meet the Government's objective of retaining South Australia's triple-A credit rating can then be chosen.

For the Commission and the Government, the primary objective is budget sustainability. The retention of the State's triple-A rating would be one indication that this has been achieved.

As to specific savings measures, it is for the Government to choose amongst the options presented.

The Government needs to identify budget improvement measures sufficient to meet the previously announced savings target. As discussed in Sections 3.7 and 3.8 above there are solid arguments in support of further savings beyond this initial target.

Recommendation 7: Setting program priorities within appropriate constraints

Governments must determine program priorities within budget constraints. The Commission strongly recommends that program priorities be consistent with appropriate overall budget constraints delivering sustainable budgets over time.

4.4 The Commission's approach

To compile its savings menu for consideration by the Government, the Commission's approach included the following steps:

- The allocation of savings tasks to each agency designed to deliver a menu of savings options significantly in excess of any realistic savings target the Government might adopt.
- The Commission had oversight responsibility for the identification of budget improvement measures for the consolidated savings target (as outlined in Table 3.2).
- Chief Executives were responsible for the identification and submission of a menu of budget improvement measures equal to their agency targets. The proposals were to be robustly costed, based on sound policy, and to be practical and achievable.
- Chief Executives were asked to avoid applying any political judgements in deriving their list of savings options. The Commission did not want the exercise constrained by judgements about what the Government may find politically acceptable. Cabinet will make such judgements when it has the Commission's full report. Cabinet can then make choices in the full knowledge of the trade-offs available to the Government.

The Government endorsed the Commission's approach in April 2010.

The Commission has worked in collaboration with Chief Executives wherever possible in the development of specific agency budget improvement measures.

The Commission met with Chief Executives and other senior agency staff on a number of occasions throughout the process. The Secretariat met with agency personnel on a regular basis.

In some cases, agencies offered savings proposals equaling or even exceeding their allocated targets. In others, targets were 'met' largely by proposing savings affecting other agencies, or by proposing whole-of-government savings, including increased general revenues, or by proposing cost recovery (noting that the Commission supports appropriate levels of cost recovery) rather than through agency-specific expenditure based savings.

In preparing budget improvement proposals, agencies that collect revenue used this administrative link to generate revenue based proposals. This inherent bias created an uneven distribution of expenditure reductions and revenue raising proposals across the agencies.

While some revenue based proposals were considered and recommended by the Commission, expenditure reductions and relevant cost recovery proposals were the first priority.

Where agencies had insufficient focus on expenditure reductions, the Commission went back to them with further requests for additional savings in the form of reduced expenses, because the Commission considered that they had not achieved an appropriate balance between revenue/cost recovery proposals and expenditure based proposals. In some of these cases, the Commission concluded that the only course open to it was to propose percentage or dollar amount operating savings targets, with the detail to be determined by the agency and/or the Government. This is important to ensure that those agencies that deliver savings targets are not discouraged when they see other agencies not cooperating and appearing to escape similar reductions.

The Commission used information from a number of sources, including:

- detailed information prepared by agencies on how and why they apply their existing budgets;
- comparative data prepared by the Commonwealth Grants Commission and performance information for specified state services published by the Productivity Commission and other specialised research bodies (see below);
- information supplied by agencies in respect of specific questions asked by the Commission;
- consultancy reports into corporate services, revenue forecasting, government Information and Communication Technology (ICT), and industry support; and
- information prepared by the Secretariat responding to specific questions raised by the Commission or prepared generally by the Secretariat and other parts of the Department of Treasury and Finance to inform the Commission.

The Commission thanks all those involved in the preparation and provision of information received. Without the cooperation and support from all involved, the Commission would not have been able to produce this report by the deadline set for it.

4.5 Comparisons of cost-effectiveness of service delivery

As one guide to its analysis, the Commission compared South Australia’s budget expenditures, service levels, and performance with other Australian states across different programs.

Comparisons between South Australia and other Australian jurisdictions’ performance have been made in several ways. These include:

- The Commonwealth Grants Commission (CGC) analysis of South Australia’s actual program-specific expenditure compared to the CGC standardised expenditure, which provides a ‘first pass’ assessment of areas of potential inefficiency or where service levels may be above (or below) the national average.
- The Productivity Commission Report on Government Services (ROGS) that compares the average efficiency of service delivery between states.
- Other sector-specific comparative data prepared by various specialised research bodies (eg, the Australian Institute of Health and Welfare (AIHW)).

The best use of the comparative data produced by these bodies, and the extent they can be relied upon for benchmarking, can be debated. That said, the Commission agrees that they generally provide a reasonable basis for high level indicators of relative program performance.

The CGC and ROGS data sources and some preliminary observations on the data are presented in Sections 4.6 to 4.8 below.

4.6 Commonwealth Grants Commission data

The CGC is an independent Commonwealth statutory authority charged with recommending to the Federal Treasurer the share of Commonwealth general purpose payments to be distributed to each State. The CGC calculates ‘relativities’, which determine the distribution of GST funds to each state.

The CGC’s objective is to achieve ‘horizontal fiscal equalisation’ (HFE). HFE provides that states should have, on average, the revenue base (that is, the potential revenue capacity) necessary to provide an average level of services, taking into account differences between the states. The CGC assesses both revenue and expenditure categories to determine relative fiscal capacities.

For expenditures, the CGC estimates the level of ‘standardised’ or ‘assessed’ expenditure for each state for the full range of state functions. The standardised nature of the CGC analysis provides some comparability between states.

The standardised expenditure for any government program is the CGC’s estimate of what it would cost to deliver the national average level of services taking into account cost differences attributable to each state’s circumstances. Assessments of economic, social and demographic factors influencing service delivery costs are made for each expenditure category.

For revenues, the relative capacity of states to raise their own revenue is assessed. The influence of factors such as higher levels of economic activity or natural endowments of mineral resources are taken into account in determining the revenue raising capacity of each state.

The expenditure and revenue estimates are combined into a single measure called a ‘relativity’. A revenue raising capacity relativity of more than 1.0 is interpreted as a state requiring more than its population share of GST revenues to provide an average level of services. Conversely, a revenue sharing relativity of less than 1.0 is interpreted as a state requiring less than its population share of GST revenue to provide an average level of services.

South Australia tends to receive a higher proportion of GST than its population share in recognition of its lower revenue raising capacity in comparison to other states on average. South Australia’s demographic profile (a greater proportion of older people) and greater proportion of people of lower socio-economic status also contribute to this result.

Relevance of CGC data to the Sustainable Budget Commission's task

The CGC's 2010 Review recommended revenue sharing relativities for the distribution of GST revenues to South Australia. This aspect of the CGC analysis is not of direct relevance to the Commission's work. However, the underlying assessment of expense categories used to determine these relativities can provide some high-level pointers to potential areas of over spending.

Where South Australia's actual expenditure is greater than the CGC level of assessed expenditure (which considers the disability factors faced by South Australia), the CGC expenditure analysis provides the Commission with a high-level preliminary indicator of areas of possible overspending.[25]

There are three possible explanations for above-average expenditure in South Australia:

- South Australia delivers a higher standard of service than the national average;
- South Australia is inefficient in its delivery of services; or
- the CGC methodology or data is incorrect.

The CGC methodology and data are the subject of intense examination and analysis by the Commonwealth and State governments (and their Treasuries) in Australia. Any significant flaws or deficiencies are therefore likely to be recognised and corrected to the extent possible. Where South Australia's actual costs exceed the CGC's estimated standardised costs, the likely reasons are that South Australia provides a higher standard of service, or is relatively inefficient in its provision of services, or a combination of these reasons.

4.7 Comparison of State's CGC assessed expenditure

Table 4.1 below summarises South Australia's actual expenditure in each of the CGC expense categories and compares it with the level of CGC standardised expenditure required to provide an average level of services in South Australia. A positive number represents an area of potential overspending (due either to inefficiency or higher than average service levels). A negative estimate represents the opposite.

[25] Disability factors are cost drivers which result in a state's service delivery circumstances being different from the national average. Disabilities are beyond the control of policy makers and require states to spend more (or allow them to spend less) per capita than others to provide the average level of service. Disabilities arise from demographic, economic and geographic factors. For example, a higher proportion of indigenous students in schools increase costs, resulting in a higher disability factor, and therefore higher revenue sharing relativity. Other examples include differences due to low-income population, wage levels, price levels (especially in remote areas), population dispersion, scale of operations and physical environment.

Table 4.1: Commonwealth Grants Commission 2010 Review (data for the year 2008-09)[(a)]

Expenditure categories[(b)]	SA actual expenditure $ million	CGC standardised expenditure $ million	Difference $ million	Difference $ per capita
Schools education	2,725.3	2,592.8	132.5	82.2
Post-secondary education	439.4	366.8	72.6	45.0
Admitted patient services	2,295.3	2,070.4	224.8	139.5
Community and other health services	1,167.7	972.4	195.3	121.1
Welfare and housing	1,371.8	1,260.7	111.2	69.0
Services to communities	686.1	471.3	214.8	133.2
Justice services	1,008.2	947.3	60.9	37.8
Roads	217.6	495.3	-277.7	-172.3
Transport services	293.0	467.2	-174.2	-108.1
Services to industry	436.7	507.8	-71.1	-44.1
Depreciation	547.0	660.6	-113.6	-70.5
Other expenses — other	2,358.9	2,161.3	197.6	122.6
Total expenses	**13,547.0**	**12,974.0**	**573.1**	**355.5**
Investment	707.0	616.5	90.5	56.2

(a) Table may not add due to rounding.

(b) Refer Appendix C for definitions.

The Commission makes two general observations based on this CGC assessment.

First, South Australia's total actual expenditure is significantly above the CGC assessment of standardised expenditure. South Australia might be inefficient compared with other states, and/or it might deliver a higher level of service than the national average.

However, the ROGS commentary (see Section 4.8 below) suggests South Australia does not provide a higher level of service or superior outcomes. If this is correct, on average, the Commission concludes South Australian budget outlays are higher than they need to be.

Second, based on the differences in the two columns on the right in Table 4.1, it is in the programs for admitted patient services, community and other health services, services to the community, schools education, welfare and housing and post-secondary education where the most significant areas of overspending appear, and where potential capacity for savings is greatest.

The CGC data suggests South Australia is below average in spending on roads and transport services.

4.8 Productivity Commission data

Report on Government Services

The Productivity Commission (PC) Report on Government Services (ROGS) compares performance (efficiency) in the provision of selected government services across jurisdictions. ROGS data is collected for all major service delivery areas (covering service levels, 'outputs', expenditures, effectiveness (outcomes), and equity).

ROGS performance data has been collected since the early 1990s. It enables ongoing comparisons of the performance of government service delivery across programs.

Volume 2 provides a detailed discussion of the key issues and challenges for each portfolio and agency. Some of the issues affecting South Australia's performance in service delivery identified in the 2010 ROGS Report are outlined below. These suggest opportunities for budget improvement measures.

Efficiency Indicators

Health

- South Australia has higher per capita recurrent health expenditure than all other states, and is only lower on this measure than the Northern Territory, without superior health outcomes.

- South Australia has the highest number of public hospital beds per capita. For the case mix dealt with, the length of stay of patients in South Australian public hospitals is longer than it need be.

- Per capita expenditure on mental health services is higher than the national average. South Australia has more direct care staff employed in specialised mental health services per capita than any other jurisdiction.

Aged care

- South Australia has more residential care places than the national average, but there are considerably fewer aged care services provided to enable people to remain living in their own homes.

Education

- South Australia has higher numbers of non-teaching staff per student in government schools than the national average, and higher than average employee-related expenditure per student.

- The cost per child enrolled in a state government funded and/or provided preschool in South Australia in 2008-09 was significantly higher than the national average.

- Despite a decline in 2008, the hourly cost of vocational education and training in South Australia is higher than the national average.

Police

- South Australia has a higher number of police staff per capita than the national average. In addition, the proportion of police staff that is operational (ie, any member of the police force (sworn or unsworn) whose primary duty is the delivery of police related services to an external client) is higher than the national average.

Disability

- South Australia provides services to a comparatively high proportion of people with disabilities, but spends less per service user than the national average.

Housing

- In South Australia the number of public housing dwellings per capita is over 50 per cent greater than the national average.

- Although the number of applicants on South Australian public housing waiting lists declined in 2009, the number of ‘greatest need’ (defined as households that are either homeless, in housing inappropriate to their needs, or in housing that is adversely affecting their health or placing their life and safety at risk, or that have very high rental housing costs) applicants on its public housing waiting lists has increased considerably in recent years.

- Comparative data suggests that South Australia has the second highest percentage of population on the waiting list for public housing of any jurisdiction, but compares favourably in terms of percentage of population deemed to be of ‘greatest needs’ on the public housing waiting list. This suggests that the increase in recent years in ‘greatest needs’ applicants on public housing waiting lists is not unique to South Australia.

Based on the data in the 2010 ROGS, South Australia undertakes above-average annual expenditure of approximately $400 million per annum on hospitals, mental health, housing, education and vocational education and training.

This analysis also suggests there are opportunities for program savings in these areas.

4.9 CGC and PC data implications for Commission’s work

Having regard for the limitations of the data sources reviewed above, the Commission concludes that in areas where service costs are relatively high, South Australian government programs are more likely to reflect less efficient service delivery than above-average service outcomes.

Based on that assessment, the Commission sees large scope for delivering essential government services at current standards, but at lower cost. This finding has been reflected in the Commission’s savings recommendations covered in the next sections of this report.

SECTION 5. SPECIFIC SAVINGS RECOMMENDATIONS

Key points:

- The Commission has compiled a menu of measures that, in total, amount to about $1.8 billion in operating savings by 2013-14. Of these, 70 per cent involve reducing spending, 10 per cent increasing cost recovery, and 20 per cent increasing general revenues.
- About $1.3 billion of this total is from specific agency measures, and $500 million is from whole-of-government measures.
- The largest 43 measures would generate savings estimated at $1.1 billion in 2013-14.
- Local government impacts of the Commission's proposals will probably require councils to increase their own revenues.
- The broader economic impacts of the proposed savings are likely to be limited. Continuing unsustainable budget spending would lead to pressure for more painful spending reductions in future anyway.

5.1 Overview of Commission's savings recommendations

Table 5.1 below summarises the aggregate savings recommended by the Commission.

The table classifies total savings into reduced expenditures, increased cost recovery, and general revenue increases. Reductions in investing payments and asset sales are also shown. All savings proposals are shown in detail in Volume 2.

The table also shows the number of specific savings proposals in each category. Some proposals have multiple classification features (eg, some require initial investing to generate an ongoing operating saving; others mainly involve reduced expenditure but also affect revenues). For simplicity, and to avoid double counting, each proposal has been reported once under the dominant applicable category.

Table 5.1 also shows the aggregate impact on the budget's net operating balance, net lending, and the impact on full time equivalent (FTE) employment over the current budget year and forward estimates period to 2013-14.

The actual impact of the Government's decisions on the net operating balance, net lending, and FTE employment will be determined by the specific measures adopted by the Government. It will certainly be less than shown in this table.

Table 5.1: Savings proposals summary ($ million)[(a)]

	Number	2010-11	2011-12	2012-13	2013-14
Operating[(b)]	346	169	621	1,037	1,292
Cost recovery	69	14	117	150	175
Revenue	27	13	297	350	356
Total recommended proposals	**442**	**196**	**1,035**	**1,537**	**1,823**
Investing		-20	57	118	198
Asset sales		0	2	132	10
Impact on net operating balance		**196**	**1,035**	**1,537**	**1,823**
Impact on net lending[(c)]		**174**	**1,092**	**1,784**	**2,028**
Estimated FTE impact[(d)]		-908	-2,744	-5,416	-6,804

(a) Table may not add due to rounding.

(b) Includes depreciation reduction of $2.3 million in 2010-11, $2.5 million in 2011-12, $3.1 million in 2012-13 and $3.4 million in 2013-14.

(c) The impact on net lending reflects the impact on the net operating balance less depreciation plus investing and asset sales.

(d) The estimated impact on FTEs reflects the FTE impact of all proposals, not all of which will be adopted by the Government.

In total, the report includes 442 savings recommendations resulting in an estimated sustained net operating balance improvement building to over $1.8 billion per annum in 2013-14. Of this, 70 per cent is reduced spending, 10 per cent is increased cost recovery, and 20 per cent is increased general revenue.

While the Commission has tried to focus on expenditure reductions and increased levels of cost recovery to meet its savings task, given the magnitude of the task a number of general revenue measures have also been proposed for consideration.

Asset sales with an estimated total value of $144 million have been recommended by the Commission in this report. Further asset sales are also suggested by the Commission in Section 9 below. These include the Commission's recommendation that the Government should explore the options for the sale of SA Lotteries and ForestrySA (noting that the Government has previously announced the intention to sell the harvesting rights of ForestrySA's plantations for up to three harvesting cycles). The value of such sale proceeds has not been included in this report.

The following sections focus on the operating, cost recovery and revenue proposals that directly impact on the net operating balance of the government. Investing and asset sales proposals have not been included in these sections.

5.2 Savings summary: agency and whole-of-government options

Table 5.2 below splits saving options between agency-specific proposals and whole-of-government proposals.

Table 5.2: Savings proposals summary — agency and whole-of-government ($ million)[(a)]

	Number	2010-11	2011-12	2012-13	2013-14
Agency proposals					
Operating[(b)]	330	147	456	805	1,052
Cost recovery	69	14	117	150	175
Revenue	14	10	88	81	84
Total agency proposals	**413**	**170**	**661**	**1,037**	**1,312**
Whole-of-government proposals					
Operating	16	22	165	232	240
Cost recovery	—	—	—	—	—
Revenue	13	4	209	268	271
Total whole-of-government proposals	**29**	**26**	**374**	**500**	**511**
TOTAL PROPOSALS	**442**	**196**	**1,035**	**1,537**	**1,823**

(a) Table may not add due to rounding.

(b) Includes depreciation reduction of $2.3 million in 2010-11, $2.5 million in 2011-12, $3.1 million in 2012-13 and $3.4 million in 2013-14.

5.3 Savings recommendations classified by savings criterion

The Commission's first report presented a set of criteria it would use to assess individual savings proposals.[26] These are reproduced here.

1. Duplication

Areas of duplication from within the South Australian Government sector should be eliminated or minimised. Duplication of services also provided by the Commonwealth or Local Governments, or by the private sector, should cease where they demonstrate no net benefit.

2. Service levels and costs

Service levels or costs above national averages should be brought into line with relevant benchmarks where appropriate, unless better outcomes can be justified and are being delivered.

3. Economic rationale

Programs/proposals should be based on a solid economic rationale for government intervention, their continuation, or inception (for new proposals). For example, programs/proposals should involve provision of public goods, exist due to the presence of other significant externalities causing market failure, to satisfy information requirements, or to fulfil regulatory functions.

[26] Sustainable Budgets: Principles and Processes, First report by the Sustainable Budget Commission, December 2009, page 25.

4. Social inclusion and equity

Savings measures should consider the impact on social inclusion objectives and deliver lower cost alternatives (eg, movement to Non Government Organisations where appropriate) and, possibly, consider opportunities to cease ineffective services.

5. Lower priority

Existing commitments will need to be prioritised. It may be necessary to cease lower priority and less effective programs.

6. Balance sheet efficiency

All government asset holdings should be justified, and disposed of where assets are not being held by the government for essential service delivery requirements or strategic purposes. Employee liabilities should also be proactively managed (where already incurred) or avoided/minimised (especially where unsustainable).

The Commission's first report also indicated that revenue initiatives may be considered in the Commission's Phase 2 report. This would include an examination of programs to ensure that appropriate cost recovery is being applied.[27]

Table 5.3 below shows the classification of proposals based on these criteria. Consistency across all proposals has been attempted. Each proposal has been classified under one criterion only. In some cases, the dominant criterion is not clear, or multiple criteria apply, and a subjective assessment has been made about the most appropriate classification criterion.

Table 5.3: Savings proposals classified by savings criterion ($ million)[(a)]

	Number	2010-11	2011-12	2012-13	2013-14
Cost recovery	69	14	117	150	175
Revenue	27	13	297	350	356
Sub-total revenue and cost recovery	**96**	**27**	**414**	**500**	**531**
Duplication	49	27	85	130	147
Service levels and costs	127	77	292	572	768
Economic rationale	10	7	61	61	61
Social inclusion and equity	2	—	36	36	36
Lower priority	154	51	140	229	272
Balance sheet efficiency	4	7	8	8	8
Sub-total expenditure savings[(b)]	**346**	**169**	**621**	**1,037**	**1,292**
TOTAL PROPOSALS	**442**	**196**	**1,035**	**1,537**	**1,823**

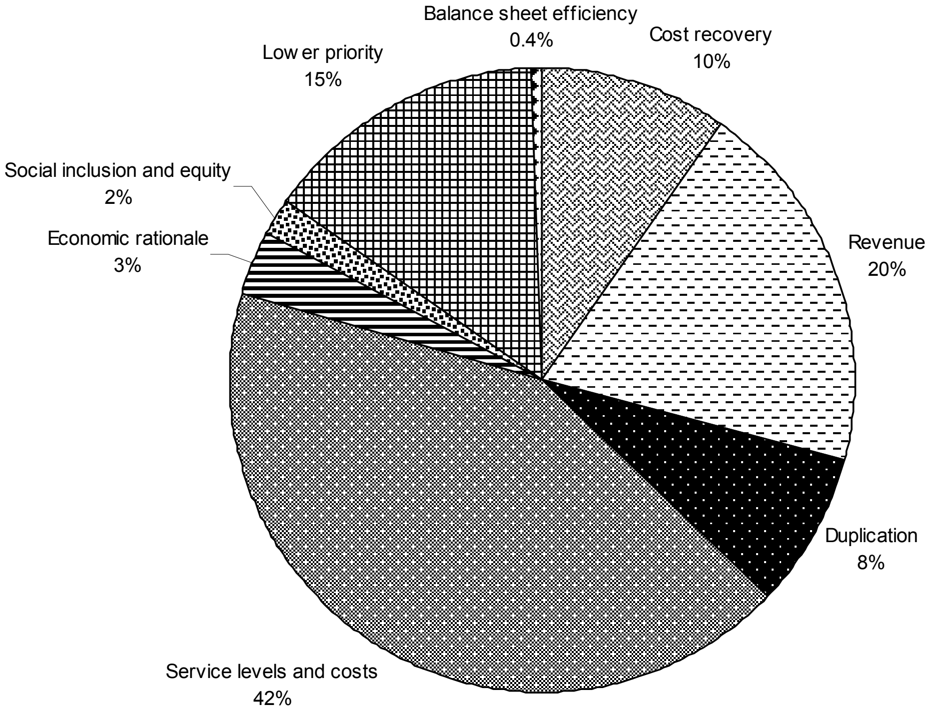
(a) Table may not add due to rounding.

(b) Includes depreciation reduction of $2.3 million in 2010-11, $2.5 million in 2011-12, $3.1 million in 2012-13 and $3.4 million in 2013-14.

27 Sustainable Budgets: Principles and Processes, First report by the Sustainable Budget Commission, December 2009, page 26.

The following chart (Chart 5.1) graphically depicts this information (based on the 2013-14 estimates).

Chart 5.1: Savings proposals by savings criterion[(a) (b) (c)]



(a) Based on 2013-14 net operating balance improvement.

(b) Service levels and costs refers to measures designed to generate efficiencies and bring service levels and costs in line with national benchmarks.

(c) Graph percentages may not add due to rounding.

The criteria guided the Commission's deliberations and recommendations.

The 186 savings proposals categorised as 'duplication', 'service levels and costs' and 'economic rationale' amount to approximately $1 billion in value in 2013-14 or 53 per cent of the Commission's specific recommendations. Within these categories, the Commission has looked for proposals that:

- cease ineffective activity;
- cease services provided more cheaply by other agencies, or provided by other levels of government or the private sector; or
- provide the same outcome with less, by achieving benchmark cost-effectiveness levels in the delivery of services.

This is a sound basis for action. The action however will impact on certain groups. Many of the programs have developed over a long period of time and adjustments to services will in the short term negatively affect some users.

'User pays' via 'cost recovery' is an appropriate mechanism to allocate scarce resources where beneficiaries of services provided can be clearly identified. Cost recovery proposals (69 in number, $175 million in value in 2013-14) were supported by the Commission where the government provision of services or regulatory oversight was justified and a beneficiary could be determined. Cost recovery provides a price to users of government services and drives efficiencies in the delivery of regulatory functions. Cost recovery proposals account for 10 per cent of the value of the recommended proposals.

'Lower priority' proposals (154 in number, $272 million in value in 2013-14) accounted for 15 per cent of the value of the recommendations. The Commission recognises that subjective judgements are involved in placing proposals in this category.

Given the size of the task, the Commission considered and recommended a number of general revenue proposals (27 in number, $356 million in value, in 2013-14). Some proposals increase existing revenues. Others propose new revenue instruments. Revenue proposals account for 20 per cent of the value of the recommended proposals.

5.4 Summary of recommendations by value

Table 5.4 below shows the classification of proposals based on their annual value by 2013-14.

Table 5.4: Savings proposals summary — by value ($ million)[(a) (b)]

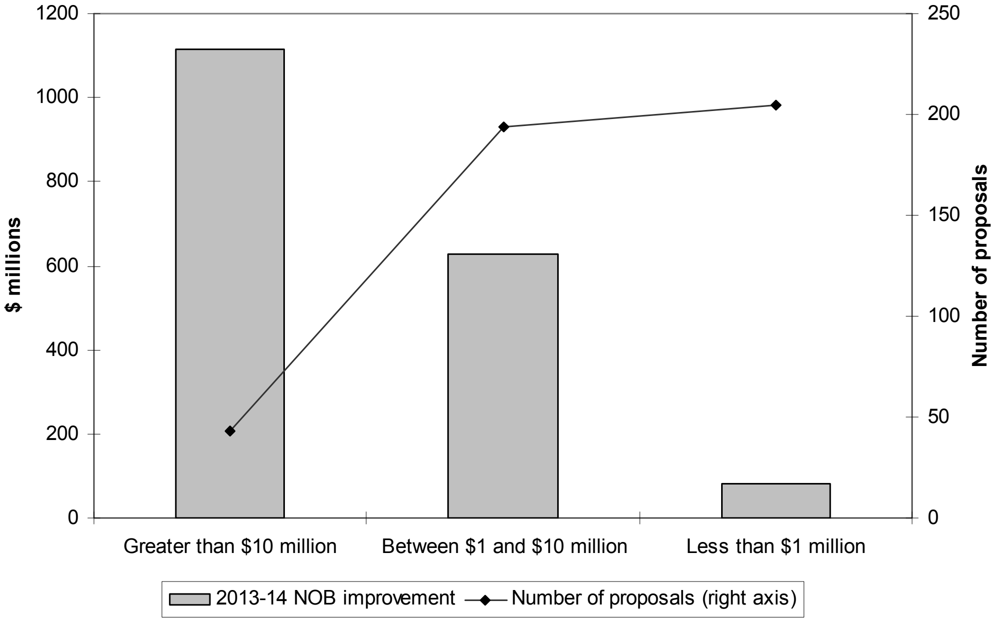
	Number	2010-11	2011-12	2012-13	2013-14
Proposals greater than $10 million					
Operating	31	75	360	624	785
Cost recovery	3	—	24	39	46
Revenue	9	4	228	283	283
Total proposals greater than $10 million	**43**	**79**	**613**	**947**	**1,115**
Proposals $1 million to $10 million					
Operating	140	71	217	351	439
Cost recovery	37	12	83	99	117
Revenue	17	10	68	66	72
Total proposals $1 million to $10 million	**194**	**93**	**367**	**516**	**628**
Proposals less than $1 million					
Operating	175	22	45	61	68
Cost recovery	29	2	10	12	12
Revenue	1	—	—	1	1
Total proposals less than $1 million	**205**	**24**	**55**	**74**	**80**
TOTAL PROPOSALS	**442**	**196**	**1,035**	**1,537**	**1,823**

(a) Table may not add due to rounding.

(b) Operating proposals include depreciation reduction of $2.3 million in 2010-11, $2.5 million in 2011-12, $3.1 million in 2012-13 and $3.4 million in 2013-14.

There are 43 proposals with a value greater than $10 million per annum by 2013-14. The 43 proposals total $1.1 billion in 2013-14, about 61 per cent of the total value of the Commission's recommendations. Chart 5.2 graphically depicts this information.

Chart 5.2: Savings proposals summary — by value



5.5 Impact of recommendations on local government

As discussed in more detail in Section 8.8 below, the Commission is aware many of its recommendations will have a direct impact on local government. Where local government is considered best placed to deliver a service, similar state government programs that duplicate or are of limited benefit should be stopped.

The Commission notes this would increase costs for local government. Councils may need to increase their revenues to ensure their financial sustainability and the continued delivery of services. The State Government should not place impediments in the way of local governments doing this.

The Commission supports local government being able to fully recover the costs of goods and services where a specific beneficiary is identifiable.

5.6 Broader economic impacts of savings recommendations

The Commission considers the ongoing impact of implementing its budget improvement measures on the South Australian economy will be limited.

The implementation of particular savings or revenue measures may have short term impacts on economic growth and employment. However, these impacts have to be weighed against the recognition that sustainable budget outcomes are necessary to support the longer term economic and social development of South Australia. By acting early the Government will be limiting future potential negative impacts on the South Australian economy.

The Commission has sought to encourage greater efficiency and effectiveness in the delivery of government services. This focus on productivity improvements will act to limit any adverse impacts on the South Australian economy. Similarly, moves towards full cost recovery can increase economic efficiency by helping allocate resources to their most productive uses.

5.7 Impact of proposals on public sector employment

As shown in Table 5.1, the estimated impact on full-time equivalent employee numbers (FTEs) of the proposals contained in this report would be a reduction of 6,804 by 2013-14. This figure is consistent with the full savings menu of $1.8 billion. It is not intended that this level of savings would be adopted. The actual FTE reduction is expected to be substantially less than this figure and will depend on the level and composition of savings adopted by the Government.

This compares with an average growth in FTEs over the last seven years to June 2009 of around 2.7 per cent (or about 2,000 FTEs) per annum. The majority of the growth has occurred in the major portfolio areas of Health, Families and Community Services, Education and Children's Services, Justice, and emergency services. A reduction of around 7,000 FTEs would broadly offset the absolute growth in FTEs over the last 2 ½ years.

Natural attrition sees a number of FTEs leave the public sector each year. While this would contribute to the required FTE reduction it would not deliver the significant reductions in targeted areas consistent with savings proposals in this report.

The Commission's views on the 'no forced redundancy policy' are discussed in Sections 7.2 and 8.9 below.

Employees made redundant, whether voluntarily or non-voluntarily, would receive a redundancy payment. These payments are a one-off cost to the budget in the year they are made and increase net debt.

5.8 Agency budget savings proposals

Volume 2 provides a brief overview of each portfolio, comparative data where relevant, and a summary of the savings proposals and challenges and opportunities for the portfolio. It also presents full details of all agency-specific savings proposals.

Combined with the whole-of-government proposals listed in Volume 2, the total savings that would be generated by these proposals is larger than required to meet any savings target the Government might realistically adopt. This has been done to allow the Government to choose alternatives based on its own policy priorities.

Recommendation 8: Agency-specific budget improvement proposals

The Commission recommends that the Government adopt enough agency-specific budget improvement proposals, that, combined with adopted whole-of-government proposals, will be sufficient to meet the savings task.

Section 8 below provides further information for a number of portfolios where further structural reforms in key areas of service delivery are required or should be considered.

5.9 Whole-of-government proposals

Volume 2 presents the full list of whole-of-government expenditure and general revenue savings proposals.

The amounts shown in Volume 2 are not included in specific agency measures. Agency budgets would be adjusted for such general initiatives approved by the government.

Recommendation 9: Whole-of-government budget improvement measures

The Commission recommends that the Government adopt enough whole-of-government budget improvement proposals, that, combined with adopted specific agency proposals, will be sufficient to meet the savings task.

Key points:

- The Commission agrees comprehensive and accurate information on government advertising expenditure should be compiled, commencing from 2009-10.
- The Commission recommends the current suspension on some government advertising be made permanent.
- The Commission recommends advertising media choice should be directed to the lowest-cost options, with greater reliance on digital media, in particular.
- The Commission recommends advertising spending by all agencies should be reviewed annually by central agencies and budget bids for such activity should be required and subject to the same scrutiny as all other budget bids. Post budget advertising spending over runs generally should not be approved.
- The Commission recommends implementation of these arrangements and monitoring the savings generated should be the responsibility of the Sustainable Budget Oversight Unit (see Section 10 below).

6.1 Government advertising

As outlined in Section 1.2, the Government referred an additional Term of Reference to the Commission regarding government advertising.

The Strategic Communications Unit (SCU) of the Department of the Premier and Cabinet undertook a review of government advertising and provided a report for consideration by the Commission.

6.2 Review findings

In summary, the review found that opportunities existed for savings in government advertising. However, further work is required to ascertain the extent of these and the agencies from which they would come.

Other significant findings included:

- the Premier's Communications Advisory Group (PCAG) February 2010 guidelines (see Appendix D), incorporating a number of the recommendations from the 2009 Parliamentary Select Committee Review of Government Advertising, should continue to be applied for all future campaigns;
- low cost electronic media should be first choice where feasible; and
- improved reporting on all expenditure particularly 'non-media' related advertising expenses, (the costs of production, research and creative concepts) should be implemented.

Other, largely process, changes related to standardisation of advertising templates and style, agency collaboration on similar campaigns and regular guideline and agency strategy reviews, are also recommended.

Implementation of these will support sustaining government advertising savings over time.

The review recommends the temporary advertising suspension and supporting criteria, announced by the Government in April 2010, be made permanent. The criteria are outlined below in Section 6.3.

This seems the most effective way to ensure an appropriate level of government advertising that is cost-effective. The Commission notes the review's findings that the majority of the savings will be achieved by a reduction in advertising costs associated with government recruitment.

The savings estimated by the SCU amount to at least $5 million per annum.

This does not reflect 'non-media' expenditure savings. More savings should therefore be achieved. The SCU will collect non-media information on the 2009-10 spending for all government agencies. This will form the basis to estimate ongoing non-media savings.

Advertising budgets are held by the respective agency. Once the non-media spending analysis is complete, the Department of the Premier and Cabinet with support from the Department of Treasury and Finance should determine the level of advertising savings and reflect these in agency budgets.

Because the estimate of total savings (media and non-media components) is still being determined, the Commission has not included a specific proposal in this report. When a total estimated saving is determined this should be cross referenced against the advertising reduction proposals nominated by some agencies, where adopted by the Government, to ensure that there is no double counting.

The Commission notes the on-going role of PCAG is an important mechanism for review and assessment of campaigns. The membership of PCAG is heavily weighted to officers with marketing and communications skills and experience. The Commission considers more diversity on the Group will enhance its effectiveness. Strong general program and policy effectiveness evaluation experience and skills should be added to the PCAG.

6.3 Guidelines for the temporary suspension of Government advertising

The following provides the details of the temporary advertising suspension by category, put in place in April 2010. Consistent with the review by SCU, these should form the basis of more permanent arrangements. As these temporary arrangements were proposed following the March 2010 State Election, a number of the transitional provisions (eg, current bookings and cost review of existing campaigns) are no longer relevant. The Department of the Premier and Cabinet will be required to update the criteria to reflect the permanency of the arrangements and the focus on cost effectiveness.

Advertising to address matters of risk to public safety

- Current bookings for advertising campaigns in this category continue, but will be subject to review by PCAG.

Advertising of positive public health messages

- Where the proposed spend exceeds $50,000 (incl. GST), the agency responsible for the campaign will be asked to provide written justification to the PCAG on how the campaign can be modified to show a measurable reduction in cost and activity.

- Where there is a total media budget for the campaign of less than $50,000 and the campaign has already been approved by PCAG, it will be exempt from the suspension, unless PCAG advises otherwise.

Advertising that generates economic activity and/or raises revenue for the state

- Where the proposed spending exceeds $50,000 (incl. GST), the agency responsible for the campaign will be asked to provide written justification to the PCAG on how the campaign can be modified to show a measurable reduction in cost and activity.

- Where there is a total media budget for the campaign of less than $50,000 and the campaign has already been approved by PCAG, the campaign is exempt from the suspension, unless PCAG advises otherwise.

Public notices

- A public notice will only be permitted where it is required by law that it be published in a newspaper.

Recruitment

- Recruitment advertising will only be permitted in the standard government or health composite advertisements appearing in *The Advertiser* Careers liftout on Saturday, online recruitment sites and regional newspapers serving the location of the vacancy/role.

- There is to be no recruitment advertising in any interstate or national print media.

- Executive positions are to be advertised only online.

- Exceptions are to be approved by PCAG and only if insufficient candidates are gained from advertising by the methods outlined above.

Tenders

- A tender notice will only be permitted in the standard composite advertisement appearing in The Advertiser on Tuesday and in regional newspaper(s) relevant to the location.

Other functional advertising

- Other functional advertising, which is not in any of the categories above, will not be permitted unless reviewed and approved by PCAG prior to publication.

Future advertising

- Full page advertisements are not permitted in any publication without prior justification and approval by PCAG.

Recommendation 10: Government advertising

The Commission recommends that the Government should:

- ensure quantification of all elements, (media and non-media) of advertising related expenditure, with this to be included in the Department of Premier and Cabinet's Annual report from 2009-10 onwards;
- make permanent the current suspension of some government advertising;
- ensure implementation of these arrangements and monitoring the savings generated by making them the responsibility of the Sustainable Budget Oversight Unit (see recommendation 42 and Section 10);
- maintain the current Premier's Communications Advisory Group (PCAG) assessment process for all campaigns with a total spend above the set thresholds (refer Appendix D);
- review the PCAG guidelines annually;
- review annually all agencies' advertising strategies and minimise duplication through collaboration of agencies with common advertising themes;
- rationalise the number of advertising templates and styles; and
- extend PCAG membership to include a non-marketing officer with experience and skills in program effectiveness evaluation.

Key points:

- The Commission has flagged some more ambitious, and probably more difficult savings options, should the Government's selections from the menu summarised in Section 5 prove insufficient to meet the chosen savings target.
- The Commission notes across the board wage restraint can make a substantial contribution to the savings task. For example, a sustained wage freeze could save over $500 million per annum by 2013-14. That said, negotiating such an outcome is likely to be very difficult.
- The Commission also notes that abolishing the current 'no forced redundancies policy' could allow large savings (after allowing for transition costs). These savings would arise compared to a situation where employees had been made redundant but were redeployees. For example, forced redundancies reducing full time equivalent redeployee numbers by 1,000 would generate annual savings of over $90 million.
- The Commission has flagged a revenue-raising option as well: increasing revenues from the State's more efficient taxes.
- The examples discussed are increases in payroll tax (lowering the payroll tax-free threshold and raising the tax rate), raising about $60 million by 2013-14; and increasing land tax, raising about $50 million by 2013-14.
- The Commission also notes that deferring some capital projects would help, albeit temporarily, but does not specify particular projects.

The savings options summarised in Section 5 above provide a menu from which budget improvement measures large enough to meet the savings target specified in Section 3 could be compiled.

None of these measures would be painless. However, not meeting the savings target, over time, would become much more painful.

Nevertheless, the Commission recognises the Government may have its own policy priorities that make the menu of savings measures summarised in Section 5 insufficient to allow it to meet the savings target required.

This section presents some additional savings options. These have not been proposed by agencies. They may be more difficult to implement, either because of institutional restrictions, or because they involve overturning existing policies or commitments.

The Commission has decided to present these additional options in order to maximise the menu of options available to the Government.

7.1 A comprehensive wage freeze or wage restraint

In tabling the 2009-10 Budget, the Treasurer noted that wage restraint could make a large contribution to the savings task.[28] For example, at that time, it was estimated that, if overall labour

[28] 2009-10 Budget Speech: Budget paper 2, page 5.

cost increases in the general government sector were restricted to 2.5 per cent per annum rather than, say, 4 per cent per annum, then by 2012-13 savings would total about $290 million. This represented nearly 83 per cent of the announced 2009-10 savings target of $350 million for 2012-13.

Since the 2009-10 Budget, a number of Enterprise Bargaining (EB) outcomes have been negotiated:

- *The South Australian Government Wages Parity (Salaried) Enterprise Agreement (14 January 2010)*. The agreement includes three salary increases of 2.5 per cent per annum from 1 October 2009, 2010 and 2011 plus a one-off 'sign on' payment of $600 in 2009-10, a new Allied Health Professionals salary and classification structure, alterations to the professional officers structure and increases to entitlements and conditions including maternity leave, overtime rates, on-call rates and night penalty rates.

- *The SA Health Visiting Medical Specialist Enterprise Agreement 2009 (1 July 2009).* The agreement includes three salary increases of 3.5 per cent on 1 January 2010, 2011 and 2012 and increases to entitlements and conditions including professional development, maternity leave, managerial allowances and on-call rates.

- Public Sector Management Act (PSM) Executive and Ministerial Contract Staff received a 2.5 per cent salary increase for 2009-10.

- In February 2010, the Full Commission of the Industrial Relations Commission of South Australia handed down its decision for the Department of Education and Children's Services (DECS) covering teachers, school services officers and other classifications in government schools and pre-schools, and for the Department of Further Education, Employment, Science and Technology covering lecturers and other classifications of TAFE SA employees. In June 2010 the Industrial Relations Commission (IRC) handed down Stage 2 of this decision in relation to employment conditions covering DECS staff. The budget implications of this decision are being finalised.

- Formal negotiations have begun in 2009-10 for the weekly paid, electorate office employees and ambulance officer groups. A ballot of the weekly paid group for a new enterprise agreement commenced in late July 2010. The enterprise agreements covering Police and Nurses/Midwives both nominally expired on 30 June 2010. The last increases for those groups were in July 2009 and October 2009 respectively.

The Commission recognises public sector wage outcomes are determined by mutual agreement or, in the absence of agreement, independent arbitral processes through the IRC. The Commission considers that the only way to guarantee a particular labour cost outcome in these circumstances is for the Government and the unions to present a joint wage agreement to the arbitral authorities for ratification as a Consent Agreement.

A wage freeze, or significant restriction on wage increases, especially over several years into the future, is unlikely to be the basis for any such Consent Agreement. Such an outcome is only likely to be considered if the relevant unions are concerned about large job losses for their members in the absence of such an Agreement, and, in that case, only if such an Agreement is a *quid pro quo* for avoiding such job losses.

Nevertheless, the Commission has decided to present some illustrative estimates of the savings to be garnered from various wage restraint scenarios.

For the purposes of the scenarios presented below, the 'benchmark' general government sector average wage increase is assumed to be 4 per cent per annum. This increase covers all labour costs, not just wages. Budget savings from wage restraint are measured based on labour cost outcomes lower than this benchmark.

Table 7.1 below shows budget savings assuming a variety of wage restraint scenarios. These scenarios include the following:

- Scenario 1: A 100 per cent wage freeze implemented as soon as practicable (ie, after the current EBs expire) and maintained until 2013-14. The total budget saving from this option is over $500 million in 2013-14.
- Scenario 2: A 100 per cent one-year wage freeze (immediately following the end of the current wage agreement) produces savings that cumulate to about $285 million in 2013-14.
- Scenario 3: A sustained wage increase restricted to 2 per cent per annum produces savings that cumulate to about $257 million in 2013-14.
- Scenario 4: A sustained wage increase restricted to 2.5 per cent per annum produces savings that cumulate to about $193 million in 2013-14.[29]
- Scenario 5: A wage increase limited to 2 per cent for one year, applied as soon as practicable, produces savings that cumulate to almost $143 million in 2013-14.
- Scenario 6: Wage increases limited to 2.5 per cent per annum for one year, applied as soon as practicable, would generate savings of $107 million in 2013-14.

Table 7.1: Wage restraint scenarios ($ million)

	2010-11	2011-12	2012-13	2013-14
Scenario 1	92	183	416	507
Scenario 2	82	101	233	285
Scenario 3	46	92	211	257
Scenario 4	35	69	158	193
Scenario 5	41	51	116	143
Scenario 6	31	38	87	107

Clearly, wage restraint has a powerful effect on general government sector expenditure. This is hardly surprising. On average, labour costs amount to about 50 per cent of all general government recurrent expenses.

[29] The 2009-10 Budget estimated that achieving wage outcomes across the public sector of no more than 2.5 per cent per year would save up to $290 million in 2012-13. That estimate was based on achieving this outcome for all new Enterprise Agreements as they arose over the forward estimates. The $193 million estimated saving in 2013-14 is based on the same assumption (but effectively from a later starting point). A number of Enterprise Agreements have been finalised since the 2009-10 Budget (most notably for the Wages Parity (Salaried) group), the savings for which thus do not contribute to the $193 million estimate.

7.2 Forced redundancies

The Government has a policy of 'no forced redundancies' in relation to general government sector and some government businesses employment. This is discussed in Section 8.9.

This means that unions and employees place less weight on the possibility that wage increases will lead to job losses. This weakens government positions in wage negotiations.

This bargaining asymmetry is different from that applicable in the private sector.

This sub-section of the report considers the potential for budget savings assuming that this 'no forced redundancies' policy is abandoned. Whatever the political difficulties this might entail, the Commission considers that it is useful for the Government to consider the magnitude of savings forgone by maintaining this policy.

In aggregate, the savings measures covered in Section 5 above are likely to require redundancies above those that might be secured by voluntary means (eg, TVSPs) or natural attrition. This raises the issue of the Government's current 'no forced redundancy' policy.

Table 7.2 illustrates the additional savings available from making employees redundant compared to a situation where they are redeployees.

As indicated in Section 5 the menu of budget improvement measures included in this report totals $1.8 billion in 2013-14. The menu indicates that this would involve the loss of around 6,800 FTEs. As noted previously the Commission is not suggesting that achieving savings of this magnitude is required.

The savings to the Government from allowing forced redundancies comprises the wages, accommodation and other costs associated with redeployees. For any given number of job losses there will be some employees who take redundancies, some who find alternative jobs in the public sector and some who end up as redeployees. For the purposes of illustration Table 7.2 below shows the indicative savings (net of termination costs) that would flow if 4,000, 2,500 or 1,000 FTEs were made redundant instead of being allowed to remain as redeployees.

Table 7.2: Redundancy scenarios ($ million)[(a) (b)]

	2010-11	2011-12	2012-13	2013-14
Scenario 1 — 4,000 forced redundancies	-90	21	42	388
Scenario 2 — 2,500 forced redundancies	-56	13	26	242
Scenario 3 — 1,000 forced redundancies	-22	5	10	97

(a) Assumes estimated salary of $91,100 indexed from 2011-12.

(b) Assumes average redundancy cost of $116,000 indexed from 2011-12 and redundancies occur in 2010-11 (25 per cent), 2011-12 (25 per cent) and 2012-13 (50 per cent).

7.3 Increasing 'less inefficient' tax rates

Reducing Government expenditures in lower priority areas will always be preferable to tax increases in the Commission's view. However this section sets out the potential revenue from some adjustments to South Australia's two most economically efficient taxes in order to demonstrate the potential revenue gains. All taxes, in practice, are inefficient to some extent. The inefficiency costs of increasing taxes can be minimised by concentrating increases on those taxes that are least inefficient.[30]

Relatively efficient 'externality' taxes are now mainly in the Commonwealth's hands.

State taxes such as stamp duties on transactions: insurance, commercial and residential property conveyances, motor vehicle sales, etc., are generally regarded, (including in the Henry report) as relatively inefficient taxes.

That leaves land tax and payroll tax as the remaining relatively efficient state taxes.

Payroll tax options

Increased payroll tax revenue could be delivered by:

- Lowering the payroll tax-free threshold.
- Removing or reducing other payroll tax exemptions.
- Raising the payroll tax rate.
- Lowering the payroll tax rate, but broadening its application by more, thereby raising net revenues.

One illustrative example is set out below. In practice, the effective start date would have to be prospective — eg, from 1 July 2011 — but the 2013-14 revenue impact of the example shown would be similar.

Reduce the payroll tax threshold from $600,000 to $550,000 and increase the payroll tax rate from 4.95 per cent to 5.15 per cent to commence from 1 July 2010.

The payroll tax threshold would be consistent with the threshold in Victoria but the rate would be higher than Victoria's (currently 4.90 per cent). In revenue impact terms, this option would reverse in part the various payroll tax measures implemented by the Government since 1 July 2008. Prior to that time, the payroll tax rate was 5.25 per cent and the tax free threshold was $504,000. It would more than reverse the measures which took effect from 1 July 2009.

Table 7.3: Budget impact of payroll tax change ($ million)

	2010-11	2011-12	2012-13	2013-14
Increase in revenue	45.8	53.4	56.7	60.1

- It is estimated that an additional 190 businesses would become liable for payroll tax, and a further 6,900 employers would be required to pay higher payroll tax.
- An interstate comparison of payroll tax (assuming a threshold of $550,000 and rate of 5.15 per cent for South Australia) is shown in Appendix E.

30 An efficient tax raises revenue with the least amount of distortion on the allocation of resources within an economy. Other tax design considerations include equity and simplicity.

Land tax options

One option for land tax would be to increase the top marginal land tax rate to 4.2 per cent and increase all other marginal tax rates by 0.10 percentage points.

The 2009-10 MYBR announced revised land tax thresholds and rates. In revenue impact terms this option would effectively largely reverse the 2009-10 MYBR announcement.

There are a number of issues associated with changing land tax rates during a financial year. It is therefore proposed that any change to land tax rates commence from 1 July 2011. Under this option threshold indexation as announced in the 2009-10 MYBR would continue.

This option would generate around $47.6 million in 2011-12, $49.7 million in 2012-13 and $51.9 million in 2013-14.

A comparison of the estimated rates and thresholds to apply in 2011-12 is provided below:

Table 7.4: land tax rates and thresholds

Status quo — Estimated 2011-12 rates and threshold		**Proposal** — Estimated 2011-12 rates and threshold	
Total taxable site value	**Tax applicable (%)**	**Total taxable site value**	**Tax applicable (%)**
$0 to $313,000	—	$0 to $313,000	—
$313,001 to $574,000	$0 + 0.50	$313,001 to $574,000	$0 + 0.60
$574,001 to $835,000	$1,305 + 1.65	$574,001 to $835,000	$1,566 + 1.75
$835,001 to $1,044,000	$5,612 + 2.40	$835,001 to $1,044,000	$6,134 + 2.50
Over $1,044,000	$10,628 + 3.70	Over $1,044,000	$11,359 + 4.20

Indicative increases in land tax liabilities between the status quo and the proposal are provided below:

Table 7.5: Impact of land tax changes on land holdings of selected values

Ownership	**Land tax payable**		
value	**Proposal**	**Status quo**	**Increase**
$350,000	$222	$185	$37
$400,000	$522	$435	$87
$600,000	$2,021	$1,734	$287
$800,000	$5,521	$5,034	$487
$1,000,000	$10,258	$9,571	$687
$2,000,000	$51,510	$45,999	$5,511
$5,000,000	$177,510	$156,999	$20,511

7.4 Deferring capital projects

Deferral of major capital projects can provide some immediate budget benefit through the delayed impact on net debt and associated interest costs as well as depreciation on the finished assets. By way of example deferral of $1 billion in capital projects for one year provides a one year reduction in the net debt that would otherwise have accrued of $1 billion plus a once-off reduction in interest costs of around $60 million and a reduction in depreciation expenses of up to $40 million.

SECTION 8. SECURING STRUCTURAL SUSTAINABILITY

Key points:

The Commission concludes reconsideration of existing Government policies, existing programs and their structures, will be important to reinforce the maintenance of the savings needed to restore sustainable budget settings by 2013-14.

To this end, the Commission has recommended numerous changes or reviews intended to support the savings recommendations presented in Section 5 above. While not an exhaustive list, these recommendations include the following:

- **Health**: focus on delivering and maintaining efficient pricing for hospital services and a sustainable health budget.
- **Families and Communities**: an independent external review, by end-March 2011, to determine the most cost-effective way of providing the necessary services.
- **South Australian Housing Trust**: change operations to a more sustainable footing.
- **Justice**: improve the efficiency of the courts and the Crown Solicitor's Office.
- **Education**: focus on more flexible and cost effective service delivery.
- **Industry assistance**: reduce such assistance, including for sporting events attraction.
- **Defence SA**: merge with a larger department, and maintain a leaner board.
- **Trade and Economic Development, Bio Innovation SA and Zero Waste SA**: abolish, with remaining functions to be allocated to other departments.
- **Environmental agencies**: rationalise existing agencies to generate efficiencies.
- **State concessions**: review these to improve targeting to those most in need.
- **Local government**: reduce duplication by shifting functions best handled at the local government level to councils.
- **'No forced redundancies' policy**: review, and, preferably, terminate this policy in the interests of more flexible and efficient public service employment.
- **Workers' compensation**: review to determine scope for more efficient operation.
- **Statutory bodies**: review the need for the large number of these (451) and scope for rationalisation.

This section:

- provides context for a number of the specific savings proposed by the Commission;
- recommends further investigation of service delivery reforms, and potential savings; and
- further explains the rationale for government exiting from certain activities.

The section also outlines in more detail the importance of employment flexibility in delivering specific proposals and the potential implication of the Commission's recommendations for local government.

8.1 Health

Recent history and the operating environment

Achieving sustainable health spending has been a priority of the Commission. Health operating outlays were over $4 billion, or 32 per cent of the Budget, in 2009-10. Since 2004-05 expenditure has grown by 10 per cent per year. Health also regularly exceeds its approved budget even after Mid-Year Budget Review adjustments, Cabinet approvals for new initiatives and other in-year adjustments.

The rate of growth in health expenditure since 2004-05 exceeded the growth in government revenue (about five per cent per annum). The Commonwealth has estimated that if Health expenditure continues to grow at 10 per cent per annum, total health spending will exceed the revenue collected by state and local governments by 2045-46. This rate of growth is obviously unsustainable.

Full time equivalent (FTE) employee growth in Health has exceeded annual growth in activity. From 2006-07 to 2008-09, health FTEs grew by 3.6 per cent per annum. Activity (measured by equiseps)[31] grew at 2.5 per cent per annum over the same period. By way of example, using the 2009-10 Budget FTEs as a base, a one per cent increase in FTEs above the activity growth rate equates to an additional 280 FTEs or an increase in expenditure of more than $20 million per annum in salary costs alone.

The Commission found that health costs in South Australia exceeded the national average. The Commission found no discernable improvement in service or health outcomes commensurate with the higher expenditure levels. While it is commendable that state governments want to spend more on health care, they need to be assured that this will achieve better outcomes and these will exceed national benchmarks.

It is clear there are some structural cost drivers in the South Australian health system which have the effect of increasing costs without increasing service standards. Many of these costs arise from the historical configuration of some metropolitan and regional health services. If the South Australian health system is to deliver better services to the entire population at a comparable cost to other states, then it must take action now to appropriately configure the best location and role of its network of health services.

This will be brought into sharp focus when the Commonwealth Government introduces a national efficient price for health care. At this point, South Australia will need to have a cost structure in line with other states.

Unless action is taken now to improve the efficiency of the health system, future demand will not be able to be met.

[31] Refer Glossary for definition.

The Commission has attempted to establish a budget management platform and savings proposals for health which allow the South Australian Government to:

- meet growth in demand for health services;
- provide quality services to South Australians; and
- provide services at an efficient price for South Australians.

A sustainable health budget

The Commission recognises savings decisions must allow South Australia to implement the Australian Government's health reform agenda. The centrality of efficient service costs as part of that agenda is fully consistent with the Commission's focus.

Therefore the Commission is proposing a budget envelope that will allow health to operate sustainably. This involves a top-down and bottom-up approach.

The top-down approach assumes that South Australia will achieve the efficient national price and the budget provides for activity growth and the cost of medical goods and services in excess of CPI.

The bottom-up approach recommends specific savings initiatives which will need to be implemented if the efficient price is to be achieved. These particularly relate to redressing the historical configuration of metropolitan and regional hospitals to provide improved services to the community at nationally comparable cost.

As part of this strategy, the Commission strongly recommends that South Australia negotiate with the Commonwealth Government to ensure the Commonwealth picks up its fair share of the cost of some services (eg, aged care) which by default have fallen to the State to fund.

In this context, the Commission recommends a savings strategy that:

- gives Health a financial planning platform for the forward estimates period;
- includes the Commonwealth's expectation that hospitals will deliver services at an efficient price;
- allows for activity growth at two per cent per annum — the longer term growth rate for activity;
- provides for more than CPI inflation for costs of medical goods and services;
- continues the government policy that enterprise bargaining agreements will be fully funded;
- commences delivery of specific efficiency measures to bring South Australian health costs into line with an efficient Australian price and is ready to respond to the national efficient price model when introduced;
- implements specific savings to improve the sustainability of South Australia's health system; and
- implements a new management system, requiring Health to perform within its budget.

Efficient pricing for hospital services

The health reform package agreed by COAG in April 2010 will require hospitals to deliver services at an efficient price. The pricing unit used is an 'equisep' (or weighted completed episode of care).

A comparison of 2009-10 unit prices used to allocate funding to health services highlights the difference between Victoria ($3,600) and South Australia ($4,065). South Australia was $465, or 12.9 per cent higher.[32]

How the national efficient price will be set is not clear at present. The Victorian price may be taken as a benchmark because the Victorian system most closely resembles the planned new national system. The Commission assumes the national efficient price will be set at a percentage of the Victorian price.

If the national price was 95 per cent of the Victorian price, or $3,420, then the difference between the national price and South Australian price would be $645 or 18.9 per cent. Based on the activity projected to be funded in 2009-10, this would require South Australia to reduce its hospital costs by $215 million in 2013-14.

An allowance for growth

Health's budget already allows for about two per cent per annum growth for activity ($30 million per annum indexed). This reflects the long term historical growth pattern for hospital activity. Given Health's propensity to spend at a greater rate than activity, the Commission believes it is appropriate to hold this provision centrally (by the Department of Treasury and Finance) and provide it to Health on an acquittals basis to ensure that Health increases its operational efficiency and does not use the supplemental funding for other activities.

The Health budget also allows for above-standard indexation for hospital goods and services costs. This provision matches the actual growth in the price index for hospital goods and services over the past few years and is approximately $16 million per annum indexed from 2013-14. This arrangement should continue.

Wage outcomes

The Commission notes that current practice is that all enterprise bargaining agreements are fully funded by Government and any productivity gains can be applied to the savings task. In the context of the overall budget position and in recognition that over 60 per cent of the health budget is for wages and on-costs, wage outcomes should be kept to a minimum.

Improving productivity

The Commission recommends measures improving the efficiency of the hospital system. This would allow South Australian hospitals to become more efficient in preparation for the national efficient price funding model.

Given the agreed COAG reforms and the expectation that the efficiency of state health systems needs to improve, the reduction in efficient price is a target that should be achievable while delivering acceptable health outcomes to South Australians. Further, as noted above continuing the current growth path for health expenditures is not a realistic option.

The Commission's savings recommendations focus hospital services on population needs rather than the existing infrastructure. To deliver them, the South Australian health system must operate as an integrated unit that makes the best use of its resources.

[32] This is a simple illustration of the financial impact of South Australia having a higher than benchmark price for services. The prices outlined in the example are not strictly comparable as they do not adjust for the different case weights of different States. In finalising a benchmark price, case weight issues will be addressed and therefore will impact on the variation between the benchmark and existing state unit prices.

Specific savings proposals

The Commission's savings recommendations are detailed in Volume 2. For inpatient hospital services, proposals include the rationalisation of infrastructure, changes in service delivery models and consolidation of support functions. In addition, there are recommendations relating to the divestment of non-core activities, improved rates of return on commercial arrangements and the rationalisation of out-patient services that match interstate models.

Performance management and accountability

It is important that the Department of Health be required to manage within its budget. This will require tighter budget control to ensure that health regions do not continue to overspend their budgets, without sanction. Some measures supporting this include:

- holding activity growth funding centrally and distributing to Health based on actual growth;
- setting strict FTE caps per work area with approval to exceed that cap (including with contractors) to be required from Chief Executives or authorised persons who have financial responsibility for the entity;
- ensuring all savings are clearly defined and allocated to work unit budgets;
- providing the Department of Treasury and Finance with full user access to the new financial management system and/ or timely financial management reports used by Health's executive management group;
- making financial outcomes a performance benchmark in all executive contracts and holding the executive to account; and
- providing to the Department of Treasury and Finance monthly monitoring of labour cost versus activity levels for various categories (doctors, nurses, agency, other).

Recommendation 11: Health

The Commission recommends:

- commitment to a top-down sustainable funding model that funds activity growth, higher than CPI costs for medical goods and services and the national benchmark efficient price for health services;
- commitment to a budget and financial management framework that limits overall health funding to the top-down sustainable funding model allocation and ceases the practice of mid-year Health supplementation;
- the implementation of specific proposals to achieve the benchmark efficient price; and
- the Commonwealth Government fully fund those health services which are the agreed responsibility of the Commonwealth (eg, aged care places). The resultant reduction in State funding should be applied to the South Australian Government's savings task.

8.2 Families and Communities

The Commission acknowledges that there are significant demand pressures for the services that the Families and Communities portfolio provides in relation to housing, disability, ageing, family and child protection services.

Comparisons made between South Australia and other jurisdictions, via ROGS and CGC information (see Sections 4.5 to 4.9) suggest however that while South Australia at an aggregate level spends more than the national average on welfare and housing services, service outcomes are not significantly improved from other jurisdictions.

The Commission believes that there is scope for improving how community welfare services are delivered in South Australia.

However, the Commission's view is that this will require a comprehensive review, with reforms to be implemented over the longer term.

An external review

The Commission concludes that a review of the Families and Communities portfolio should be conducted by an independent, external body, and overseen by the Department of the Premier and Cabinet and the Department of Treasury and Finance. The review should benchmark best practice and current service structures both interstate and overseas. It should identify all potential efficiency improvements and savings.

The review should cover all of the portfolio's operations. The Families and Communities portfolio consists of both the Department for Families and Communities (DFC) and the South Australian Housing Trust (SAHT), which is a Public Non Financial Corporation.

The Commission notes that an external review of the SAHT has just been completed and publicly released. The recommended review does not need to cover the same ground. The two agencies do not operate in a vacuum however, and any examination of DFC must extend to its relationship (both financially and in terms of governance) with the SAHT.

The Commission's views on the operations of the SAHT, and the direction of public housing more generally are discussed at the end of this section.

Key aspects

The Commission recommends that the review focus on:

- demand management;
- targeting and effectiveness of services;
- service delivery models, including internal services versus those provided by the Non Government Organisation (NGO) sector; and
- portfolio structure and governance.

Demand management

The external review should assess the effectiveness of current DFC demand management strategies, and recommend improvements, where relevant, based on the effectiveness of strategies employed in other jurisdictions.

Targeting of services

DFC resources should assist the members of society most in need of services. ROGS and CGC data suggests that while South Australia's expenditure on welfare and housing services in total is above average overall, effectiveness and targeting remains questionable, and should be subjected to further scrutiny.

For example, ROGS information suggests that South Australia delivers services to a higher proportion of the population with a disability than the national average, suggesting that, more so than in other jurisdictions, services are being provided to members of the public with less severe levels of disability and therefore lower costs per service user. It is not suggested that this is necessarily undesirable; however in the context of an environment of escalating demand and limited resources, the targeting of these services must be consistently reviewed.

Service delivery

DFC has an extensive grants program and works with NGO service providers to deliver services to the community.

The question of whether government or the NGO sector delivers a particular service should be determined by who can deliver it in the most cost effective manner. A robust and healthy NGO sector is important in providing flexibility to the system.

The NGO sector may be better placed to deliver some of the services currently provided by DFC. This should be a key focus of the recommended review.

Some of the service delivery reforms that have been carried out by other states have not been implemented in South Australia. This includes measures that have strengthened the role of the NGO sector in the provision of child, youth and family services and disability support.

By way of example, Victoria, Tasmania and New South Wales have all implemented reforms in child, youth and family support services, providing greater focus on community based point of contact, screening and case management that better utilises and coordinates the resources of both government and the NGO sector. Tasmania also has extended this framework to disability services.

Portfolio structure and governance

The Families and Communities portfolio comprises different business units and functions. Given the breadth of the portfolio, a review of the current structure and governance is warranted, eliminating any unnecessary duplication. This extends to the interaction between DFC and the SAHT.

The South Australian Housing Trust

As mentioned previously the SAHT has just undergone an external review of its operations, as required under legislation. The review has made a series of recommendations regarding governance/policy matters. The Commission understands that the SAHT is currently preparing a response for the consideration of the Government, including a submission that will outline a revised strategy to ensure financial sustainability.

Notwithstanding this, the Commission has a number of observations regarding the operations of the SAHT and the social housing system more generally. The Commission suggests that:

- The current structure of public housing in the State is not optimal. South Australia has one of the most generous eligibility and tenure arrangements of any jurisdiction in the country. Lifetime tenure without ongoing means testing in particular leads to an inflexibility in the public housing system and imposes difficulties in allocating stock to the members of society most in need of accommodation support.

- The current practice of no compulsory relocation of tenants to alternative accommodation is also suboptimal. This is not advocating the forced uprooting of families from one side of the State to the other, but rather is a suggestion that accommodation should be matched to the characteristics of tenants as best as possible, and that this would be assisted by creating more flexibility for relocation within set parameters.

- The current governance structure of the SAHT also appears suboptimal. The mix of social policy functions and commercial operations should be separated. Clear, separate accountability for these activities needs to be actioned.

- The SAHT needs to operate on a financially sustainable basis. There must be recognition that failure to do so in the end puts at risk the overarching social housing outcomes for which the SAHT is responsible for delivering.

Financial viability

The SAHT manages approximately $8.9 billion of assets, and is responsible for a public housing stock of approximately 45,000 dwellings,[33] which on a per capita basis is over 50 per cent greater than the national average. It has been recognised that managing, servicing and improving the significant level of assets that the SAHT holds, while continuing to provide housing services in the same manner that has occurred in the past, is not financially sustainable in the long run.

As such, a financial viability strategy was implemented in 2006-07 designed to bridge the gap between annual funding, rental revenue, and costs, and thus create a financially sustainable base. The strategy involved reducing stock numbers (bringing South Australia more in line with other jurisdictions) and using sale proceeds to retire SAHT debt, allowing capacity for adequate investment and maintenance spending while maintaining an appropriate cash balance and stable housing stock over the long term.

The SAHT is developing an updated viability strategy for the Government's consideration. The strategy that the SAHT is developing to ensure ongoing financial sustainability will probably involve a mix of different policy options.

Notwithstanding that the core principles underpinning the original viability strategy remain sound, any revised strategy will need to clearly demonstrate that a sustainable outcome will be achieved.

The Commission strongly agrees with the following sustainability options:

- a differential rent structure where public housing tenants on higher incomes are charged a higher rent as a percentage of income, in line with their increased capacity to pay and reduced need for public housing support;

- the setting of targets for improved rate of return for parts of the portfolio, by generating market rents. This will be aided through tenure and relocation reforms as discussed above; and

[33] South Australian Housing Trust 2008-09 Annual Report.

- creating rental parity between community housing and public housing tenants through implementing a rent model that maximises the benefit of Commonwealth Rent Assistance payments in the community housing sector.

Review management and delivery

The Commission recommends that the review be conducted by an independent body, external to government.

It is a given that the review will require a significant level of contribution and cooperation from the Department for Families and Communities in order to be successful.

Given its nature, the Commission considers it important however that the review be overseen by the Department of the Premier and Cabinet and the Department of Treasury and Finance, in their capacities as central agencies.

The Commission recommends the review be conducted urgently, with its recommendations prepared to allow a government response in the 2011-12 Budget.

The review should be completed by no later than the end of March 2011.

Recommendation 12: External review of the Families and Communities portfolio

The Commission recommends an external review of the Families and Communities portfolio should be conducted. The review should be undertaken by an independent party, and identify reforms that will deliver efficiency improvements.

The review should commence as a priority and be completed by no later than end March 2011.

8.3 Justice

8.3.1 Courts Administration Authority

The Courts Administration Authority's (CAA) governance arrangements are unique to South Australia.

The State Courts Administration Council is responsible for providing administrative services to its participating courts. The Council comprises the Chief Justice, the Chief Judge and the Chief Magistrate. It is supported by the State Courts Administrator who is the Council's Chief Executive Officer and is subject to direction by the Council rather than the Government.

In other states administration of the courts is the responsibility of a government department.

Consistent with the principle of judicial independence the judiciary has the ultimate responsibility for case flow management, including listing procedures. It decides when and where it will sit, who the presiding judicial officer will be, and how cases are allocated. Court staff provide administrative support consistent with courts' policies.

Volume 2 contains some specific recommendations intended to improve efficiency within the CAA. Other options to increase efficiency in court processes should be considered.

More efficient practices can improve access to justice by speeding-up resolution of matters.

The Commission understands there have been a number of reviews investigating possible improvements in efficiency and reducing court delays. Such measures may not offer immediate savings, but should lead to a reduced backlog of court cases and a reduction in the level of resources required.

Options worth further investigation include:

- case conferencing — a forum for early negotiations to facilitate faster resolution of matters, or identify issues and exchange information to speed up pre-trial and trial times;
- increasing the jurisdiction of the Magistrates Court — an increase in the discretion of the Magistrates Court enables more matters to be heard by a lower court, reducing the number of matters required to be heard before a jury;
- expansion of expiable offences — this reduces the number of minor matters going to court;
- greater use of Special Justices — these enable more minor matters to be dealt with in a cost effective manner;
- centralised committals — if the Magistrates Court heard committals, the higher court's resources would not be tied up hearing matters not progressing to trial; and
- amendments to the *Criminal Law Sentencing Act 1998* — changes to the Act providing sentencing discounts for early guilty pleas may deliver efficiencies by reducing court time.

Recommendation 13: Courts

The Commission recommends that measures to increase the efficiency of the court system should be explored and implemented as a priority. The objective should be improving efficiency while maintaining fair access to justice. These measures may not offer immediate savings, but should lead to a reduced backlog of court cases, and over time a reduction in the level of resources required.

8.3.2 Attorney-General's Department

The Department of Justice was originally created to provide a more integrated and strategic approach to the justice system in South Australia. However, the ability of the Department of Justice to deliver on these goals appears limited given the current structure and administrative arrangements within the portfolio.

When the department was originally established the Department of Justice had only one Cabinet Minister and one non-Cabinet Minister responsible for all agencies in the Justice portfolio. The budget for the portfolio was appropriated to the Department of Justice and was apportioned to agencies and business units by the department. Currently, there are seven Ministers responsible for the agencies and business units within the Justice portfolio. Budgets are appropriated directly to the individual Justice agencies rather than to the Department of Justice.

Under the current model the Chief Executive of the Department of Justice and Attorney-General's Department only has lawful direct control over the Attorney-General's Department. The South Australia Police, Department for Correctional Services, the emergency services sector (through the South Australian Fire and Emergency Services Commission (SAFECOM)) and Courts Administration Authority operate independently of the Department of Justice and report directly to their respective Ministers, or the Judicial Council in the case of the Courts Administration Authority.

Each administrative unit within the Justice portfolio operates autonomously. The administrative units report through the Justice portfolio services section (located in the Attorney-General's

Department) for some whole-of-government purposes. The centralised reporting adds another layer of administration but does not provide any identifiable benefits.

The Commission believes that there are options for reform in this area.

Recommendation 14: Department of Justice

The Commission recommends that the Justice portfolio structure should be disbanded and the South Australian Police Department, the Department for Correctional Services, the Courts Administration Authority, the emergency services sector agencies (through SAFECOM) and the Attorney-General's Department should operate as independent administrative units reporting through their respective Ministers.

8.3.3 Crown Solicitor's Office

The Crown Solicitor's Office (CSO) does not undertake full cost recovery for a range of its services. The absence of an efficient price signal can induce higher demand for services. The Commission has been advised agencies seek CSO opinion on minor matters that may not require legal opinion. If so, there is a risk of over use of what is regarded as a 'free' service.

Demand for CSO services could be affected by adopting a full cost recovery model for its services. This should reduce the overall level of demand for CSO services and generate savings.

Most government legal work must be undertaken by the CSO. The CSO's efficiency compared with legal services available in the private sector has not been tested. Private legal firms must compete for legal work against other firms on a competitive basis, driving efficiencies.

Outsourcing legal services to a panel of preferred providers would make agencies more aware of the costs involved in seeking legal advice, helping to regulate demand. Agencies would also benefit from efficiencies in work practices. Requiring the CSO to tender for work in competition with external providers helps ensure agencies receive the most cost effective legal advice available.

The Commission understands that this recommendation would require amendments to Treasurer's Instruction 10 — Engagement of Legal Practitioners.

Recommendation 15: Crown Solicitor's Office

The Commission recommends that, with the exception of constitutional law advice and core 'public policy' issues, where the experience in the private sector is likely to be more limited, all legal work required by agencies should be purchased from a panel of preferred legal service providers. The Crown Solicitor's Office should be able to tender for this work on a competitively neutral basis.

8.4 Education

Wages and salaries make up a large proportion of the total cost of the services in children's services, primary and secondary education and further education. Continuous reforms and opportunities in this area need to be pursued if the Government is to further improve the efficiency of government-supplied education services.

The intended introduction by the Government of a student-centred model of allocating funds in schools is considered by the Commission to be a key mechanism to improve the efficiency of the education system and the Commission encourages the Government to continue down that path.

Consideration should be given to moving a portion of administration from central office to schools, along the lines of the non-government school system, to strengthen schools' interface with administration services.

The Government education system must be able to respond to changes in demand. The proportion of students attending government schools has fallen over the last ten years. The absolute number attending government schools has declined in that time, although it has been relatively stable over the last few years. The total number of students in government and non-government schools has risen slightly over the ten years to 2010.

Competition from the private sector will require the Government to constantly consider the type and level of services it provides.

The Government must be prepared to be flexible in its response to changes in demand. Infrastructure is costly to create, but is also costly to maintain when it is underutilised. Amalgamations of schools and TAFEs will need to be more common in future in order to ensure that the appropriate levels of service are available in the right places.

Flexibility in the mechanism of service delivery will also be important. For example, pre-schooling services are predominantly delivered by the state government in South Australia, but the private sector has a much greater role in other states. The Commission is of the opinion that this is indicative of opportunities for deeper reform throughout the government education system.

The Commission encourages the Government to ensure that the quality of all education services provided is maintained at an appropriate level and that the services are delivered at lowest cost.

Recommendation 16: Children's services, education and further education

The Commission recommends that the Government continue to focus on the cost efficiency of delivery of education services, with a view to flexibility in its delivery beyond current constraints.

8.5 Industry

8.5.1 Industry assistance

The Government provides assistance to industry through direct grants or loans, research, marketing advice, and in-kind assistance such as construction of infrastructure to promote commercial activities.

An independent consultant was commissioned to review industry development assistance to help determine whether state-based economic development programs contribute to improved net economic outcomes for South Australia (Ryan Review).[34]

The independent review concluded the main role of government in assisting business is to provide a stable environment allowing an adequate supply of skilled labour, energy and utility supplies, and maintenance of an efficient and fair system of taxes and regulation.

The Ryan Review defines this as ‘low risk’ government support of business.

In contrast, the review defines ‘high risk’ business support as “intentionally *selective* in discriminating between activities, firms or industries”. Examples of ‘high risk’ support include grants made to specific industry sectors or to specific firms.

The report concluded that government involvement in ‘high risk’ business support should not proceed without a rigorous assessment of the following issues raised in the review:

- Why isn’t the firm to be assisted doing the activity without government funding?
- If the firm does not think the activity is a profitable idea without government support, there need to be clear arguments as to why the firm requires support.
- Encouraging firms through government intervention to undertake activities that they would not otherwise have engaged in risks diverting resources from their most profitable use and may be economically damaging to the State rather than beneficial.[35]

This potential for net negative economic benefits from ‘high risk’ government support for industry was also noted by the Productivity Commission. It concluded that:

> *gains from providing selective assistance at the State level are largely an illusion*
>
> and
>
> *most selective assistance has little or no positive effect on the welfare of Australians*.[36]

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[34] Do state-based economic development programs contribute to improved economic outcomes? A report prepared for the Sustainable Budget Commission, Matthew Ryan, June 2010.

[35] Ryan, 2010, page 3.

[36] *State, Territory and Local Government Assistance to Industry*, Productivity Commission, Report No 55, 29 October 1996, page xxiii, as noted in Ryan, 2010, page 9.

In 2003 the Economic Development Board evaluated South Australian Government development assistance:

> *Invariably, the bulk of assistance has gone to large corporations, which play off one government against the other to maximise the amount of financial assistance they receive. Governments are not good at predicting winners and should not provide handouts to businesses that engage in this practice.*[37]

The Commission strongly agrees with these views.

Specific activities supported by the Government that the Commission questions include Rural Solutions SA and SARDI (divisions of PIRSA), DTED and the SA Centre for Innovation.

The Commission questions why the Government should be subsidising otherwise marketable services, and, because they are marketable, whether the services are being provided on the basis of full cost recovery fees-for-service. The Commission also questions the extent of positive externalities[38] justifying government support for SARDI's research.[39]

The Commission notes DTED's role includes activities that are provided by the private sector. The Commission questions what additional value the taxpayer could expect to receive from government involvement in those activities.[40]

The South Australian government supports a significant number of arts and sporting events. Other state governments, and the national government, also provide financial support for major events. These government expenditures are typically justified by reference to the economic benefits that accrue as a result of the particular event being held in that location. Rigorous analysis of the impact of such events indicates that net economic benefits typically are much lower than claimed, and arguably negative in many cases.[41] The Commission recommends current support for major events be critically assessed.

In relation to bioscience industry attraction, the Ryan Review noted that any benefit achieved through industry attraction and support runs the risk of counterbids from other state governments, with zero net gain for the nation as a whole. It is hard to evaluate the impact of such activities because it is hard to establish what activity would still take place in the absence of government intervention.

The externality benefits of industry assistance may be overestimated. In the case of Bio Innovation SA, for example, it has been claimed spending on bioscience brings long-term gains in health and quality of life as a result of the products developed. The Ryan Review estimates most of these benefits accrue to the overseas consumers of the products arising from the supported bio-companies' research, and only a minor benefit would accrue to South Australia.[42]

The Ryan Review recommends Government's policy processes need to be transparent, accountable and rigorous. As part of this, significant policy proposals should be subject to a Regulation Impact Statement (RIS) which makes the case using hard evidence to support the

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37 *A Framework for Economic Development in South Australia*, Economic Development Board, May 2003, page 85, as noted in Ryan, 2010, page 9.

38 Positive externalities occur when benefits spill over to another party that is not involved in producing or consuming the good or service in question.

39 Ryan, 2010, page 26.

40 DTED is considered more specifically in Section 8.5.3.

41 Ryan, 2010, pages 28 to 31.

42 Ryan, 2010, page 21.

policy. The review recommends the Department of Treasury and Finance should be the lead agency responsible for assessing policies with economic implications both before and after implementation.[43]

The Commission strongly agrees with these recommendations.

Recommendation 17: Industry assistance

The Commission recommends that the Government should cease selective industry assistance and significantly reduce sporting and arts events attraction and assistance.

The Commission recommends that the Department of Treasury and Finance should be the agency responsible for assessing policies with economic implications both before and after implementation.

8.5.2 Defence SA

Defence SA is currently a stand alone government agency. Defence SA was established to increase defence industry employment and the State's economic growth. The principle project to achieve these targets was the securing of the Air Warfare Destroyer Program. The Government's commitment to this program was predominately infrastructure, being the construction of a Common User ship building facility and an industrial land development to house suppliers at Osborne.

The Common User Facility was completed in February 2010 and the supplier precinct is also now complete. The development, known as Techport Australia, is now in its operational phase.

In support of the infrastructure delivery functions, Defence SA undertook a concerted marketing campaign to promote the competitive advantages of South Australia in the defence sector.

Given the successful establishment of the 'The Defence State' brand and the completion of the major infrastructure projects at Techport Australia, the Commission is of the view that without compromising the objectives of Defence SA that it is possible to move to a lower cost delivery model.

The Commission recommends that Defence SA merge into a broader industry development department with a leaner board. Within this broader department, the Defence SA and Defence State brands can still be effectively maintained. Savings will be achieved by rationalising many corporate support functions.

Recommendation 18: Incorporate Defence SA into a department

The Commission recommends that the operations of Defence SA be merged into a larger department, with a leaner board.

[43] Ryan, 2010, pages 4 and 12.

8.5.3 Department of Trade and Economic Development

The Commission undertook a review of the Department of Trade and Economic Development (DTED), its functions and services, and the attributable net economic benefits to the State as a result of its activities.

It observed that for many activities there was either:

- duplication of services provided by other state government agencies, Commonwealth Government agencies, or the private sector;
- no justification for government involvement; and
- a lack of demonstrable results.

Consistent with these observations, the Commission recommends discontinuing a number of programs managed by the Department.

Specifically these are:

- cease economic analysis and policy advice function — this area is over resourced and adds little value;
- reduce trade promotion and redirected through Austrade and close international offices — the costs of the current arrangement cannot be justified by any benefits accruing to the State;
- cease industry subsidies and grant programs — this issue is discussed in more detail in 8.5.1;
- cease commercial services to businesses — there is no reason to believe that Government has an advantage over the private sector in delivering these services;
- cease migration administration — there are minimal benefits relative to the costs involved; and
- discontinue the independent regional development role — individual portfolios, such as PIRSA, DTEI, and DENR, as well as Commonwealth Regional Development Committees, would continue to have regard to regional issues.

This would reduce expenditure from just over $60 million per annum down to around $20 million per annum and reduce FTEs by 150 to 55 FTEs (the functions are discussed further below).

Should the above recommendations be adopted, the Commission is of the view that the department remaining as a stand alone entity is not viable. DTED should be abolished, with the remaining functions allocated to other parts of government that will best support their delivery.

The Commission recommends the:

- Establishment of a more focussed Industry Policy Division within the Department of Primary Industries and Resources (PIRSA).
- The Olympic Dam Taskforce be transferred to PIRSA.
- The Economic Development Board and support for the Competitiveness Council transfer to the Department of the Premier and Cabinet (DPC).

Shifting the Office of the Economic Development Board and support for the Competitiveness Council into the DPC has already been approved by Cabinet and provides an appropriate structure to support the Premier as the Minister for Economic Development.

The functions of the new Industry Policy Division would be:

- industry policy and analysis;
- support to the Minister for Industry and Ministerial advisory boards;
- identifying and promoting investment opportunities based on South Australia's comparative competitive advantages, not providing industry welfare or subsidies to attract investment;
- providing a one stop shop for major private sector projects trying to comply with government approval processes (bringing within it the existing PIRSA Commercial Investment Division and case management function); and
- activities which support local tendering of major projects (Industry Capability Network).

Implementing these recommendations should result in a more efficient and targeted approach to industry policy.

Recommendation 19: Department of Trade and Economic Development

The Commission recommends that the Department of Trade and Economic Development should be abolished with residual functions transferred to the Department of Primary Industries and Resources (PIRSA) and the Department of the Premier and Cabinet.

8.5.4 Bio Innovation SA

Bio Innovation SA was established in June 2001 to accelerate development of South Australia's bioscience sector. Bio Innovation SA is currently a stand alone government agency with a projected FTE cap of 16 as at 30 June 2010.

The Commission suggests there are no compelling economic reasons for government money to support industry development in the manner undertaken by Bio Innovation SA.

The Commission believes it is not government's role to actively intervene with taxpayer funds to encourage companies to form or to undertake new investment.

Further, it is not clear that net economic benefits have been delivered by the assistance provided to date.

The Commission recommends that all Government support for Bio Innovation SA cease and remaining contracts be administered elsewhere in government, such as in a department administering industry policy advice or the Department of Further Education, Employment, Science and Technology. If the Government chose not to cease the operations of Bio Innovation SA then it should be incorporated into the Department of Further Education, Employment, Science and Technology thus avoiding the costs involved in being a stand-alone government agency.

Recommendation 20: Bio Innovation SA

The Commission recommends that the operations of Bio Innovation SA cease and that any residual contracts be administered by the Department of Further Education, Employment, Science and Technology. If the operations of Bio Innovation SA do not cease then it should still be merged with the Department of Further Education, Employment, Science and Technology.

8.6 Environment

8.6.1 Department of Environment and Natural Resources

The Commission considers that there are significant reform opportunities for the Department of Environment and Natural Resources (DENR)[44] to integrate regional agency operations with Natural Resources Management (NRM) Boards. Some of these are already underway.

The drivers for change include the desire for more coordinated and improved delivery of the government's NRM services; greater community expectations regarding consultation and the standard of services provided; and achieving efficiencies and cost savings. This will particularly be the case as NRM Boards seek greater self-sufficiency and cost-recovery of their operations through NRM levies.

The new DENR will have responsibility for a large part of the rural landscape. The community interface and engagement role will be broad.

A 'one-stop-shop' for all regional engagement and service delivery on environment and resources matters should generate savings and improve the effectiveness of programs.

Water and landscape management of public and private lands, native vegetation clearance, pastoral land management, fire management, regional land use planning, bio security, drought support programs, fisheries and marine parks are some of the existing programs that could be captured by the 'one-shop' model. A number of government agencies are currently involved in the delivery of these programs.

Despite a potential funding source through the NRM levy, all programs' efficiency and effectiveness would need to be reviewed. State funded programs that demonstrate no net benefit would cease and landowners would receive the benefit through a lower levy. Alternatively, regional communities could have the choice of funding specific services which they value.

Recommendation 21: Integration of regional natural resource management service delivery

It is recommended that the Government consider the long term reform direction for the integration of regional natural resource management service delivery, and explore opportunities to improve coordination between agencies to improve service delivery and realise efficiencies.

8.6.2 Department for Water

The new agency structure provides an opportunity for improving technical and policy services to Natural Resource Management (NRM) Boards around water resource planning for prescribed water resources, and informing the preparation of regional water allocation plans.

For example, hydro geological investigations into establishing the size of groundwater resources and identifying a sustainable level of extraction for water allocation plans is best performed by the technical experts within the Department, rather than NRM Boards trying to coordinate this input disparately.

NRM Boards' role should be focussed to providing a conduit for stakeholder consultation, within the broader integrated regional service model to be led by the new Department of Environment and Natural Resources.

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44 On 18 May 2010 the Government announced that from 1 July 2010, the Department for Environment and Heritage (DEH) would become the Department of Environment and Natural Resources and Heritage and take over responsibility for Natural Resource Management (NRM) and administrative responsibility for NRM Boards.

At the national level, the development of the Murray Darling Basin Plan by the Murray Darling Basin Authority, to be finalised in 2011, has the potential to impact the way the State manages the River Murray and interacts with the Commonwealth and other states. This will provide a dynamic external environment for the Department in the medium term.

Once the Murray Darling Basin Plan is finalised and the Department for Water has finished its resource plans, the need for a dedicated agency will diminish. As this occurs, opportunities to bring water within the larger environment agency should be explored and programs evaluated as to whether they still need to continue. This will deliver further corporate support savings.

8.6.3 Environment Protection Authority

The Commission believes that the EPA should focus its activities on core legislated responsibilities of inspection, enforcement and prosecution, whilst achieving full cost recovery from the users of regulatory services through user licence fees and charges.

Also, there should be structural separation of the regulatory functions of the EPA from policy and planning functions undertaken in non-regulatory agencies, such as DENR. This should see the EPA withdrawing from policy development and planning activities over time and its advice role limited to that of a technical or regulatory nature only.

By focusing on its legislated responsibilities and cost recovery there is the potential to realise further budget benefits. The practice of hypothecating revenues from the solid waste levy should cease.

Recommendation 22: Environment Protection Authority

It is recommended that there be an independent review of EPA functions with a view to ceasing those which are non-legislated, achieving a greater level of cost recovery, and withdrawing from policy and planning activities.

Policy and planning functions should be structurally separated from the EPA and be performed within the non regulatory component of the portfolio (eg, the Department of Environment and Natural Resources — DENR).

The practice of hypothecating revenues from the Solid Waste Levy should cease.

8.6.4 Zero Waste

The Commission undertook a review of the budget, functions and programs administered by Zero Waste, and the net economic benefits to the state attributable from its operations. The Commission recommends that the majority of the agency's programs cease and the remaining functions be brought within the Department of Environment and Natural Resources (DENR).

Zero Waste played an important role at the commencement of the *Zero Waste Act 2004* and when waste levies were first introduced, particularly in working with local government and industry to transition to new regulatory arrangements.

However, as the regulatory regime has matured, the Commission believe that the need for its programs has decreased, with the waste levy being the substantive driver of reduction in waste to landfill, and in driving the development of the recycling and re-use sectors.

To the extent that waste levies impose costs on local government (as the principal level of government responsible for waste management), it is appropriate that these be passed through to those which generate waste, through either increasing refuse depot fees or general rates, to provide a price signal about the costs of waste so that this may affect behaviour change over time.

The broader community and education programs run by the agency, as well as the programs with businesses and local government are well intentioned, but do not demonstrate net economic benefits.

The Commission recommends that a narrow set of waste policy functions be retained. As these would be unviable in a stand alone agency of reduced size, it is proposed to bring these within the DENR. This will result in corporate and overhead savings.

The Commission recommends that the solid waste levy be increased from $25.50 to $54 per tonne to bring South Australia into line with other states. This will provide further impetus to the recycling and re-use sectors, and drive greater reductions in waste to landfill. The practice of hypothecating 50 per cent of the solid waste levy to Zero Waste should cease.

Recommendation 23: Cease major Zero Waste programs

The Commission recommends that the majority of Zero Waste's programs cease, with waste policy functions brought within DENR.

8.7 State concessions

The State Government provides concessions for major charges to South Australians on low and fixed incomes (pensioners, unemployed, students, self-funded retirees, etc). The Government spends around $200 million per annum on such concessions.

The range, eligibility and value of State Government concessions has been expanded without an over-arching policy on concession eligibility. There would be merit in improved targeting of concessions.

Specific proposals relating to eligibility and the level of concession payments are contained in Volume 2 of this report. The specific proposals attempt to retain equity and reduce the social impact by targeting concessions to those sections of the community most in need.

While the Commission has tried to identify proposals that retain equity by targeting concessions at those most in need, the assessment of need is best assessed on the basis of income and wealth. The ability of the State Government to assess income and wealth is limited, and, if it could be achieved, it would likely be overly complex and costly to administer. It is therefore sensible to 'piggyback' on the eligibility criteria for certain entitlement cards (largely issued by the Commonwealth Government) to determine eligibility for concessions.

Eligibility for concession cards, however, is generally not withdrawn gradually; you are either eligible or ineligible.

A more targeted concession card system may assist in better targeting of State concessions towards those most in need. This is consistent with information contained in the Commonwealth's Pension Review Report[45] by Dr Jeff Harmer and in Australia's Future Tax System Review.[46] Any reforms in this area will only be achieved over the longer term. Consultation with the Commonwealth Government and interstate jurisdictions will be needed.

45 *Pension Review Report*, Dr Jeff Harmer, Department of Families, Housing, Community Services and Indigenous Affairs, 27 February 2009.

46 Australia's Future Tax System, Report to the Treasurer, Commonwealth Government, December 2009.

Recommendation 24: State Government concessions

The Commission recommends that State Government concessions should be targeted at sections of the community most in need. This may be assisted by Commonwealth reforms to concession card eligibility.

8.8 Local government

Sixty eight local councils operate in South Australia. *The Constitution Act 1934, the Local Government Act 1999,* and *the Local Government (Elections) Act 1999*, create the legal framework within which local government operates.

In response to a range of factors such as government (state and federal) policy and legislative changes, the service provision roles of local councils and state government have changed.

Waste management and recycling, planning and development assessment, flood mitigation programs, road maintenance and improvement, and library services, are some examples of services delivered by local councils, but where the state government is also involved in similar or related services.

There are further services (eg, immunisation programs) where local councils are effectively ‘contracted’ by the State Government to deliver the service.

The Commission concludes that, where local government is considered best placed to deliver a service, similar state government programs should be stopped.

The Commission is aware this will have cost implications for local government. Councils may need to increase their revenues to ensure their financial sustainability and the continued delivery of services.

Opportunities for broader reform

In the context of the revenue base for local government and long-term financial sustainability, further efficiencies through economies of scale, improved utilisation of assets and the cessation of duplicated services, (particularly in support and back-office functions) can be achieved through the rationalisation of councils in South Australia. These savings could be reallocated to direct rate payer services.

Notwithstanding the amalgamations of the 1990s, South Australia has one council for every 23,700 people. The average of all the states is one in 39,000, with only Western Australia having a lower average than South Australia. Western Australia has commenced a reform and rationalisation program.

Councils and their residents will reap the benefits of increased scale and capacity. They will be better placed to leverage funding opportunities from Commonwealth programs.

Both the state and local government will benefit from streamlined interaction.

Recommendation 25: Provision of local government services

The Commission recommends:

- services or programs best delivered by local government should not be provided and/or duplicated by state government agencies; and
- as an extension to the boundary reforms of the 1990s, further boundary reform (ie, larger and fewer councils) be undertaken to strengthen the revenue base of local government in South Australia.

8.9 State public service employment policy

The Commission recommends that the Government discontinue its 'no forced redundancy policy'. The implications for adopting this recommendation, the reductions in FTEs, and the alternative of a 'wage freeze' were discussed in Section 7.

Current policy and constraints

The current 'no forced redundancy' policy is a commitment expressed in a Memorandum of Understanding (MoU) between the Government and major unions. The MoU has existed since 1996 and been extended by successive governments. However, it is not formally part of the Enterprise Agreement and does not form part of the workforce obligations on Chief Executives.[47]

Importantly, the policy is a 'political statement', rather than subject to legislation or some other administrative or legal constraint on the Government.

The *Public Sector Act 2009* contains provisions which afford Chief Executives considerable flexibility, but to date these have not been utilised. The Act allows Chief Executives to terminate employees excess to agency requirements if suitable alternate employment can not be found within that agency, and it also provides the Commissioner for Public Employment a role to advise Chief Executives on an agency's proposed process for doing so, ensuring there are appropriate processes in place for the protection of workers.

Allowing Chief Executives to manage their resources and excess employees without this political constraint, will contribute significantly to improved outcomes in the public sector as well as the necessary flexibility to manage staffing reductions.

Undesirable outcomes under current policy

The 'no forced redundancy policy' has produced undesirable outcomes for the public sector. The Commission believes the following adverse effects can arise from this policy:

- *Staff incentives*: The knowledge that staff can not be made redundant has a negative impact on their incentives. Employees are less inclined to undertake training, upgrade skills or perform well to achieve government objectives. Where staff are redeployed, they have little incentive to perform well in new positions.

[47] This refers to *Public Service Act 2009* employees under the South Australian Government Wages Parity (Salaried) Enterprise Agreement 2010. Different employment conditions apply to specialised employee groups and some enterprise agreements contain 'no forced redundancy' as an agreed provision.

- *Productivity*: The no forced redundancy policy creates significant management difficulties and inefficiencies. The impact on productivity has not been measured but it is expected to be significant.

- *Morale*: The ability of poor performers to survive in the public service has a deleterious impact on the morale and performance of staff who meet their responsibilities. It entrenches internal and external viewpoints about 'slack public servants'.

- *Flexibility*: The ability for government to manage its programs, either by different delivery mechanisms or by reprioritising resources into emerging or priority areas, is compromised by the current policy.

Greater alignment with interstate and private sector entitlements

Although challenging, there is no compelling reason why South Australia cannot implement the types of policies already in place for government employees in other states, whilst achieving greater consistency with the private sector. Such reforms could also remove the historical and arbitrary benefits provided to public employees, over and above those provided in the private sector.

In other states, there are legislative provisions and operative policies in relation to redeployment, voluntary separation and involuntary separation in some cases (Victoria, New South Wales and the Commonwealth). As part of such policies, the governments concerned prescribe processes and standard severance entitlements for employees.

The Commission observes that the primary challenge for governments looking to adopt such policies, particularly for involuntary separations, is implementation management. Although other governments have legislative powers to implement involuntary redundancies, as is the case in South Australia, these are not always used. Without any prescriptive guidelines or formulae, inconsistent application across agencies is a real risk.

The challenge for governments trying to implement involuntary redundancy policies is to ensure a balance between redeployment where available, retraining and placement (where assessed as cost effective) and ensuring that formula severance arrangements apply where involuntary redundancy can not be avoided.

For the private sector, the entitlement provisions of the *South Australian Fair Work Act 1994*, the South Australian Industrial Relations Commission Declaration of Minimum Standard for Severance Payments on Termination of Employment for Redundancy, and the *Commonwealth Fair Work Act 1999* provide standard or minimum entitlements.[48]

The policies of other states provide a guide, as do the industrial entitlements contained in both Commonwealth and State legislation.

Chief Executive power to terminate employees for poor performance

The powers of Chief Executives to terminate employees for reasons of poor performance also require review and possible strengthening. Currently, although there is no legislative barrier to performance managing staff and terminating poor performers, Chief Executives utilise these powers in only the most exceptional of cases. This would appear inconsistent with the operation of other large employers, where there would be internal policies which would from time to time (however irregular), lead to the termination of employees. The Commission considers that this area requires further review.

[48] These minimum or default industrial entitlements provide notice periods up to 5 weeks (over 5 years of service) and severance pay of up to 12 weeks (for 7 years of service, with additional allowances for employees over 45 years of age with 10 years of service).

Recommendation 26: Workforce policy

The Commission recommends that:

- there should be a non-voluntary separation policy for managing staff who are excess to agency requirements;
- entitlement and pay provisions (eg, minimum notice periods and severance pay) should be established with regard to other jurisdictions' policies for the treatment of excess employees, redeployment and involuntary severance arrangements. Consideration should also be given to aligning public sector practice with current private sector practice; and
- there be a review of the use of Chief Executives' powers to separate employees who are poor performers, with a view to strengthening the existing provisions, where necessary.

Other policy issues

Voluntary separation packages have been a feature of South Australian public sector employment for some time. They have relied on employees nominating to take a package. Under this approach managers have little effective choice about which employees received packages. The people most likely to nominate were those nearing retirement or high quality employees who would have little difficulty in finding employment in the private sector. The prospect of regular offers of voluntary separation packages also encouraged employees who were thinking of resignation or retirement to stay around until the next offer was made. This is a very expensive and inefficient way to reduce the workforce.

More recently only employees who had already been identified as redeployees were offered voluntary separation packages. This improved the targeting but the average age of employees taking packages was still around 54 years of age. The predominance of older employees suggests that there is a significant proportion of voluntary separation packages paid to employees who have simply brought forward their retirement by a couple of years. This is not a very cost effective way of reducing the workforce.

Redeployees as a group may be less confident about their chances of obtaining alternative employment and so be more reluctant to accept voluntary separation packages. The more effectively the offer of voluntary separation packages is targeted on the less productive employees the smaller is the likelihood that they will be accepted.

If non-voluntary separations were allowed there may be suggestions that existing employees should be grandfathered and only new appointments would be eligible for forced redundancies. This would mean that the pool of employees subject to non-voluntary separations would grow very slowly over time — especially if new recruitment is slowed or halted. As a result any workforce reduction would tend to be concentrated on this relatively small group of recently appointed employees. This is unlikely to give an optimal outcome.

Natural attrition is often mentioned as a 'painless' way of reducing the public sector workforce. It is not. The size of any reduction is not controlled by management and neither are the positions that become vacant. As a result there would be a growing divergence between the location and skill set of the current workforce and what was actually needed.

The availability of non-voluntary separations would not relieve managers of the responsibility to minimise the impact on individual staff. For example, if particular employees were keen to receive a redundancy package this should be balanced against other management objectives when deciding which employees would be made redundant.

Retraining provisions can form part of a policy response for dealing with excess staff. However, this is a policy judgement, rather than being based on any strong economic rationale.

Chief Executives should be vested with the necessary authority to implement staffing changes associated with separating excess staff. The Commissioner for Public Employment's role is appropriately focussed on policies and processes and this is already established in the *Public Sector Act 2009*.

Leave loading and long service leave provisions

The Commission recommends that the benefits to public servants in South Australia should be no more generous than the provisions that exist in other states or the private sector in South Australia.

In relation to long service leave (LSL), compared with the private sector, the South Australian public sector has a significantly greater rate of accrual after 15 years' service (15 calendar days or 2.14 weeks per year compared with 9.1 days or 1.3 weeks per year in the first 15 years). The effect of the proposed change would be for a flat 9 calendar days to accrue for each completed year of effective service, rather than the step up from 9 to 15 days that currently occurs after 15 years of service. The Commission also recommends that employees be encouraged to take LSL on a more regular basis and other complementary measures be adopted to manage LSL.

The Commission proposes the removal of leave loading from employee benefits.

Historically leave loading was a hot topic for unions in the 1970s in addition to employee groups winning a claim for four weeks annual leave. The theory was that workers were entitled to the loading; because they were on holidays they wouldn't get their normal pay which possibly included extra for working on shifts and weekends. This approach spread across all employee groups. The proposal would remove this historical benefit.

8.10 Workers' compensation

Compensation claims, injury management programs and support systems, and compliance management cost government agencies approximately $100 million per annum.

The governance and administration of safety, health and welfare is managed in accordance with:

- the legislative framework of the *Occupational Health, Safety and Welfare Act 1996* and regulations and the Workers Compensation Rehabilitation and Compensation regulations; and
- administrative directives in support of the Safety in the Public Sector Statement.

Under the Act, the agency Chief Executive is the responsible officer and is ultimately accountable for compliance with the Act and its outcomes.

Government agencies have 'self-insurance' status. Self insurance status is explained below.

In addition to the Chief Executive and the support structures established within agencies, the South Australian Government has three separate entities involved in occupational health, safety and welfare:

- WorkCover Corporation;
- SafeWork SA (a Division of the Department of the Premier and Cabinet); and
- Public Sector Workforce Relations (a unit of the Department of the Premier and Cabinet).

The Commission is of the view that lower cost service delivery and elimination of duplicated functions can generate budget benefits, without compromising safety outcomes. Specific opportunities are outlined below.

Simplify and rationalise governance arrangements

The above listed agencies have enforcement, compliance and performance management functions. The possibility of duplication and potential confusion is a reality. Common feedback received from agencies was the apparent duplication, and in some cases misalignment of the performance standards as set by WorkCover and Public Sector Workforce Relations (PSWR).

Self insured status

To comply with the legislative requirements, all South Australian employers are required to be part of the South Australian workers' compensation scheme.

This is achievable by being either self insured or paying a levy to WorkCover SA.

Under the levy arrangement, responsibility for compensation payments and rehabilitation services to an employee in the event of injury or illness during the course of employment falls to WorkCover SA.

In contrast, the employer is responsible for these services and payments if self insured.

A desk-top analysis indicated that it is currently financially beneficial for the Government to remain self insured. This should be reviewed from time to time.

Claims and injury management

There are five injury management centres established across government. Further consolidation should achieve budget benefits through the application of consistent early intervention standards and the rationalisation of support systems and functions. Private sector operators should be considered in the provision of this service.

Legal advice and the compliance with the legal structures and processes is an integral part of the claims and injury management process. The Commission recommends, legal work in support of claims and injury management should be contestable.

The 2008 WorkCover reforms were introduced to improve return to work outcomes and reduce costs. It is important that these reforms are applied both in the private and public sector. The Commission believes an independent review focussing on key performance measures of return to work rates, income maintenance and redemption payments will provide an impartial assessment of their effective application in the public sector.

Streamline 'incident reporting'

The current processes and systems for incident reporting are disparate across government. Agencies indicated that the process is time consuming from both the injured persons and management view point.

Through the corporate services review, the Commission is aware that one agency is trialling a single 'one' incident reporting system. The savings are expected to be small, with greater productivity through the 'freeing' up of management and operational time, being the benefit of a standardised and streamlined reporting approach.

Employee assistance programs

All agencies offer employee assistance programs. The services provided are generally standard across government. Services include grief counselling, financial guidance and support, advice on workplace issues, mental health issues, and drug and alcohol support/guidance.

Standard services lend themselves to whole-of-government panel contract arrangements (see strategic procurement) and lower costs.

Recommendation 27: OHS&W arrangements

The Commission recommends the following in relation to OHS&W issues:

- **Governance arrangements** — the Public Sector Workforce Relations unit of DPC role on OHS&W be restricted to a purely advisory and data collection role. Chief Executives should manage agency OHS&W performance and outcomes in accordance with their legislated 'responsible officer' obligations.
- **Workers compensation insurance arrangements** — the Government should remain self-insured on the grounds that it is currently the most cost effective option. This position should be reviewed from time to time.
- **Injury management arrangements** — all government injury management service centre activities should be competitively tendered.
- **Legal advice** — all legal advice for government claims and injury management services should be competitively tendered.
- **Review of WorkCover reforms** — an independent review of the application of the 2008 WorkCover changes and their effectiveness in the public sector should be undertaken.

8.11 Government support services

8.11.1 Shared services

As part of the 2006-07 Budget, Cabinet approved shared services reform, anticipating ongoing savings of $60 million per annum. Savings initiatives implemented in 2007 (ICT reforms and the closure of the Supply SA warehouses) delivered annual savings of $27.9 million (2008-09).

In 2007 the Government established Shared Services SA within the Department of Treasury and Finance to achieve the balance of the savings from further reform in the areas of corporate services, human resources, finance, procurement and ICT.

The Commission has been informed that in 2008 and 2009 the first two tranches of services delivery transitions from agencies to Shared Services SA were completed. These included accounts payable, payroll, accounts receivable, financial reporting, general accounting, taxation and some other services. As part of the transition and pre-transition activities, annual savings of $2.4 million (2008-09) were recognised. Significant further savings are expected in future years.

For services that have transitioned, Shared Services SA has implemented performance management and reporting, which for most of these services did not previously exist. In most cases, the simplification, standardisation, consolidation, rationalisation and automation are the key aspects of service design for the shared services model.

The Commission has been informed that in 2009, following Cabinet endorsement, Shared Services SA commenced implementation of the E-procurement initiative across government. This is a major reform of procurement and is expected to deliver annual savings of over $16 million per year, when fully implemented by 2013. These savings arise within agencies and their budgets have been adjusted downwards accordingly.

The Commission understands that there is significant agency resistance to further shared services reforms. For the benefit of all involved the Commission recommends that agencies fully cooperate in the transition of any future areas that transition to shared services.

In respect of some budget improvement measures, the Sustainable Budget Commission will be considering changes that are within the scope of shared services reform. In these areas the work of the Sustainable Budget Commission will reinforce the transitions and reforms proposed by Shared Services SA.

In other areas, there are proposed reforms that may be outside the current scope of Shared Services SA, but there is a benefit to be gained by centralising and standardising these activities. In these cases there may be significant benefit in leveraging the current experience and expanding the current scope of shared services and the role of Shared Services SA.

8.11.2 Corporate services

Corporate Services are functions undertaken in support of either operational activities, legal obligations or reporting requirements. Functions within this definitional scope include (but are not limited to):

- finance;
- human resources;
- information and communication technology;
- general administration;
- purchasing;
- risk management;
- occupational health and safety management;
- corporate and community communications;
- grant administration;
- Freedom of Information administration; and
- ministerial and other correspondence.

The most significant initiative in the delivery of corporate services in recent years has been the Shared Services project, announced by the Government in the 2006-07 Budget. Section 8.11.1 comments on Shared Services.

The focus of this section is the corporate service functions that remain outside of the scope of the shared services project.

Corporate service functions have been the subject of numerous reviews and recommendations over the last 10 years.

The Commission is of the view that the savings burden in recent years has been heavily skewed to the support areas of government.

That said, the Commission sought to examine the activities of the corporate service areas within government from the perspective of whether they are producing sufficient benefits to justify their cost. This review was conducted by independent consultants. It was conducted as a top-down strategic analysis fundamentally based on interviews of sample agencies.

In general the review concluded:

- corporate service improvements can contribute to the savings task, but alone will not reach anywhere near the value of the aggregate savings task;
- improvements to the structure of government can produce savings; and
- greater standardisation of policies and procedures across government can generate economies of scale efficiencies.

In terms of the specific savings opportunities the review concluded that there were:

- three potentially large saving opportunity areas — all requiring across-government collaboration for effective implementation; and
- numerous minor continuous improvement opportunities — largely at the agency level for action.

The specific opportunities in the areas of facilities management, occupational health and safety and injury management and purchasing are addressed in more detail in Sections 8.11.3, 8.10, and 8.11.6 respectively.

As expected, agencies have submitted a number of budget improvement proposals in the corporate service area.

8.11.3 Facilities management

Facilities management is a generic description for the activities of operating and maintaining property and buildings across government. Functions undertaken within the scope of facilities management include, but are not limited to:

- Planned services — preventative maintenance; planned replacement/refurbishment maintenance; and planned minor works;
- Unplanned services — breakdown maintenance; unplanned minor works; and unplanned replacement/refurbishment maintenance;
- Property services — cleaning services; hygiene services; security services; grounds maintenance; and waste management; and
- Ecologically sustainable development consultancy services — energy, water and waste services.

There are a number of different facilities management service delivery models currently in operation within government.

The majority of agencies are mandated to use a regionalised across government contract. Two of the regions are managed by a private sector contractor, the remaining two regions by in-house resources within the Department of Transport, Energy and Infrastructure (DTEI). Within this mandated arrangement, the Department of Education and Children's Services (DECS) and the

Department of Further Education, Employment, Science and Technology (DFEEST) account for approximately 75 per cent of expenditure.

The Department of Health and Housing SA have separate arrangements again, managing facilities operations and maintenance through a mixture of contract and in-house capability.

Interstate experience indicates that there is no one perfect ‘delivery’ model.

That said, the current arrangements for facilities management within government appear to have elements of duplication, low-value add processes and opportunities for lower cost alternatives. The review into corporate services indentified facilities management as an opportunity for significant savings.

The total spend across all government agencies on facilities management (including management fees and information systems) is approximately $350 million. Against such a large base, even a small cost reduction through an improved, more cost efficient delivery model will deliver large savings.

Previous ‘cost efficiency’ analyses by various groups within Government appear to the Commission to be biased because they have looked at the issue from only their perspective. A ‘silo’ approach will not produce the best whole-of-government outcome. The Commission is of the view that a detailed whole-of-government net benefit analysis into this area is required.

The Commission is taking a whole-of-government net benefit approach. A detailed quantification of the total savings value within the Commission’s timeframe is not possible. The Commission believes the competitive tendering of all agency facilities management works could generate a modest three per cent saving.

Recommendation 28: Facilities management

The Commission recommends that facilities management works for all agencies of government be subject to a competitive tender process. Private sector bidders should be able to tender for all or part of the work requirement.

Centralised government contract administration and management should be streamlined and costs reduced.

8.11.4 Building management

DTEI through the Building Management Division is responsible for the management of property assets across government. Commercial property management of government office accommodation (lease and rent payments, repairs and maintenance, utilities and other outgoings) is a significant component of this task, estimated at $130 million in 2009-10.

DTEI on behalf of government agencies negotiates new lease and lease extensions for office accommodation. All new lease agreements should be in accordance with government accommodation guidelines.

The Commission believes there are opportunities to manage office accommodation using a different delivery model at a lower cost. In broad terms, a tender to manage all Government accommodation would be put to the market. The successful proponent would manage against a set of criteria which would address such things as space allocation per employee, environmental standards, acceptable locations (CBD, major urban centres, other), standard landlord services such as maintenance and repair and other quality standards (OHS&W, fire and evacuation).

The Commission has not examined in detail the most cost effective tender methodology and specification requirements. This would require further procurement planning. Broadly, the Government would specify the following elements:

- the current cost of accommodation;
- methodology for adjustments for volume changes (eg, by employee type); and
- price movements.

Providers would bid against these benchmarks and be assessed on the estimated accommodation savings they could deliver and how they would deliver them. Payment options may include a flat fee for service, a percentage of the delivered savings, or a combination of the two.

Standard contract performance management criteria would apply to supervision of the contract.

The current flexibility granted to agencies would need to be tightened. Agencies would be held accountable for their forecast accommodation needs. The agency would be required to accept the accommodation identified by the provider so long as it met the specified criteria.

A set of standards for the fit out of government accommodation is another opportunity for savings. Currently, government agencies have the choice to use whatever fit-out, furniture, fixtures and fittings and equipment as long as the fit-out is managed within the approved budget. Standardisation creates economies of scale opportunities to reduce per unit cost. Standardisation will also enable the private sector to competitively tender for a managing contractor role, rather than just the design and construction components.

Recommendation 29: Building management

The Commission recommends that the management of all government accommodation should be put to competitive tender. Standards for government accommodation fit-outs should be established and a competitive tender for the managing contractor role for all government fit-outs should be undertaken.

8.11.5 Government ICT

Information communication and technology (ICT) services provide support to agencies in their business operations, to enable critical processes and improve efficiency and the delivery of services. ICT systems also help support informed decision making by transforming data from processes to information for service delivery and business decisions.

ICT infrastructure is similar to other government assets in that investment in new systems, hardware and processes need to be justified against unmet business and service delivery needs, and subject to rigorous business cases to justify investment.

Benchmarking study and overview of findings

To inform the Commission’s analysis of ICT operations, an ICT assessment and benchmarking exercise was conducted in partnership with the Office of the Chief Information Officer (OCIO) and specialist ICT benchmarking consultants.

The study did not identify immediate and significant savings available across the ICT function to support efficiency savings, due partly to the nature of the exercise and the need to establish ‘baseline’ data.

However, ICT functions were not untouched by the SBC process, with some savings being embedded within agency corporate and operations savings proposals. These tended to be efficiency measures and marginal changes to business practices, rather than being major systems reforms.

The study was based on a snapshot of agencies ICT spend in 2008-09. Some agencies reported that significant ICT efficiency savings had been made in 2009-10, which were not reflected in the exercise. Where the government accepts the SBC recommendations, and these have ICT components embedded within them, further savings will be implemented in 2010-11.

With the baseline of spending having been obtained, there are significant opportunities associated with the analysis and use of the data. In particular, the results:

- provide a toolkit for the analysis of future ICT capital projects and future reporting to Cabinet on the Government's ICT spend;

- will be of ongoing benefit to the OCIO for undertaking ICT investment prioritisation and providing specific advice to the Department of Treasury and Finance on the merits of individual projects, as part of the annual Budget process;

- provide an opportunity for the OCIO and ICT Board to undertake follow up assessment exercises to compare performance over time and with other jurisdictions; and

- will support agency and government ICT strategic planning and performance monitoring activities.

Pursuing these opportunities is within the remit of the ICT Board (responsible for across-government ICT governance), the OCIO, and agencies.

The ICT assessment also identified some areas for further investigation that could return efficiency savings.

Consolidation of ICT services within small and medium agencies

The ICT Board should explore opportunities to standardise, consolidate and rationalise small and medium sized agency ICT infrastructure and support services to the large agency/portfolio level. Analysis is required to confirm the priority areas and steps required to affect incremental change, to minimise the up-front investment required.

A priority review of the Justice portfolio should be undertaken. The Justice portfolio has a comparatively high ICT spend.

Clustering similar services around common agency requirements and shared information assets

The ICT Board should continue work around clustering of agencies with similar service requirements to enable them to aggregate the demand for services and rationalise their ICT investment and spend. Incremental steps are required to standardise functions before major reforms are contemplated in the future.

Strengthening across government ICT procurement practices

The OCIO should investigate greater central coordination of ICT procurement to reduce the cost of the service and enable quicker procurement times.

Initially, explore standardising ICT contract frameworks for improved coordination of agency purchasing against the contracts at a portfolio, cluster or across government level. This coordination will enable more cost-effective services and improved value for money.

Priority areas could include review of the potential cost savings that can be made through server virtualisation (the data shows a low utilisation of this service), and an improved approach to hosting facilities (the data suggests there are over 500 sites).

Improving governance over applications management

The OCIO and ICT Board should develop a formalised and structured decision making approach to governance over the use of applications, to ensure the investments in ICT business solutions benefit the agency and the government, not just business unit needs. This approach should result in avoidance of multiple purchases, and result in greater harmonisation across agencies.

Improving provision of application maintenance and support services

The OCIO and ICT Board should explore alternate delivery arrangements to standardise and better coordinate service provision to address risks in relation to critical applications, particularly as they increase in age, complexity and the level of support required.

Coordination or a more structured procurement arrangement is likely to improve the skill level of the support, the quality of the service, and may improve the purchasing power available to government agencies. A coordinated approach to application maintenance and support will allow staff to provide a higher level of service through the sharing of knowledge and resource across agency boundaries.

Further work is required to confirm the most suitable service model(s). One approach could be through consolidation within government, or external provision of services should also be considered. Preparation of detailed business cases is required to identify the best model from a cost, service delivery, and risk perspective.

Recommendation 30: Government ICT

The Commission recommends that the results of the Information and Communication Technology (ICT) cost assessment and benchmarking analysis be used by the ICT Board and the Office of the Chief Information Officer (OCIO) to inform:

- the analysis of future ICT capital projects and future reporting to Cabinet on the Government's ICT spending;
- ICT investment prioritisation and provision of advice to the Department of Treasury and Finance on the merits of individual projects, as part of the Budget process;
- future reform concerning consolidation of ICT services, clustering of similar agencies with like needs, and strengthening across government procurement practices; and
- investigation into new service delivery models, including opportunities to centralise within government, or external provision of services.

The Commission also recommends that major reforms and new service delivery model proposals, including consolidation within government and external service provision, be subject to rigorous analysis of net benefits and that business cases have a high level of oversight and governance.

8.11.6 Government purchasing

Government purchases of goods and services on operating activities in 2008-09 were approximately $3.4 billion. The Department of Health accounted for more than a third of this spend.

One of the characteristics of strategic procurement reform is the difficulty in a budget management context of capturing the gains as 'hard' savings or expenditure reductions.

Adjusting agency budgets to reflect market assumptions is the easy part.

The more challenging aspects of procurement reform are through securing lower cost services by:

- actual lower prices from improved contract structuring and negotiations;
- agency compliance with preferred panel arrangements; and
- not substituting the price benefits with higher quantity throughput.

That said, opportunities exist for improvement in the management and delivery of procurement activities.

The corporate services review identified three areas of opportunity and these are outlined below.

Role of the State Procurement Board

The *State Procurement Act 2004* established the State Procurement Board (the Board) to oversee procurement operations for public authorities.

The primary functions of the Board can be summarised as follows:

- facilitate strategic procurement by government agencies by setting the strategic direction of procurement practices across government;
- develop, issue and keep under review policies, principles and guidelines relating to the procurement operations of government agencies;
- develop, issue and keep under review standards for procurement by government agencies using electronic procurement systems;
- investigate and keep under review levels of compliance with the Board's procurement policies, principles, guidelines, standards and directions; and
- assist in the development and delivery of training and development courses and activities relevant to the procurement operations of government agencies.

Under the Act, the Board must have regard and seek to further the object of that Act by advancing government priorities and objectives by a system of procurement for government agencies directed towards:

- obtaining value for money in the expenditure of Government funds;
- providing for ethical and fair treatment of participants; and
- ensuring probity, accountability and transparency in procurement operations.

In recent times the Board has focussed on creating frameworks to pass greater control of and accountability for procurements down to agencies through Chief Executives. It has achieved this through the creation of policies and guidelines which underpin achievement of the objectives defined in the Act. In addition the Board has focussed on building agency awareness and strengthening procurement capability.

The framework has developed to the point that the Board plays an oversight role for a limited number of higher risk, higher value transactions.

The Commission recommends a model where Chief Executives are responsible for managing all aspects of procurement supported by policies and guidelines issued by the Treasurer. There would be limited expert support provided by a small policy group within the Department of Treasury and Finance.

Recommendation 31: Procurement governance and legislative changes

The Commission recommends that:

- the *State Procurement Act 2007* be repealed and the State Procurement Board abolished;
- the *Public Finance and Audit Act 1987* be amended to encompass procurement;
- the Treasurer issue Procurement Instructions (PIs) to replace the current State Procurement Board policies and guidelines;
- Chief Executives be held accountable for procurement outcomes and compliance with centrally set PIs; and
- the Procurement Policy and Governance Group within the Department of Treasury and Finance be reduced with a focus on policy matters only.

The review role currently undertaken by the State Procurement Board would become an agency internal audit function. The Auditor-General would also be required to audit compliance with any Treasurer's Procurement Instructions. Risk-based internal audit programs should minimise the resource implications of this additional requirement. By clarifying Chief Executive accountability for all aspects of procurement the onus will sit with Chief Executives to ensure that the agency has an appropriate level of procurement capability.

Increase the pooling of purchasing across government

There are a number of across-government contracts for purchasing. These tend to be in specific areas where, irrespective of the government agency, the service requirement is the same or standard (eg, electricity, travel booking service).

Across government contracts provide net benefits where they maximise the purchasing power of the government by generating lower per unit costs and reduce the procurement effort and administration cost. Significant progress has been made on cross government purchasing.

However, large amounts of agency purchases remain outside of these arrangements.

The Commission recommends a cross government spend analysis be conducted with a view to identifying purchasing activities that lend themselves to economies of scale price benefits.

This is likely to result in:

- a reduction in the number of suppliers on panels with the view of generating better price outcomes; and
- increased compliance with preferred suppliers.

Some immediate whole-of-government contract opportunities that can deliver lower costs are:

- stationery purchasing (underway);
- postage and postal services (underway);
- taxi and valet service vehicles;
- furniture buying (excluding office fit-outs incorporated with new buildings);
- audio visual equipment; and
- waste disposal.

The Commission notes that, while the new e-procurement system will enable data collection to identify trends and patterns of spending, the accumulation of historical data needed for comprehensive trend analysis is likely to be a number of years away.

Recommendation 32: Benefits of purchase pooling

The Commission recommends that a strategic spending analysis be undertaken by Shared Services SA to identify purchasing activities amenable to improved price outcomes through use of whole-of-government purchasing power in addition to those outlined in this report.

Simplify the specifications in procurement contracts

The inclusion of specifications, not specifically related to price, service delivery or risk elements in contracts adds complexity and cost to procurement activity.

These additional specifications are largely related to social outcomes such as environmental issues, workforce participation and industrial relations.

These may be laudable policy priorities of the Government and using the Government's purchasing power is a means to deliver these policy outcomes.

However, this does not come for free. Imposing non-competitive price and service delivery constraints on suppliers has a cost. The government should routinely evaluate if the cost justifies the means.

Other program responses may be a more cost effective way to deliver non-price policy outcomes.

The Commission is of the view that all agencies would financially benefit from simplified specifications and therefore recommends a review of procurement contracts' content and specifications and government policies which seek to deliver a social or economic benefit indirectly through procurement.

Recommendation 33: Review of non price and service specification in government policies

The Commission recommends that all government policies seeking to achieve indirect outcomes through procurement should be reviewed. The review should:

- document all the specification elements;
- assess their effectiveness in achieving the other policy objectives;
- estimate the additional cost to government of including these specification requirements; and
- consider other program responses to achieve these other policy objectives.

8.11.7 Statutory bodies

A recent DPC commissioned report found that not withstanding the Government's commitment and attempts to reduce the number of statutory bodies there are still 451 statutory bodies in South Australia of which 41 are sub committees. These bodies perform various functions with a range of statutory and legal forms. Governance arrangements for these bodies differ from body to body and across portfolios. The report also identified 74 non-statutory bodies such as the Economic Development and Social Inclusion Boards and Water Security Council. The report found no overall consistent approach to structure, form and function and inconsistency in reporting relationships on performance, accountability to a Minister, and appointment of Chief Executive and staff.

The establishment and operation of a statutory body can lead to several areas of additional costs: costs of forming the body; running and monitoring costs as well as the possibility of increased costs incurred through duplication or repetition.

Inconsistency in establishment and operation also has potential and immediate risk to Government for example: a Minister has less or limited control over statutory bodies compared with their departments; bodies may be inconsistently subjected to public sector accountability requirements such as procurement and fleet management; fragmentation of policy development and service delivery as well as a potential lack of administrative and financial flexibility, agility and responsiveness.

Recommendation 34: Statutory bodies

The Commission recommends that the Government:

- develop guidelines for establishing statutory bodies, including on what functions should be performed outside departmental structures, when and in what circumstances a new statutory body should be formed, and what legal and statutory form the body should take;
- undertake an assessment of existing bodies against these guidelines to reduce duplication and overlap and determine whether they are well governed, performing to meet Government objectives, and are still required in their current forms;
- develop a standard for legislation to set up statutory authorities to make board accountability clear and consistent; and
- develop guidelines on when and in what circumstances non-statutory advisory bodies can/should be developed.

SECTION 9. GOVERNMENT ASSETS AND BUSINESSES

Key points:

- The Commission supports work to identify and dispose of underutilised, surplus property.
- The Commission notes reforms to some government businesses might tighten the Government's focus on its core functions and indirectly deliver savings to the budget.
- The Commission sees a case for reviewing the Government's ownership of SA Lotteries. It is not core government business. Most Australian governments have come to the same view.
- The Commission agrees HomeStart Finance should be the subject of a thorough 'root and branch' review. This review should be independent of HomeStart Finance.
- The Commission reaches the same conclusion for Land Management Corporation.
- The Commission concludes ForestrySA should be sold.

9.1 Government assets

Some of the Commission's proposals include sales of assets such as land and buildings. The benefit of any asset sales in achieving the Commission's savings task is not the receipt of sale proceeds (the one-off event) *per se*, but the consequent reduction in net debt (a 'balance sheet' benefit) and the subsequent flow-on of lower public debt interest (PDI) payments less net income expected to be received from the assets (a net operating balance benefit).

General government assets

Agencies held approximately $16 billion in non-current assets on their balance sheets as at 30 June 2009. The major components were property, plant and equipment ($9.3 billion) which includes buildings ($3.8 billion) and land ($3.1 billion), and network assets held by the Department for Transport, Energy and Infrastructure ($5.9 billion).

The years 2009-10 to 2013-14 already reflect expected sales of property, plant and equipment of almost $1 billion.

The Commission supports the work of the Department of Treasury and Finance in reviewing the strategic use, operational requirements and financial viability of general government holdings of properties to determine if they should be retained by Government or put on the market for sale. Potential opportunities would relate to assets not being used for core agency activities and those inefficiently used, and would exclude assets held for strategic purposes (such as land for future transport corridors or for buffers around potential heavy industry sites).

Having identified any underutilised or non-strategic assets, the Commission recommends that, with support of Chief Executives, the Department of Treasury and Finance be responsible for generating options for the disposal of these assets.

Public non-financial corporations

There is no consistent pattern across Australian states of government holdings of business and commercial assets.

Most of the government business structural reforms and asset sales being contemplated interstate are not available in South Australia, as they have already occurred here. The Government therefore generally has few major public non-financial corporation (PNFC) assets that could be sold with a net budget benefit.

A reduction in public debt interest payments using any PNFC asset proceeds will be offset by dividend revenue streams foregone. Net recurrent budget benefits flow only if the reduction in public debt interest payments exceeds the dividends foregone.

Selling assets that are required for service delivery, *per se*, produces no savings, as the Government would need to pay the new private owner for use of the assets. Recurrent savings would result only if the new owner could deliver the services more efficiently than the government. Change of ownership does not by itself necessarily produce more effective service delivery.

In particular portfolio areas, the ownership and management of assets may therefore be part of broader reforms to deliver a sustainable budget position. These will be identified on a case-by-case basis and should be evaluated accordingly.

Recommendation 35: Review and sale of surplus assets

The Commission recommends that the Department of Treasury and Finance continue its work of identifying land and buildings that are surplus to core government activities or inefficiently used. The department, with support of Chief Executives, should generate options for the Government to consider for the disposal of those properties.

9.2 Government businesses

The Commission’s primary focus is budget improvement measures to meet the savings target for the general government sector.

The non-financial public sector (NFPS) consists of the general government sector and all PNFCs. The NFPS is a focus for credit rating agencies. They include the liabilities of the NFPS as an indicator of public sector financial health. Public financial corporations (PFCs) are outside of the NFPS, but their operations are also of interest to credit rating agencies.

Government businesses include the SA Water Corporation, the Lotteries Commission of South Australia (trading as SA Lotteries), ForestrySA and the Land Management Corporation (which are PNFCs) and HomeStart Finance and the Motor Accident Commission (which are PFCs).

Government businesses’ expenditure and profit do not directly affect general government sector ‘bottom line’ performance targets. However, contributions paid by government businesses (dividend and income tax equivalent payments), and subsidies paid to them, including grants and community service obligation (CSO) payments, are reflected in general government budget results.

Reductions in debt held by PNFCs and PFCs will not assist with the Commission’s savings task, because the debt held by these corporations is fully serviced by the relevant PNFC/PFC, without budget subsidies.

All that said, improvements in service delivery of government businesses will benefit the State. The benefit of increased efficiency of SA Water will flow to consumers through water prices being lower than would otherwise be the case.

The Commission has not undertaken a detailed analysis of government businesses. Nevertheless, the Commission makes some broad recommendations in relation to some government enterprises. These are presented in the rest of this section of the report.

9.3 SA Water Corporation

The Commission notes the proposed independent oversight by the Essential Services Commission of South Australia of the water and sewerage pricing process should place increased scrutiny on SA Water's efficiency.

The benefit will flow largely to consumers, though prices lower than would otherwise be the case.

The Commission notes the Government's *Water for Good* plan to implement independent economic regulation in the water industry, and the State's obligations under the National Water Initiative (NWI), will help ensure benefits of any efficiencies flow to consumers.

The Commission notes that economic regulation of water and sewerage services in South Australia will continue to comply with the NWI Pricing Principles that have recently been approved by the Natural Resources Management Ministerial Council.

Prices for SA Water's services will recover efficient capital expenditure and operating costs and include a commercial return on investments.

Increases in water prices in the short term will reflect the Government's water security measures, such as the Adelaide Desalination Plant.

The Commission notes that the Economic Development Board (EDB) recommended in its 2009 *Economic Statement* that the Government should continue to move towards volumetric pricing of water to recover costs.[49] The Commission notes that NWI water pricing principles include an emphasis on volumetric pricing to reflect the avoidable costs of water production and pumping as well as a service availability charge to ensure sufficient total revenue to cover total costs, including fixed/unavoidable costs.

The EDB also recommended that to make the new pricing arrangements effective, private suppliers should have third-party access to SA Water's main water and sewerage trunk networks and that this should be managed independently of SA Water.[50]

It is also noted that water industry legislation is being prepared that will be able to accommodate third party access to infrastructure in the future.

The Commission notes the management of water pricing and water infrastructure will continue to be a key issue for the Government.

[49] Economic Statement — South Australia's Prospects for Growth, Economic Development Board, March 2009, page 60.

[50] Economic Development Board, 2009, page 60.

9.4 SA Lotteries

The Commission notes that South Australia and Western Australia are the only Australian states to own and operate lotteries.

The market in which SA Lotteries operates is changing.

There are market trends and interstate merger activities that will impact the operating environment. Possible risks are SA Lotteries losing market share, suffering decreased financial performance and producing reduced returns to the Government over the forward estimates period and beyond.

There are also potential competitive pressures arising from the High Court's 'Betfair' decision in March 2008 in which the court ruled that Western Australian legislation prohibiting betting exchanges was unconstitutional. The ruling provides legal support to larger private sector operators to provide their products within South Australia, which could end SA Lotteries' monopoly in South Australia.

The Commission notes that there may be an opportunity to pursue sale options that reduce the risk to government from this activity and capitalise future dividend streams.

A detailed assessment of offering the SA Lotteries business for sale should be undertaken.

The Commission does not regard it as a core government business.

Recommendation 36: Government businesses — SA Lotteries

The Commission recommends that the Department of Treasury and Finance undertake a detailed assessment of the future options for SA Lotteries, including sale options.

9.5 HomeStart Finance

HomeStart operates in a market posing significant risks if not managed correctly.

Much of HomeStart's lending is to market segments which the Commission believes are either areas to which the private sector would already be willing to lend (making HomeStart's involvement unnecessary), or parts of the market which are higher risk and to which the market generally does not lend, or would take greater precautions than HomeStart in lending.

The existence of a deep and well-established market in home lending suggests that there is no market failure requiring HomeStart's intervention in this market. There are suggestions of market failure in some sections, such as access to finance by people on low incomes. The Government needs to consider whether the benefits to the individuals and the community as a whole justify the Government accepting risks that the private sector might not take. If so, the Government needs to consider how that might best be done.

The Commission recommends that HomeStart should be the subject of an independent and thorough 'root and branch' review.

This review should canvass the full range of options from withdrawing a number of loan products, to the feasibility of a sale of HomeStart's loan portfolio.

The Commission therefore supports a review of HomeStart's operations currently being undertaken by the Department of Treasury and Finance.

Recommendation 37: Government businesses — HomeStart Finance

The Commission recommends that HomeStart Finance should be the subject of a thorough 'root and branch' review. This review should be independent of HomeStart Finance.

9.6 Land Management Corporation

The Land Management Corporation's (LMC) formal functions are set out in Regulation 13 of the Public Corporations (Land Management Corporation) Regulations 1997.

LMC has evolved from a number of previous organisations and accordingly the regulations encompass a diverse range of functions reflecting those origins. In addition to carrying out functions previously carried out by other entities and dealing with any surplus land holdings, its functions include:

- Acquiring, holding, managing, leasing and disposing of land, improvements and property. The regulations specify that in particular, this includes managing the release of large areas of undeveloped (or under developed) land; holding land and other property to be made available for commercial, industrial, residential or other purposes; and ensuring the orderly development of areas through the management and release of land.
- Managing the Crown's interests in various joint ventures and land development projects identified by the Minister.
- Managing the sale of surplus government land on behalf of most other agencies or instrumentalities of the Crown.
- Managing urban projects (on its own behalf or on behalf of other agencies or instrumentalities of the Crown) to achieve urban regeneration or other government policy outcomes.

Its regulations also provide for LMC to carry out other functions conferred on the subsidiary by the Minister.

LMC has moved progressively from its primary role of being a wholesaler of land to the residential development industry, to a role in urban growth and urban renewal that involves the management of large projects.

LMC undertakes its development role in a number of ways including through joint ventures with the private sector, where it is considered that the private sector alone cannot deliver the desired outcomes. In other cases, sales of broad hectare land or larger sized allotments with potential for subdivision are made to the private sector, or the LMC acts as the developer in its own right.

LMC holds a significant proportion of the land available for urban development within the Urban Growth Boundary. The amount and location of its broad hectare land holdings largely reflect earlier government policy decisions regarding the need to hold land. LMC also holds some 'legacy' buildings in Technology Park, although it sold some land and leased buildings to Defence SA during 2008-09.

LMC pays an annual dividend calculated as 90 per cent of after tax profit plus an income tax equivalent. The target contribution for 2010-11 is $64.3 million. The budget forward estimates of LMC's contributions reflect estimates of its future land sales. These estimates can vary significantly from year to year, dependent on economic conditions.

The scope to accelerate the timing of sales of LMC's land holdings needs to be assessed in the light of any non-commercial objectives that might be identified for LMC and the size of the potential budget costs or benefits arising from accelerated land sales.

The strategic direction under LMC's charter includes a requirement for LMC "to create economic, environmental and social benefits via the acquisition, management and disposal of Government assets" as well as "to be accountable and operate commercially".

LMC's strategic directions document describes it as *"a key economic agency of the Government of South Australia, managing within a commercial framework a significant portfolio of land assets on behalf of the State Government … LMC works to create, facilitate and implement residential, commercial and industrial development projects that benefit the community and create economic growth whilst also addressing design excellence, provision of community infrastructure, high quality environmental outcomes and a diversity of housing."*

The Ownership Framework and Charter provide for reimbursement of LMC for any non-commercially viable activities that it is required to undertake by the Government. The funding of these activities is determined by Cabinet on a project by project basis. However, currently LMC receives only minor Community Service Obligation (CSO) payments (falling from $1.5 million in 2009-10 and 2010-11 to $0.6 million in 2011-12).

The Commission has not had sufficient time to address the issue of LMC's future role but considers that this requires further clarification by the Government. LMC's Regulations and Charter should be amended to better reflect its identified role. Similarly, LMC's performance targets should be reviewed and the financial targets in the Performance Statement should be rolling ten year targets (instead of only current year targets), given the long-term nature of its activities.

LMC facilitates the Industrial Premises Development Scheme on behalf of the State Government to provide support for manufacturing and service industries to establish new, value-added processing and manufacturing facilities in South Australia.

The scheme has been rarely used in recent times. The eligibility criteria are not well understood and need to be more rigorous so as to minimise risk to government. This scheme is a complicated form of industry assistance and, like other industry assistance schemes, is unlikely to deliver any net economic benefits to the State. The Commission recommends that the scheme should be wound up.

For now, the Commission considers that LMC should focus on facilitating opportunities for the private sector, rather than undertaking development itself. This potentially would reduce future returns to government from LMC, but also reduce the commercial risk. This is consistent with its charter, which states that LMC is required *"to work with industry and other agencies and, where practicable, to encourage private sector involvement in land releases in line with community demand and Government policy"*.

Business cases for LMC's projects should examine the scope for greater private sector involvement and minimise LMC's direct developer role.

In conclusion, there is a need to be very clear about what the Government wants LMC to achieve. The Commission has not had reviewed this issue. However, a review of LMC's regulations and charter should be undertaken, with the Performance Statement to include rolling ten-year financial targets.

Recommendation 38: Government businesses — Land Management Corporation

- The Government needs to clearly specify the non-commercial objectives assigned to the Land Management Corporation.
- The Land Management Corporation's regulations and Charter should be amended to better reflect its identified role.
- A review of the Land Management Corporation's Performance Targets should be undertaken, with the Performance Statement to include rolling ten-year targets.
- The Industrial Premises Development Scheme should be wound up.
- Business cases for the Land Management Corporation's projects should examine the scope for greater private sector involvement and alternative methods for delivering the Government's objectives.

9.7 ForestrySA

In the 2008-09 Mid-Year Budget Review the Government announced it intended to sell the harvesting rights of ForestrySA's plantations for up to three harvesting cycles.

While government involvement in managing forestry in old-growth, native forests is desirable to balance profit-seeking and ecological sustainability, the Commission believes there are no public policy arguments for the State to be involved in a commercial, plantation forestry operation such as ForestrySA.

Could the private sector extract greater value from the business than the Government does at present? The Commission believes ForestrySA should be able to be sold for significantly more than its value in the hands of the State. The Commission therefore recommends that the Government should sell not only the harvesting rights but the whole of ForestrySA.

Recommendation 39: Government businesses — ForestrySA

The Commission recommends that the Government should sell ForestrySA. The Commission concludes there are no public policy arguments for the State to be involved in a commercial plantation forestry operation.

9.8 Motor Accident Commission

The Motor Accident Commission (MAC) is South Australia's Compulsory Third Party (CTP) insurer and provides $400 million each year in compensation to road crash victims. MAC also manages the Government's road safety communications program and provides sponsorship funding for projects that aim to reduce the number and impact of road injuries and deaths. The CTP Fund, funded by CTP insurance premiums, provides compensation for the victims of road crashes where the owner or driver of a registered motor vehicle or a passenger is at fault.

The Commission notes that as at 30 June 2009, the MAC had a 'sufficient solvency target', set by the Treasurer, of $2.3 billion compared to the CTP Fund's assets of $2.1 billion, and this equates to 91.3 per cent of the required level of 'sufficient solvency'. In recent years, there has been significant movement in MAC's solvency, which demonstrates the volatility of the CTP Fund on an annual basis. At 30 June 2009 MAC had a positive net asset position of $69.4 million.[51]

The Commission has not reviewed the MAC and, aside from noting its solvency, makes no recommendations regarding its operations.

9.9 Other Government businesses

The above authorities are the major enterprises owned and operated by the South Australian Government. There are a number of other PNFCs covering diverse activities. They include organisations such as the Adelaide Cemeteries Authority, the Public Trustee, and the West Beach Trust.

Government involvement in these activities has changed over time and the Commission recommends that the reasons for government's ongoing involvement should occasionally be reviewed. For example the West Beach Trust operates a caravan park at Adelaide Shores. The Commission would not consider owning a commercial caravan park as a core government business.

Where the activity is considered one in which government should have some involvement, consideration should be given to whether that operation could be integrated in an existing government department rather than through a stand-alone statutory authority. This would assist with a reduction in administrative costs.

Where agencies are not closely integrated with government departments, the government should consider, where feasible, the possibility of reducing costs or increasing effectiveness through integration.

Recommendation 40: Government businesses — other government businesses

The Commission recommends that the Government should regularly reconsider its need for continued ownership of its other business enterprises.

The Commission recommends that the Government consider whether some Public Non Financial Corporations (PNFCs) that remain could be operated at reduced cost or more effectively if they were fully integrated into existing government departments.

51 Motor Accident Commission *Annual Report 2008-09*, Financial Statements, note 26, page 67.

SECTION 10. DELIVERING ANNOUNCED SAVINGS

Key points:

- The Commission is conscious that announcing savings initiatives does not guarantee their achievement. The Commission's existence shows the Government recognises this.
- The Commission recommends the Government establish a process to 'lock in' savings announcements by allocating responsibility for their achievement across specific agencies either before, or as soon as possible after, their announcement.
- The Commission also recommends that the Government's newly-established Sustainable Budget Cabinet Committee (SBCC) monitor progress in achieving the savings targets announced and allocated across agencies.
- The Commission recommends that the SBCC be supported in this task by an independent, partly externally staffed, Sustainable Budget Oversight Unit, with secretariat resourcing from central agencies, and especially the Department of Treasury and Finance. The Unit's responsibilities should include ongoing monitoring of savings decision delivery. It may also deal with intra-year budget over-runs, supporting the SBCC.
- The Commission sees no case for its own continuation after completion of this report.
- These and other 'process' recommendations in this report should be read as supporting the other process recommendations made in the Commission's first report.

10.1 Principles of a sustainable budget process

The Commission has reviewed the current budget processes in South Australia, and has made specific recommendations intended to improve the budget process, both in this report and in its first report.

'Process' covers many elements. But attitudes, procedures, and, above all, a disciplined approach to budget formulation, are crucial ingredients.

The Commission recognises that, as with announcing savings targets, enunciating such principles is easy. As with savings targets, applying them in practice is hard.

The inherent conflict between insatiable immediate demands for government services and the hard longer-term arithmetic of scarce budget resources is ever-present. But over-weight budgets cannot endure the fiscal marathon. Lean budgets can.

The Commission believes that year-by-year adherence to a disciplined, sustainable budget-based process is the best way to reconcile these conflicting pressures.

A compact summary of the ingredients for a sustainable budget process comprises six principles:

1. Ensure a **sustainable budget culture** permeates budget formulation processes. This requires that sustainable 'bottom line' budget outcomes are given top priority, and disciplines the scrutiny of all budget programs.

2. Require **scrutiny of all budget proposals against whole-of-government priorities**, to ensure the proper ranking of budget bids against resource constraints. Any culture of 'protecting one's patch', inter-agency competition, bilateral deals and budget over-runs, must be minimised.

3. Insist on **robust, transparent, principled rationales for all programs**. Programs that fail such tests should be terminated.

4. Routinely **apply evidence-based assessments of the net benefits of budget programs** as a condition for their continuation or expansion. It is difficult to manage programs whose effects cannot be measured in some way.

5. Provide **government leadership to agencies by example**: that is, by disciplined Ministerial adherence to the four principles noted above.

6. With government decisions on budget settings and programs made in this way, **require agency managers to manage** to deliver the resource-constrained outcomes decided.

10.2 Government decisions and announcements are not enough

The announcement of future savings inevitably carries with it a greater implementation risk than the announcement of specific savings to be implemented immediately. A generalised savings target to be achieved in three or four years' time is less 'real' to Ministers and the public. There is the danger that as the savings fall due and their detail has to be specified Ministers will be much less supportive.

It is worth noting that these future savings are typically used to support a higher level of expenditure and Ministerial support for those new spending initiatives does not decline. It is important that both agency Chief Executives and the relevant Ministers take responsibility for the delivery of savings that have been built into the budget bottom line.

Government announcements on savings measures made in response to this (and other) reviews are a necessary, but not sufficient, step towards restoring sustainable state finances.

The Commission concludes that a credible savings response requires the Government explicitly to acknowledge these practical delivery problems as the first step in credibly dealing with them.

Recommendation 41: 'Locking-in' announced savings

The Commission recommends that announced budget savings initiatives be allocated to agencies as specific, properly-costed, program initiatives as soon as possible. Ideally, this should be done before savings initiatives are publicly announced. Where this is not possible, savings initiatives should be translated into specific agency measures within, say, six months of announcement, and supplementary announcements advising of the agency allocation of these savings released. For example, savings announcements made at budget time, but not allocated to agencies, could be the subject of agency allocation statements released as part of the Mid-Year Budget Review (MYBR).

10.3 Ongoing government budget discipline is essential

The Commission's first report recommended the establishment of a Sustainable Budget Cabinet Committee (SBCC) to act as the 'gatekeeper' in delivering budget discipline in future.[52]

The Government agreed to establish the SBCC, and it is already operating.

The Commission believes the effective operation of the SBCC, with active participation by all of its members, is essential to support budget discipline and a restoration of sustainable state finances.

In particular, the Commission sees the SBCC as a safeguard against fragmented government consideration of individual spending proposals.

All budget bids must be considered in a whole-of-government context, and weighed against all proposals competing for scarce budget resources. This will improve overall budget discipline and more effectively determine government policy priorities.

However, the Commission concludes that even a well-functioning SBCC, by itself, is not enough.

10.4 'Locking-in' announced savings requires detailed oversight

The implementation of a large number of savings initiatives, spread across all government agencies, and phased in over time, cannot be announced and assumed to occur. Proactive monitoring of progress in achieving announced savings is essential.

The Commission notes that the Government has a strong financial management regime in place. This includes the reporting by agencies on the progress of specific savings proposals on a regular basis.

Deciding to establish a new process to oversee the delivery of announced savings, assisting in 'locking them in' over time, will improve the credibility of the Government's savings announcements.

These arrangements should apply to the Government's response to the consolidated savings task specified in Section 3 above.

After careful consideration, the Commission has concluded that these arrangements cannot be conducted wholly 'in-house'. With the best will in the world, agencies are fully occupied delivering government programs, and are likely to be required to do so with fewer resources if the Government meets the savings target specified in Section 3 above.

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[52] *Sustainable Budgets: Principles and Processes*, First report by the Sustainable Budget Commission, December 2009, Section 7, pages 27 - 31.

10.5 An independent savings monitor and reporter

The Commission concludes that rigorous oversight and review of the delivery of the Government's agreed savings is needed to drive their successful implementation. A small Sustainable Budget Oversight Unit, independent of agencies, should be established to undertake this task. The unit could engage specific expert and external advice as needed in the monitoring and review process. The Unit should report to the Government, through the SBCC. This will give the Unit the necessary authority to provide independent advice and necessary corrective actions.

A key task of the independent unit should be to align the delivery of savings targets with better services and better public sector performance. This would be a similar approach to the Better Services and Value Taskforce which operates in NSW, which is a small independent body of two to three people supported by a unit in Premiers and Treasury. Its task is to drive efficiencies but focussed on improved service standards and improved accountability. One of its core roles is to provide oversight and advice to agencies on the effectiveness of the Program Management Office arrangements they have in place to deliver savings and to deliver improved services and productivity.

Recommendation 42: Independent monitoring of savings delivery

The Commission sees no case for its own continuation. It should be terminated.

However, the Commission recommends the Government establish a small, independent, Sustainable Budget Oversight Unit, appropriately resourced from key central agencies, to monitor, report, and make recommendations in relation to delivery of Government savings decisions made as a result of this report and other subsequent reviews.

This Unit should report to the Government, through the SBCC, at least annually in the lead-up to the tabling of the Budget each year, and possibly also as part of the Mid-Year Budget Review (MYBR) process.

Ideally, the Unit's reports to the Government should also be published, in the interests of a transparent process.

There may be a case for making this Unit a permanent part of the budget process, dealing not only with periodic reviews but also with budget over-runs after the tabling of the Budget each financial year.

The Commission's Terms of Reference require it to consider its role after the 2010-11 Budget.

The Commission concludes there is no need for its continuation if the Sustainable Budget Oversight Unit is established.

10.6 Agency implementation arrangements

Specific budget improvement measures adopted by the Government will be reflected in agency budgets. This is the first step to implementation. The second is delivery.

There needs to be significant Ministerial, Chief Executive and agency commitment to the implementation of recommendations adopted from this report and applicable to their agencies.

The current monitoring arrangements coordinated by the Department of Treasury and Finance should continue and be supplemented by reporting against evaluation criteria specific to each measure.

This reporting should continue annually until the success or otherwise of the initiative is clear. A longer term aspiration of the Government should be a more comprehensive evaluation framework for all of its programs.

The additional measurement, reporting and evaluation should not be a significant ongoing burden for agencies. However, it may take some upfront investment and require an increased central development and coordination effort to embed within the public sector reporting culture.

The Sustainable Budget Oversight Unit should monitor the effectiveness of these processes.

10.7 Cabinet process

In addressing the Commission's Terms of Reference the Phase 1 report recommendations were focussed on the process and timing of the 2010-11 Budget.

Of equal importance is the discipline associated with the Cabinet process.

The Commission notes that in recent years the information presented in the Budget and Mid-Year Budget Review papers demonstrates that the amount of new and ongoing spending approved by Cabinet, outside of the budget process, is significant.

Although there will be genuine and unavoidable reasons why Cabinet may need to approve new spending outside the formal budget process, this should be a rare exception.

Each time Cabinet makes a decision to approve a new spending initiative in isolation it deprives the Government of an opportunity to consider its priorities holistically.

Only the budget process allows the Government to consider the benefits of one proposal against competing spending priorities. Each out of budget decision erodes the Government's ability to effectively concentrate on prioritising spending in an environment of scarce budget resources. Departure from this process seriously undermines the budget.

For these fundamental reasons, it is critical that strengthened budget processes be complemented by strong Cabinet processes. In particular:

- deferring out-of-budget policy and program initiatives to the budget process;
- adherence to the existing process around the requirement for consultation with Treasury and Finance and obtaining costing comments; and
- rigid application and enforcement of Cabinet rules to cease 'walk-ins' (ie, items tabled in Cabinet by Ministers without following the normal lodgement practice) and 'late submissions'.

These measures would also result in benefits in relation to the quality of decision making and policy development.

Recommendation 43: Cabinet process

The Commission recommends that Cabinet decisions affecting the budget, arising outside the budget process, should only be made in exceptional circumstances and ideally be concentrated in the MYBR.

10.8 Chief Executive accountability

Accountability for budget management

The lines of accountability for Chief Executives for development and management of budgets must be clear. The Chief Executive Accountability Framework provides the foundation for these arrangements, but could be strengthened to deliver greater accountability at each stage of the budget cycle.

First, the ‘top down’ or ‘deterministic’ budget process recommended by the Commission in its first report should be strictly observed.

Ministers collectively must set priorities for budget programs, and ensure compliance with Cabinet-agreed budget processes when considering proposals. Once established, the agreed process should be followed collectively by Chief Executives and Ministers alike.

Second, in relation to budget management, agency Chief Executives must be accountable for delivering services within-budget. The Government has implemented a number of mechanisms aimed at improving Chief Executive accountability. Compliance with budget constraints is an important part of Chief Executive evaluation. Yet overspending by agencies continues to occur. It is clear that in many circumstances a Chief Executive is faced with the choice of overspending or making politically difficult adjustments to the activities of their agency. In the current environment Chief Executives, and their Ministers, tend to choose the overspending option.

The incentive and sanction structure of financial management needs to be reviewed. Most Chief Executives and agencies, in accordance with budget directions, nominate and successfully implement savings measures. Others however, do not deliver their savings or overspend the budget, with apparent impunity. The natural tendency is then to only allocate savings to agencies who will deliver. This is not a satisfactory outcome in terms of governance, accountability or financial sustainability.

A culture of budget and financial management discipline at all levels of management, across all agencies needs to be enhanced and reinforced.

Remaining within program expenditure limits is the cornerstone of financial sustainability. Performance management frameworks should support good financial management and impose sanctions on continued breaches.

In the Commission’s view the effectiveness of any mechanism is determined by the willingness of Cabinet to enforce budget discipline. If Ministers and Chief Executives believe that Cabinet will take a very serious view of any budget over runs and hold them rigorously accountable for their actions then, and only then, will they exercise the disciplined management necessary to meet budget constraints.

Accountability for program management and outcomes

A greater focus on measurement, reporting and evaluation is needed to judge the effectiveness of programs.

All future proposals should be required to detail how the success of the proposal will be measured. That is:

- what are the expected outcomes;
- how will they be measured; and
- when they will be measured?

The extent to which proposals actually deliver the expected outcomes should be a factor in assessing agency and Chief Executive performance.

The accountability theme outlined in the Phase 1 report should also apply to one-off capital projects.

The Commission's budget management principles are as applicable to investing projects as they are to operating expenditure. The process of considering investing projects for inclusion in the budget must provide for rigorous analysis of the need for the project in the first instance.

The Commission emphasises that the Government's existing *Guidelines for the Evaluation of Public Sector Initiatives* must be followed to ensure that the need for one-off capital projects is properly identified (ie, that they are consistent with Government objectives), that alternatives are fully evaluated and considered, and that projects are correctly and accurately costed in the first instance. The costing must take into account the capacity of the construction industry to undertake the work, and the Government's ability to manage new or complex areas of capital expenditure.

10.9 Measurement, reporting and evaluation

As indicated in the Phase 1 report, a greater focus on measurement, reporting and evaluation is needed to judge the effectiveness of programs.

The Commission has compiled an extensive database on current expenditure programs, based on advice from agencies. The data collected from agencies delved below the usual sub-program level data (published in the budget papers) to consider in detail how agencies apply their budgets.

This process revealed that agencies typically have a strong grasp on their 'inputs', however the resultant benefits/outcomes were less well understood and communicated.

This exercise and the investigations by the Commission resulted in a number of observations:

- agency internal measures appear highly variable in relation to their quality and usefulness for evaluation, strategic alignment, and planning;
- agencies appear to undertake minimal internal evaluation of programs and evaluative criteria are not built into existing program design or part of the annual budget process;
- Budget Portfolio Statements provide some useful information; however the budget measures submitted by agencies are of variable quality and are often not reported internally or used to inform agency planning or decision making;
- with the exception of national data (see Section 4), there is a lack of publicly available performance information on which to evaluate or benchmark agencies' efficiency and effectiveness; and
- while the South Australian Strategic Plan (SASP) provides an overarching document setting out the State's objectives and provides a vehicle for community engagement it is not designed to support measurement and reporting of day to day activities of the government and the public sector. For example:
  - there are competing targets and relative priorities are not conveyed; and
  - agency 'business as usual' service delivery is not always covered by the SASP.

Overall, these findings underscore the need for an across government approach to measurement, reporting and evaluation.

This should not amount to an additional bureaucratic layer of reporting or costly impositions on agencies, but instead provide agencies with the necessary guidance on critical performance issues to ensure they are dealt with consistently across government.

As indicated in the Commission's Phase 1 report, a long term aspiration of the Government should be a more comprehensive evaluation framework for all of its programs and use of the results to review expenditure settings. This could provide agencies with guidance as to when and how it should evaluate its own programs, as well as describe the role and interface with central agencies.

The Commission recommends that the evaluation framework should also be applied to all major capital or investing projects (eg, construction of a new road or school) once complete and in operation.

Recommendation 44: Measurement, reporting and evaluation

The Commission recommends that the Government implement a centrally-driven measuring, reporting and evaluation framework of programs and projects for both operating and investing expenditure.

10.10 Alternative sources of financing

The Commission has explored the use of alternative financing arrangements to reduce the financing cost to the Government.

Alternative financing of capital projects is often reported in the media as a better funding solution for government to deliver more projects in a fiscally constrained environment.

This is clearly not the case. There is no magic pudding.

Typically the government can borrow at cheaper rates than the private sector because of its ability to levy taxes. This better borrowing capacity is reflected in the State's credit rating, currently triple-A. It only makes sense for the State to get the private sector to finance projects if it is part of an overall package where the private sector also accepts some of the risks that would otherwise be borne by the State.

A common type of alternative financing of government projects in Australia that involves significant risk transfer to the private sector is known as a 'public private partnership', or PPP. Under a PPP a consortium of private companies provides all elements of a project, not just financing, including design, construction, operation and maintenance.

Using PPPs to procure major infrastructure can only be done 'off balance sheet' (ie, without impact on the Government's net debt) if the private sector can collect revenues directly from the user of the infrastructure (ie, 'user pays'). 'User pays' PPPs are referred to as 'economic' PPPs because the project has the ability to generate revenue to pay for the asset and operations.

These economic PPPs (examples include toll roads and port infrastructure) appear 'off balance sheet' primarily because the government does not bear the risk associated with owning the infrastructure and operating the asset. This risk instead resides with the operator who agrees to take demand risk, such as road user patronage.

Since the Global Financial Crisis the private sector has not been so willing to accept revenue (or ‘demand’) risk. This has led to the development of ‘hybrid’ or ‘availability’ PPP models for economic infrastructure (in particular roads), where the public sector accepts the demand risk in a project and pays the private operator according to availability and quality of the facility (rather than paying for a level of usage) while the private sector accepts other project risks (eg, design, construction, maintenance).

‘Availability’ style PPP models are more commonly used to deliver social infrastructure such as schools, corrective facilities, and hospitals. Such arrangements remain on the State’s balance sheet. The Commission understands only Victoria has used the ‘availability’ style PPP for roads (ie, Peninsula Link).

To date, South Australia has used availability style PPPs to deliver two projects (ie, Regional Courthouse and Police Stations, and New Schools). The New Royal Adelaide Hospital project will also be an availability style PPP.

The Commission notes PPPs are in certain cases a suitable alternative to traditional government financing, construction, operation and maintenance of projects. Indeed, availability style PPPs do have the ability to generate recurrent savings compared to traditional government delivery. In this situation, however, private financing is part of a ‘package’ that government is purchasing. The savings from such arrangements come from better design, operational efficiencies or risk management by the private sector. Their financing exposure ensures they have the incentive to minimise costs.

10.11 Revenue forecasting

Revenue forecasting is inevitably a difficult and uncertain exercise. Taxation estimates need to reflect likely movements in economic forecasts, changes in the tax base and any changes related to specific government policies. The future path of which are all uncertain. However, high quality forecasts are an important part of sustainable budgeting.

As part of its work, the Commission engaged Access Economics to undertake an independent review of the revenue forecasting approach adopted by the Department of Treasury and Finance.

The review broadly endorsed the revenue estimation methodology of the Department of Treasury and Finance.

Access Economics was also asked to examine the feasibility of splitting revenue estimates into structural and cyclical components.

Given that budget revenues are dependent on economic drivers, an assessment of the South Australian Budget may be better informed to the extent that it can abstract from the business cycle — splitting revenue into its permanent (structural) and temporary (cyclical) components.

To the extent that the level of economic activity is above or below trend, the impact on budget revenues will be temporary (ie, cyclical), rather than either a durable cause for concern or a permanent means for financing permanent increases in spending.

As a general principle, ongoing expenditure decisions should not be funded out of temporary increases in revenues. Temporary increases in revenues should be used to pay down debt or fund one off initiatives that add to the productive capacity of the State. Conversely, any temporary decrease in revenues due to a downturn or slowdown in the economy will generally be re-couped as the economy recovers. Identifying the temporary element of any revenue decline can provide a better guide to the underlying position of the State’s finances and allow for more considered decisions on future expenditures.

Recognising the stage of the economic cycle and its impact on revenues can therefore be an important part of sustainable budgeting.

As part of its review Access Economics developed a measure of South Australia's structural budget balance. However, the risks and reliability surrounding these types of estimates were spelt out.

Access Economics noted that while there may be universal interest in the calculation of structural revenue estimates there is no unanimity on their estimation. The Organisation for Economic Co-operation and Development, the International Monetary Fund and Access Economics all regularly publish estimates of the structural position of the Commonwealth Budget. Although these calculations are based on the same information, the different methodologies employed by each organisation can yield different results.

Given the uncertainty associated with estimating structural and cyclical components, the Commission concludes such quantitative estimates are not of sufficient quality to be the basis of budget decisions or public policy debate at this time.

Nevertheless, the Government should have regard to qualitative assessments of budget effects of the stage of the economic cycle.

Recommendation 45: Revenue forecasting

With input from the Department of Treasury and Finance, the Government should attempt to qualitatively assess the budget effects of the economic cycle. Temporary or unsustainable revenue increases should not be used to fund on-going expenditures.

APPENDIX A: LIST OF THE COMMISSION'S RECOMMENDATIONS

Recommendation 1: Improving overall budget discipline

The Sustainable Budget Cabinet Committee (SBCC) should determine the appropriate budget 'bottom line' targets for the forthcoming budget and forward estimates period, based on advice from the Department of Treasury and Finance (DTF), as the first step in the annual budget cycle. Cabinet should endorse achievement of these targets as the overriding priority for all subsequent budget decisions. In aggregate, all subsequent budget proposals should be consistent with these targets. Spending envelopes for specific agency programs should be developed consistent with the approved accrual budget of the agency. Program budget supplementation should be discouraged, and only granted in exceptional circumstances.

Recommendation 2: More transparent reporting of forecast savings initiatives

When governments announce savings initiatives expected to apply in future years, and included in forward estimates, these should be separately reported in the budget papers showing forecast budget 'bottom line' measures, especially those reporting the forecast net operating balance and the net financial liabilities-to-revenue ratio. The reporting should provide a breakdown of the forecast savings between (i) those allocated to agencies, and (ii) those not allocated to agencies. In subsequent years, this information should be updated. In addition, in subsequent years, the total savings for the year in question should be split between (i) achieved savings, and (ii) unachieved savings. An agency-specific breakdown of this latter split should be available in the budget papers as well.

Recommendation 3: More focussed use of budget resources

SBCC scrutiny of specific programs should begin with an assessment of whether or not they are core functions of government. What constitutes 'core functions' is necessarily partly subjective. However, establishing and policing property rights, law and order, funding health and basic education, and protecting the vulnerable, are widely agreed to be core functions. As part of the budget improvement process over the forward estimates period, this assessment should be applied to all budget-financed programs. Only programs deemed to be core functions of the South Australian Government should be financed. For others, funding should be cut or phased out.

Recommendation 4: More cost-effective service delivery

Major South Australian government programs should be benchmarked against 'best practice' performance across all Australian state governments. Where appropriate, agency funding for these programs should be limited to that required for 'best practice' service delivery, either immediately, or over a short, defined period within the forward estimates years. Agency Chief Executives should be required to manage their programs within these 'best practice' funding limits, without expectation of supplementation.

Recommendation 5: Budget responses to unexpected economic strength

Stronger economic growth might provide unexpected improvement in budget revenues. There would be risk management benefits if the additional revenue went to the budget bottom line.

Recommendation 6: Bases for addressing the savings task

The Commission recommends the bulk of the savings task should fall on (i) eliminating unnecessary costs and delivering key government programs as cost-effectively as possible, and (ii) eliminating or phasing-out lower priority spending programs.

Recommendation 7: Setting program priorities within appropriate constraints

Governments must determine program priorities within budget constraints. The Commission strongly recommends that program priorities be consistent with appropriate overall budget constraints delivering sustainable budgets over time.

Recommendation 8: Agency-specific budget improvement proposals

The Commission recommends that the Government adopt enough agency-specific budget improvement proposals, that, combined with adopted whole-of-government proposals, will be sufficient to meet the savings task.

Recommendation 9: Whole-of-government budget improvement measures

The Commission recommends that the Government adopt enough whole-of-government budget improvement proposals, that, combined with adopted specific agency proposals, will be sufficient to meet the savings task.

Recommendation 10: Government advertising

The Commission recommends that the Government should:

- ensure quantification of all elements (media and non-media) of advertising related expenditure, with this to be included in the Department of Premier and Cabinet's Annual report from 2009-10 onwards;
- make permanent the current suspension of some government advertising;
- ensure implementation of these arrangements and monitoring the savings generated by making them the responsibility of the Sustainable Budget Oversight Unit (see Recommendation 42 and Section 10);
- maintain the current Premier's Communications Advisory Group (PCAG) assessment process for all campaigns with a total spend above the set thresholds (refer Appendix D);
- review the PCAG guidelines annually;
- review annually all agencies' advertising strategies and minimise duplication through collaboration of agencies with common advertising themes;
- rationalise the number of advertising templates and styles; and
- extend PCAG membership to include a non-marketing officer with experience and skills in program effectiveness evaluation.

Recommendation 11: Health

The Commission recommends:

- commitment to a top-down sustainable funding model that funds activity growth, higher than CPI costs for medical goods and services, and the national benchmark efficient price for health services;
- commitment to a budget and financial management framework that limits overall health funding to the top-down sustainable funding model allocation and ceases the practice of mid-year health supplementation;
- the implementation of specific proposals to achieve the benchmark efficient price; and
- the Commonwealth Government fully fund those health services which are the agreed responsibility of the Commonwealth (eg, aged care places). The resultant reduction in State funding should be applied to the South Australian Government's savings task.

Recommendation 12: External review of the Families and Communities portfolio

The Commission recommends an external review of the Families and Communities portfolio should be conducted. The review should be undertaken by an independent party, and identify reforms that will deliver efficiency improvements.

The review should commence as a priority and be completed by no later than end-March 2011.

Recommendation 13: Courts

The Commission recommends that measures to increase the efficiency of the court system should be explored and implemented as a priority. The objective should be improving efficiency while maintaining fair access to justice. These measures may not offer immediate savings, but should lead to a reduced backlog of court cases, and over time a reduction in the level of resources required.

Recommendation 14: Department of Justice

The Commission recommends that the Justice portfolio structure should be disbanded and the South Australian Police Department, the Department for Correctional Services, the Courts Administration Authority, the emergency services sector agencies (through SAFECOM) and the Attorney-General's Department should operate as independent administrative units reporting through their respective Ministers.

Recommendation 15: Crown Solicitor's Office

The Commission recommends that, with the exception of constitutional law advice and core 'public policy' issues, where the experience in the private sector is likely to be more limited, all legal work required by agencies should be purchased from a panel of preferred legal service providers. The Crown Solicitor's Office should be able to tender for this work on a competitively neutral basis.

Recommendation 16: Children's services, education and further education

The Commission recommends that the Government continue to focus on the cost efficiency of delivery of education services, with a view to flexibility in its delivery beyond current constraints.

Recommendation 17: Industry assistance

The Commission recommends that the Government should cease selective industry assistance and significantly reduce sporting and arts events attraction and assistance.

The Commission recommends that the Department of Treasury and Finance should be the agency responsible for assessing policies with economic implications both before and after implementation.

Recommendation 18: Incorporate Defence SA into a department

The Commission recommends that the operations of Defence SA be merged into a larger department, with a leaner board.

Recommendation 19: Department of Trade and Economic Development

The Commission recommends that the Department of Trade and Economic Development should be abolished with residual functions transferred to the Department of Primary Industries and Resources (PIRSA) and the Department of the Premier and Cabinet.

Recommendation 20: Bio Innovation SA

The Commission recommends that the operations of Bio Innovation SA cease and that any residual contracts be administered by the Department of Further Education, Employment, Science and Technology. If the operations of Bio Innovation SA do not cease then it should still be merged with the Department of Further Education, Employment, Science and Technology.

Recommendation 21: Integration of regional natural resource management service delivery

It is recommended that the Government consider the long term reform direction for the integration of regional natural resource management service delivery, and explore opportunities to improve coordination between agencies to improve service delivery and realise efficiencies.

Recommendation 22: Environment Protection Authority

It is recommended that there be an independent review of EPA functions with a view to ceasing those which are non-legislated, achieving a greater level of cost recovery, and withdrawing from policy and planning activities.

Policy and planning functions should be structurally separated from the EPA and be performed within the non regulatory component of the portfolio (eg, the Department of Environment and Natural Resources — DENR).

The practice of hypothecating revenues from the Solid Waste Levy should cease.

Recommendation 23: Cease major Zero Waste programs

The Commission recommends that the majority of Zero Waste's programs cease, with waste policy functions brought within DENR.

Recommendation 24: State Government concessions

The Commission recommends that State Government concessions should be targeted at sections of the community most in need. This may be assisted by Commonwealth reforms to concession card eligibility.

Recommendation 25: Provision of local government services

The Commission recommends:

- services or programs best delivered by local government should not be provided and/or duplicated by state government agencies; and
- as an extension to the boundary reforms of the 1990s, further boundary reform (ie, larger and fewer councils) be undertaken to strengthen the revenue base of local government in South Australia.

Recommendation 26: Workforce policy

The Commission recommends that:

- there should be a non-voluntary separation policy for managing staff who are excess to agency requirements;
- entitlement and pay provisions (eg, minimum notice periods and severance pay) should be established with regard to other jurisdictions' policies for the treatment of excess employees, redeployment and involuntary severance arrangements. Consideration should also be given to aligning public sector practice with current private sector practice; and
- there be a review of the use of Chief Executives' powers to separate employees who are poor performers, with a view to strengthening the existing provisions, where necessary.

Recommendation 27: OHS&W arrangements

The Commission recommends the following in relation to OHS&W issues:

- **Governance arrangements** — the Public Sector Workforce Relations unit of DPC role on OHS&W be restricted to a purely advisory and data collection role. Chief Executives should manage agency OHS&W performance and outcomes in accordance with their legislated 'responsible officer' obligations.
- **Workers compensation insurance arrangements** — the Government should remain self-insured on the grounds that it is currently the most cost effective option. This position should be reviewed from time to time.
- **Injury management arrangements** — all government injury management service centre activities should be competitively tendered.
- **Legal advice** — all legal advice for government claims and injury management services should be competitively tendered.
- **Review of WorkCover reforms** — an independent review of the application of the 2008 WorkCover changes and their effectiveness in the public sector should be undertaken.

Recommendation 28: Facilities management

The Commission recommends that facilities management works for all agencies of government be subject to a competitive tender process. Private sector bidders should be able to tender for all or part of the work requirement.

Centralised government contract administration and management should be streamlined and costs reduced.

Recommendation 29: Building management

The Commission recommends that the management of all government accommodation should be put to competitive tender. Standards for government accommodation fit-outs should be established and a competitive tender for the managing contractor role for all government fit-outs should be undertaken.

Recommendation 30: Government ICT

The Commission recommends that the results of the Information and Communication Technology ICT cost assessment and benchmarking analysis be used by the ICT Board and the Office of the Chief Information Officer (OCIO) to inform:

- the analysis of future ICT capital projects and future reporting to Cabinet on the Government's ICT spending;
- ICT investment prioritisation and provision of advice to the Department of Treasury and Finance on the merits of individual projects, as part of the Budget process;
- future reform concerning consolidation of ICT services, clustering of similar agencies with like needs, and strengthening across government procurement practices; and
- investigation into new service delivery models, including opportunities to centralise within government, or external provision of services.

The Commission also recommends that major reforms and new service delivery model proposals, including consolidation within government and external service provision, be subject to rigorous analysis of net benefits and that business cases have a high level of oversight and governance.

Recommendation 31: Procurement governance and legislative changes

The Commission recommends that:

- the *State Procurement Act 2007* be repealed and the State Procurement Board abolished;
- the *Public Finance and Audit Act 1987* be amended to encompass procurement;
- the Treasurer issue Procurement Instructions (PIs) to replace the current State Procurement Board policies and guidelines;
- Chief Executives be held accountable for procurement outcomes and compliance with centrally set PIs; and
- the Procurement Policy and Governance Group within the Department of Treasury and Finance be reduced with a focus on policy matters only.

Recommendation 32: Benefits of purchase pooling

The Commission recommends that a strategic spending analysis be undertaken by Shared Services SA to identify purchasing activities amenable to improved price outcomes through use of whole-of-government purchasing power in addition to those outlined in this report.

Recommendation 33: Review of non price and service specification in government policies

The Commission recommends that all government policies seeking to achieve indirect outcomes through procurement should be reviewed. The review should:

- document all the specification elements;
- assess their effectiveness in achieving the other policy objectives;
- estimate the additional cost to government of including these specification requirements; and
- consider other program responses to achieve these other policy objectives.

Recommendation 34: Statutory bodies

The Commission recommends that the Government:

- develop guidelines for establishing statutory bodies, including on what functions should be performed outside departmental structures, when and in what circumstances a new statutory body should be formed, and what legal and statutory form the body should take;
- undertake an assessment of existing bodies against these guidelines to reduce duplication and overlap and determine whether they are well governed, performing to meet Government objectives, and are still required in their current forms;
- develop a standard for legislation to set up statutory authorities to make board accountability clear and consistent; and
- develop guidelines on when and in what circumstances non-statutory advisory bodies can/should be developed.

Recommendation 35: Review and sale of surplus assets

The Commission recommends that the Department of Treasury and Finance continue its work of identifying land and buildings that are surplus to core government activities or inefficiently used. The Department, with support of Chief Executives, should generate options for the Government to consider for the disposal of those properties.

Recommendation 36: Government businesses — SA Lotteries

The Commission recommends that the Department of Treasury and Finance undertake a detailed assessment of the future options for SA Lotteries, including sale options.

Recommendation 37: Government businesses — HomeStart Finance

The Commission recommends that HomeStart Finance should be the subject of a thorough 'root and branch' review. This review should be independent of HomeStart Finance.

Recommendation 38: Government businesses — Land Management Corporation

- The Government needs to clearly specify the non-commercial objectives assigned to the Land Management Corporation.
- The Land Management Corporation's regulations and Charter should be amended to better reflect its identified role.
- A review of the Land Management Corporation's Performance Targets should be undertaken, with the Performance Statement to include rolling ten-year targets.
- The Industrial Premises Development Scheme should be wound up.
- Business cases for the Land Management Corporation's projects should examine the scope for greater private sector involvement and alternative methods for delivering the Government's objectives.

Recommendation 39: Government businesses — ForestrySA

The Commission recommends that the Government should sell ForestrySA. The Commission concludes there are no public policy arguments for the State to be involved in a commercial plantation forestry operation.

Recommendation 40: Government businesses — other government businesses

The Commission recommends that the Government should regularly reconsider its need for continued ownership of its other business enterprises.

The Commission recommends that the Government consider whether some Public Non Financial Corporations (PNFCs) that remain could be operated at reduced cost or more effectively if they were fully integrated into existing government departments.

Recommendation 41: 'Locking-in' announced savings

The Commission recommends that announced budget savings initiatives be allocated to agencies as specific, properly-costed, program initiatives as soon as possible. Ideally, this should be done before savings initiatives are publicly announced. Where this is not possible, savings initiatives should be translated into specific agency measures within, say, six months of announcement, and supplementary announcements advising of the agency allocation of these savings released. For example, savings announcements made at budget time, but not allocated to agencies, could be the subject of agency allocation statements released as part of the Mid-Year Budget Review (MYBR).

Recommendation 42: Independent monitoring of savings delivery

The Commission sees no case for its own continuation. It should be terminated.

However, the Commission recommends the Government establish a small, independent, Sustainable Budget Oversight Unit, appropriately resourced from key central agencies, to monitor, report, and make recommendations in relation to, delivery of Government savings decisions made as a result of this report and other subsequent reviews.

This Unit should report to the Government, through the SBCC, at least annually in the lead-up to the tabling of the Budget each year, and possibly also as part of the Mid-Year Budget Review (MYBR) process.

Ideally, the Unit's reports to the Government should also be published, in the interests of a transparent process.

There may be a case for making this Unit a permanent part of the budget process, dealing not only with periodic reviews but also with budget over-runs after the tabling of the Budget each financial year.

Recommendation 43: Cabinet process

The Commission recommends that Cabinet decisions affecting the budget, arising outside the budget process, should only be made in exceptional circumstances and ideally be concentrated in the MYBR.

Recommendation 44: Measurement, reporting and evaluation

The Commission recommends that the Government implement a centrally-driven measuring, reporting and evaluation framework of programs and projects for both operating and investing expenditure.

Recommendation 45: Revenue forecasting

With input from the Department of Treasury and Finance, the Government should attempt to qualitatively assess the budget effects of the economic cycle. Temporary or unsustainable revenue increases should not be used to fund ongoing expenditures.

APPENDIX B: COST RECOVERY FRAMEWORK

The following details the principles of a cost recovery framework.

Cost recovery — key principles

- Agencies should apply full cost recovery principles to fees and charges for all regulatory activities and for those goods and services (including information services) where there are significant private rather than public (community wide) benefits in the production of those goods and services.

- Partial cost recovery may be allowed as a transition to full cost recovery when a fee or charge is first introduced, although this would generally apply to goods and services where the benefit to users is uncertain, and would generally not apply to fees and charges for regulatory activities.

- Cost recovery should not be applied where:

  - It is not cost effective — eg, the cost of revenue collection is larger than the revenue collected, or beneficiaries can not be readily identified; or

  - Financially disadvantaged groups may be excluded — eg, the main users may include low income households, but full cost recovery could make the service prohibitively expensive for that group.

- Any charges should reflect the cost of providing the product or service or administering the regulation and should generally be imposed as a fee-for-service charge on those who directly benefit from the product/service or create the need for the regulation. In some instances an industry levy may be more appropriate.

- Cost recovery arrangements should have clear legal authority for the imposition of the charges to avoid any challenges about their validity.

- Cost recovery should reflect all costs incurred by the agency in undertaking those activities subject to cost recovery, including indirect costs such as depreciation and an allocation of corporate overheads (eg, fully distributed costs). Costs that are not directly related to or integral to the provision of products and services should not be recovered. Where the size of the activity is small within the overall scope of the agency functions, or an extension of core agency functions, incremental or avoidable cost methods may be appropriate alternative methodologies.

- Regard should be had where possible to basing fees and charges on efficient costs. This may require benchmarking against other jurisdictions or similar goods and services provided by other suppliers particularly where charges are high and/or generate significant amounts of revenue.

- Where possible, cost recovery should be undertaken on an activity basis rather than across an agency as a whole.

- Agencies should review cost recovery arrangements annually, with a major review of arrangements conducted no less frequently than every five years.

APPENDIX C: CGC EXPENDITURE CATEGORIES

Category	CGC Definition[(a)]
Schools education	Expenses on the administration and provision of educational programs for preschools to secondary schools. Also includes superannuation expenses. More specifically, the category includes: • education programs in preschool and kindergarten (excludes play centres, crèches, day-care centres), primary schools and secondary schools; • special education programs provided by special schools or integrated into mainstream preschool, primary or secondary education; and • transportation services to school students living in urban and non-urban areas, including contract bus services, conveyance allowances to parents and reimbursement of public trading enterprises and private sector bus operators for concessional fares offered to these students.
Post-secondary education	Expenses on the administration and provision of education programs offered by Technical and further education (TAFE) institutions and universities. Also includes superannuation expenses. Excludes Vocational education and training (VET) courses and apprenticeship and training programs not offered by TAFE, and transportation provided to TAFE and university students. These expenses are classified to Services to industry and Schools education respectively.
Admitted patient services	Expenses on the administration and provision of acute and non-acute medical care and treatment for people admitted to a public hospital. This category also includes: • expenses on nursing homes for the aged and psychiatric medical care and treatment in psychiatric hospitals and psycho-geriatric nursing homes; • expenses on emergency transport to hospital, inter-hospital transport, non-emergency transport to and from treatment centres and travel and accommodation assistance; and • superannuation expenses. User charges relevant to the provision of admitted patient services are net off the expenses.
Community and other health services	Expenses on the administration and provision of community and other health services. More specifically, the category includes: • emergency services, outpatient clinics, dental clinics, outreach services and community health services provided by acute care institutions; • mental health programs for the mentally ill treated in a community setting; • domiciliary nursing services, well-baby and dental clinics, home nursing services not delivered as part of a welfare oriented program, health services provided to a particular community group, alcohol and drug rehabilitation programs not involving admission, and other health services provided in a community setting; • preventive health and population health programs aim to prevent disease, protect, promote and/or restore the collective health of whole or specific populations; and • pharmaceuticals provided outside of hospitals, aid and appliances used for health purposes and supplied in an ambulatory setting. Also includes superannuation expenses.
Welfare and housing	Expenses on the administration and provision of welfare and housing services. More specifically, the category includes welfare services to: • children and families, notably child protection services and out of home care; • aged people, notably under the Home and Community Care program; • disabled people; • people in need of other welfare support, such as supported accommodation services for the homeless and those who are at risk of homelessness; and

Category	CGC Definition[a]
	• people in public housing and those receiving private rental and home purchase assistance. Housing expenses comprise general government expenses on the direct provision of housing services net of rents received from tenants and subsidies paid to public housing authorities and community housing bodies. This category also includes expenses incurred by the States in providing grants under the $7000 First Home Owners Scheme and superannuation expense. User charges relevant to the provision of housing services are net off the expenses.
Services to communities	Expenses on the administration and provision of services to communities. More specifically, the category includes: • reimbursement of concessions, subsidies and payments of community service obligations to enterprises providing electricity, water (excluding irrigation) and sanitation services; • protection of the environment; and • planning, development, administration and support for communities (including Indigenous communities). Also includes superannuation expenses. User charges relevant to the provision of electricity, and water supply and sanitation services are net off the expenses.
Justice services	Expenses on the administration and provision of justice services. More specifically, the category includes: • police services; • law courts and legal services, including crown prosecutions, trusteeship services and law reform, registration of legal titles to property and registration of births, deaths and marriages; and • prison and corrective services, including detention for juveniles and child offenders, youth training centres and juvenile corrective institutions. Also includes superannuation expenses.
Roads	Expenses on the administration and provision of roads, highway and bridge affairs. More specifically, the category includes: • road maintenance, including road pavement and shoulder maintenance; • road rehabilitation, including reinstating failed road pavements to existing standards to improve the ride quality without improving the design standard; • administration expenses on road construction affairs; and • road safety and traffic improvements, and miscellaneous road transport activities, including driver licensing, motor vehicle registration and regulation. Also includes superannuation expenses.
Transport services	Expenses on the administration and provision of transport services. These include mainly subsidies paid to public transport providers that provide passenger transport services. Freight subsidies comprise a small proportion of expenses. Also includes superannuation expenses. Excludes expenses for transport of students which are classified to the Schools education category. User charges relevant to the provision of transport services are net off the expenses.
Services to industry	Expenses on the administration, regulation, promotion, research and operation of various industries. These industries include: • fuels such as natural gas, liquefied petroleum gases and refinery gases, coal, petroleum and alternative fuels; • management of agricultural land and water resources; • forestry, fishing and hunting; • mining and mineral resources;

<table>
<tr><th>Category</th><th>CGC Definition[(a)]</th></tr>
<tr><td></td><td>manufacturing;
building and construction;
storage and warehousing; and
tourism and area promotion.
Also includes training programs such as apprenticeship schemes designed to facilitate entry into the workforce not provided by TAFE institutions.
Also includes consumer affairs, such as licensing, sales practices, labelling of package food, price control and shop inspection.
Also includes superannuation expenses.</td></tr>
<tr><td>Depreciation</td><td>Nominal expenses reflecting the loss in value of capital stock.</td></tr>
<tr><td>Other expenses — other</td><td>Consists of the transactions that remain after the Commission has identified the major State services to be assessed separately. It also includes the balancing items to ensure the total operating expenses included in the Commission's assessments equal those in the ABS government finance statistics (GFS).
More specifically, the category includes:
State legislatures, central administrative agencies (such as treasuries) that support State service delivery agencies and supervision of local government, general research and other administrative functions;
reimbursement of GST administration expenses to the Australian Taxation Office;
administration, regulation and operation of pipelines for the transportation of petroleum and natural gas;
communication services such as postal, telephone, telegraph, cable and wireless communications and satellites;
culture and recreation services, such as libraries, public halls, support of the arts and sports and national parks;
public safety services, including emergency services, public order and fire protection;
natural disaster relief;
transitional superannuation items which ensure the financial effects of the move to accrual accounting in 1998 are recognised in the assessments. These transitional arrangements cease after 2007-08;
gross interest payments including nominal interest on equalised unfunded superannuation liabilities; and
balancing items to ensure the total expenses included in the Commission's assessments equal those in the ABS GFS.</td></tr>
<tr><td>Investment</td><td>Consists of expenditure on the acquisition of produced and non-produced non-replacement assets. Also includes the balancing items to ensure the total capital expenses (910 - Investment plus 920 - Net lending/borrowing) included in the Commission's assessment equal those in the ABS government finance statistics (GFS).
Produced assets are those non-financial assets that are outputs from the processes of production.
Non-produced assets mainly consist of land, subsoil assets, non-cultivated biological resources and water resources, patented entities, leases and other transferable contracts and purchased goodwill.</td></tr>
</table>

(a) References in this table to the 'Commission' are to the Commonwealth Grants Commission.

Source: Report on GST Revenue Sharing Relativities — 2010 Review, Volume 2 — Assessments of State Fiscal Capacities. Commonwealth Grants Commission, 2010, Appendix 2A 'Category Definitions for the 2010 Review'.

APPENDIX D: GOVERNMENT ADVERTISING GUIDELINES

Introduction

The Government of South Australia is committed to providing all South Australians with equal access to information about its policies, services, programs and initiatives and any matters that affect their benefits, rights and obligations. Advertising is regarded as an integral part of the communication activities undertaken by government agencies.

This document provides guidelines to assist government agencies in preparing advertising and associated communication materials.

The guidelines represent the basic principles to be followed by all government officers when planning, developing and managing advertising communication on behalf of government agencies, administrative and business units and instrumentalities of the Crown that are subject to Ministerial direction.

In conjunction with these guidelines, reference should be made to the following documents:

- Government of South Australia Branding Guidelines;
- Guidelines for the Premier's Communications Advisory Group Process;
- Government of South Australia Sponsorship Guidelines and Principles;
- Guidelines for Preparing an Advertising Brief;
- Government Website Standards and Protocols;
- PC023 Private Sector Endorsements on Government Communications and Materials;
- PC009 The Master Media Scheme for Government Advertising;
- Master Media Agency Fact Sheet, Summary of Services and Fees; and
- Master Media Agency Procedures and Training Manual.

All documents are available to South Australian Government staff through the Strategic Communications Unit website. Access requires a password obtainable by contacting the Strategic Communications Unit.

Further information and assistance is available from:

Strategic Communications Unit (SCU)
Department of the Premier and Cabinet
www.premcab.sa.gov.au/stratcomms
Email: stratcomms@saugov.sa.gov.au
Phone: 8204 9184

Scope of these guidelines

Advertising is the deliberate, planned communication of information by an organisation to a target audience via a paid medium.

In the past, the narrowest definition of advertising has been taken to be communication through a paid medium, generally the mass media. In more recent times, with the proliferation of ‘new’ and ‘alternative’ media, the definition has been broadened considerably.

The purpose of advertising may be to motivate, inform, educate, change attitudes or perception, generate behavioural change or elicit a specific response.

For the purpose of these guidelines, advertising can be taken to cover the following forms of communication when initiated by a government agency or intended to communicate on the agency’s behalf.

- Television commercials
- Radio commercials
- Press and magazine advertisements
- Outdoor billboards, posters, signage
- Transit advertising — posters on buses, trams, trains
- Digital — banner advertising, viral, search, video streaming
- Websites/pages
- Mobile campaigns and SMS
- CD-ROMs, interactive kiosks
- Film and video presentations
- Brochures, flyers and collateral
- Cinema advertising
- Mobile billboards
- Direct mail (including email)

Some of these forms of communication may also be subject to specific requirements.

General principles

The use of public funds for Government communication programmes should be governed by the principles that:

- all members of the public have the right to equal access to information;
- public funds may legitimately be used for information or education programmes that explain the Government’s policies, programmes or services or that inform members of the public of their obligations, rights and entitlements;
- Government information programmes should not be conducted for party political purposes;
- the Government has responsibility for ensuring equity, fairness, probity appropriateness and public responsibility in all of its communications;
- communication material should be produced and distributed in an efficient, effective and relevant manner with due regard to accountability; and
- individual agencies are responsible for developing and implementing communication of initiatives and actions which are within the agency’s field of responsibility.

Objectives of government advertising

The Government of South Australia may use public funds for advertising and communication to achieve the following objectives:

- to maximise compliance with the law;
- to achieve awareness of a new or amended law;
- to raise awareness of a planned or impending initiative;
- to ensure public safety, personal security or encourage responsible behaviour;
- to assist in the preservation of order in the event of a crisis or emergency;
- to promote awareness of rights, responsibilities, duties or entitlements;
- to encourage usage of, or familiarity with, Government products or services;
- to report on performance in relation to Government undertakings;
- to encourage social cohesion, civic pride, community spirit, tolerance or to assist in the achievement of a widely supported public policy outcome; and
- to increase investment, tourism or migration through promotion of the State.

Public funds should not be used for communications where:

- the image or voice of a politician is included within the advertising;
- the party in Government is mentioned by name;
- a reasonable person could misinterpret the message as being on behalf of a political party or other grouping;
- a political party or other grouping is being disparaged or held up to ridicule;
- members of the Government are named, depicted or otherwise promoted in a manner that a reasonable person would regard as excessive or gratuitous;
- the method or medium of communication is manifestly excessive or extravagant in relation to the objective being pursued; and
- there is no clear line of accountability, appropriate audit procedures or suitable purchasing process for the communication process.

Note: When the Government is in caretaker mode, additional requirements and restrictions apply for which specific advice will be provided.

Use of the Government of South Australia branding and logo

All Government advertising should be consistent with Government policy and should feature strong and consistent branding of the Government of South Australia.

Use of the Government of South Australia branding is strictly controlled and must comply with the requirements set out in:

- Government of South Australia Branding Guidelines; and
- Premier and Cabinet Circular 023: Private Sector Endorsements on Government Communications and Materials.

Both documents are available through the Strategic Communications Unit website. Access requires a password obtainable by phoning the Strategic Communications Unit.

Visual media and print production

The use of the Government of South Australia logo in a prominent position lends considerable credibility and ensures that the recipient of the communication is able to clearly and easily recognise that the information has been provided by the Government.

Specific rules for use of the logo for television, digital, promotional and print applications are included in Government of South Australia Branding Guidelines.

Audio branding

A range of radio tag lines are prescribed in the Government of South Australia Branding Guidelines which should be used for other audio applications and in conjunction with visual branding/logo in audio/visual media.

Premier's Communications Advisory Group

The role of the Premier's Communications Advisory Group (PCAG) approval process is to ensure a planned, coordinated and strategic approach to the Government's extensive and diverse communication strategies and programs. The desired outcome is effective public communication that presents all agencies and activities in a consistent and cohesive manner.

The PCAG meets regularly to review proposed advertising and marketing communications activity. Approval through the PCAG process is required for any government agency advertising and marketing communication to enter the public domain.

For more information regarding the PCAG approval process for communications activities or how to make a submission to the Group please refer to Guidelines for the Premier's Communications Advisory Group Process.

Strategic Communications Unit

The Strategic Communications Unit, Department of the Premier and Cabinet, is responsible for across-Government oversight of paid, external communications activities. To support this role, SCU has responsibility for:

- initiating and managing whole of Government communications policy;
- providing strategic communications advice to Government agencies and Ministerial offices;
- managing the Master Media Agency agreement for the South Australian Government;
- providing oversight of Government expenditure on advertising;

- facilitating all government marketing communications activity through the PCAG approval process; and
- providing ongoing administrative support and strategic advice to the PCAG.

For more information on the role of SCU and the services provided by the Unit please see "An Introduction to SCU" or visit the SCU website.

Government Master Media Agency

The Government of South Australia has appointed a master media agency (MMA). In order to achieve significant savings across government, all media bookings for advertising from government agencies and statutory authorities must be channelled through the appointed MMA.

This scheme is mandatory. No government agency or statutory authority is permitted to place advertisements directly with any media. This requirement applies to both brand (campaign) and functional (non-campaign) advertising which are described as follows.

Functional (non-campaign) advertising is of a statutory or public notice type and typically has minimal creative content. Generally this type of advertising seeks to impart specific information in a direct and unembellished manner and is for immediate or short-term appearance. Functional advertising provides the public with information such as: recruitment, courses at tertiary educational institutions, auctions and sale of goods and properties, public notices, legal notices, emergency notices, road closures, tenders etc.

Brand (campaign) advertising typically involves creative content and endeavours to change behaviour or attitudes of the general public. Brand advertising has been typified by the use of emotional imagery and/ or copy that seeks to position the brand. For example:

- SA Police Recruitment Campaign;
- SA Water — Water Restrictions and Rebates Campaigns;
- Plan for Greater Adelaide Consultation Campaign; and
- SA Tourism — SA Shorts Campaigns.

Government agencies are also required to use the MMA to undertake media strategy development and media planning for all brand (campaign) advertising.

It is the responsibility of the MMA to negotiate with the print and electronic media for volume discount rates, incentive discounts, community service activity, bonus airtime/space and other value-added services. The MMA enters into media contracts on behalf of the Government of South Australia.

The disbursement of media commissions and rebates is governed by the terms of the master media agency contract.

In addition to the mandatory rate negotiation, media strategy, planning, buying and placement of media, the MMA can provide functional advertising design on a fee for service basis.

More information, including the process for briefing the master media agency, can be found in the following associated documents, available on the Strategic Communications Unit website:

- Premier and Cabinet Circular 009: The Master Media Scheme for Government Advertising;
- Master Media Agency Fact Sheet. Summary of Services and Fees; and

- Master Media Agency Procedures and Training Manual.

Other marketing suppliers

Other marketing suppliers, including creative advertising, graphic design, research and public relations consultants, may be appointed by government agencies to produce advertising and other communication materials.

The services may include some, or all, of the following:

- communications or brand strategy development;
- creation of advertising concepts;
- marketing and advertising research;
- copywriting;
- graphic design;
- website construction and design;
- production of materials eg, photography, illustration, artwork, print, broadcast recordings, film and video, multi-media;
- PR or media relations; and
- project management and supervision.

When appointing an external supplier to provide creative services the process must be:

- fair and equitable;
- conducted in accordance with the requirements of your department's accredited purchasing unit (APU); and
- consistent with the requirements of the Premier's Communications Advisory Group (PCAG) approval process.

A formal brief should be prepared when seeking creative services. An outline of the briefing process including mandatory elements relating to master media agency, conditions, requirements and selection criteria, can be found in Guidelines for Preparing an Advertising Brief available on the Strategic Communications Unit website.

Guidelines for the Premier's Communications Advisory Group Process are also available on the web site.

SCU staff have experience managing procurement processes for marketing suppliers and can assist you in the development of documents and supplier selection.

Evaluation

The Government of South Australia requires the evaluation of all advertising campaigns as part of the PCAG approval process. All agencies submitting a campaign for approval must nominate measureable evaluation criteria that reflect the objectives of the campaign in advance. All campaigns submitted to PCAG for approval as part of the PCAG approval process must also nominate a date to return to the Group with a formal evaluation.

The two main reasons for evaluation are:

Accountability

All government agencies must be accountable for their expenditure of public funds. Accountability is only possible when the results of expenditure are measured and reported.

Continuous Improvement

The Government of South Australia is committed to continuous improvement. Measurement, assessment and analysis of the outcomes of communication activities allows for refinement and improvement in the quest for improved effectiveness.

Put simply, evaluation seeks to determine whether a communication activity worked — to what extent it achieved the desired outcomes, and why.

Evaluation should be guided by the following principles:

- all communication activities should be evaluated regardless of extent or budget. The complexity and extent of the evaluation will be governed by the magnitude of the activity and the outcomes to be measured;
- evaluation should be an integral part of the development of a communication activity, included from the commencement of planning;
- evaluation should directly address the communication objectives;
- care should be taken to ensure that the objectives of the communications activity are clearly defined, as distinct from the overall marketing or business objectives of a project;
- objectives should be measurable and achievable;
- the method of evaluation should be appropriate to the outcomes to be measured. This may require that measurements be taken prior to campaign commencement to provide benchmarks for comparison;
- the budget for a communication activity should include an appropriate allocation to undertake evaluation; and
- evaluation should be conducted in a professional and objective manner.

Maintenance of high standards

The Government of South Australia requires that all government communications comply with the highest standards of fairness, equity, probity and public responsibility, taking particular care to ensure:

- compliance with all relevant state and federal privacy, electoral, broadcasting and media laws throughout every stage of the development, production and dissemination of the message;
- Government of South Australia advertisements in any electronic medium are clearly distinguishable from party-political messages by the addition of the prescribed ‘authorised/spoken by’ tagging;
- accuracy and objectivity in the presentation of all facts, statistics, comparisons and other arguments, ensuring that the source of all data is indicated or that a means for identifying the data source is provided within the communication;

- compliance with all relevant government purchasing policies;
- sensitivity to cultural needs and issues when communicating with people from diverse ethnic or religious backgrounds;
- awareness of the communication requirements of groups of people with a disability;
- the maintenance of the highest standards of decency and good taste in the portrayal of gender and sexuality;
- respect for all people, regardless of social standing, employment status, educational attainment, age, gender or any other attribute;
- access by groups who might otherwise be disadvantaged or disenfranchised by means of location, language or economic factors;
- use of simple English which is easily understood by a wide audience;
- communications are produced and disseminated by the most appropriate and environmentally responsible means taking into account the characteristics, location and size of the intended target audience;
- all statements, claims and arguments included in the communication are able to be substantiated;
- the target audience has a convenient means of contacting the originating Government agency so that complaints, questions, comments or requests for further information may be dealt with promptly; and
- compliance with all quotas, targets and policies which may be set by Government in respect of communications with groups such as culturally and linguistically diverse, rural and regional and other communities of interest or special need.

Non-discriminatory portrayals

The Government of South Australia is committed to advertising that portrays all people in a manner that is appropriate, is not potentially harmful and that contributes positively to the elimination of discrimination based on:

- race;
- physical or intellectual impairment;
- gender;
- age;
- marital status; and
- sexuality.

Advertising should:

- ensure that both the overall impression, and the individual elements of a communication, are consistent with equality;
- portray all groups as equally competent in a wide range of activities in the workplace, the home and the general community;
- avoid inappropriate or exploitative imagery and language that may be offensive or contribute to harmful stereotypes;
- use language that is non-offensive and inclusive;
- portray both men and women in the full range of diversity including age, appearance and background;
- avoid inappropriate or exploitative sexual imagery that objectifies either gender
- take account of the context in which it will be heard or viewed; and
- not use humour, artistic merit or historical setting as an excuse to stereotype or portray behaviour which is unacceptable within these guidelines.

Ethno-specific media and communication with Non-English speaking and Aboriginal and Torres Strait Islander groups

The Government of South Australia requires its agencies to use ethnic and non-English speaking language media to communicate essential services and programmes.

Government expenditure on ethnic and non-English speaking language media is monitored by Strategic Communications Unit on a six monthly basis. Any use of this media must be undertaken within existing promotional budgets.

Communication strategies must address the special needs of people whose first language is not English, and those of Aboriginal or Torres Strait Island descent.

Use of ethnic media and other forms of communication with people from diverse cultural and linguistic backgrounds should be included in briefs to:

- creative agencies;
- the master media agency; and
- market researchers.

Access for hearing impaired

The Government of South Australia is committed to ensuring equity of access to government information and services. To promote equitable access for the hearing impaired it is required that:

- closed captions be included in government television commercials; and
- open captions be included in videos produced for public information.

Closed captions are encoded in audio-visual material and can be viewed on the screen using a teletext television, or a decoder for video viewing.

Open captions appear as superimposed text and do not require special equipment.

The following do not require captions:

- TV advertising of a commercial marketing nature or produced by agencies involved in competitive commercial environment;
- material that already conveys the required information in text or other visual form and cannot be improved by the inclusion of formal captioning; and
- material relating to public emergency or disaster that is produced within a timeframe which precludes the opportunity for captioning.

More information on captioning is available through Red Bee Media Australia (incorporating the Australian Caption Centre) at www.auscap.com.au or by calling (02) 9212 5277.

Access for sight and print impaired

The Government of South Australia is committed to ensuring equity of access to government information and services. This includes equitable access for people who are sight impaired including those who are blind, partially sighted or colour blind or who have other disabilities which restrict their access to standard printed materials.

Consideration of access is particularly important when members of these groups are a significant part of the target group, eg, health services for the elderly.

Some considerations for improved access:

- use large type, legible fonts and maximise contrast between background and type;
- choose media that are accessible to sight/print impaired people, eg, radio;
- use audio to augment visual images in television advertising, eg, have telephone;
- numbers, addresses and dates spoken as well as displayed;
- use more than one medium and ensure that one provides audio support;
- use short radio commercials to advise where more information can be accessed, eg, details of Initiative AAA will be published in tomorrow's Advertiser;
- in print advertising advise how to access information in alternative formats;
- allow people to respond by phone as well as through visual media eg, forms or coupons; and
- ensure that emergency announcements are provided in spoken form on radio, and not solely displayed in text on television or in print media.

When it is appropriate to specifically target information to people with vision or print disabilities, or to supplement the information provided in mainstream media, use media specifically intended for these groups such as:

- radio including radio for the print handicapped;
- internet mailing list, webpages and email;

- audio tape and computer disk instead of brochures and flyers; and
- newsletters and Braille publications issued specifically to reach these groups.

Blind Citizens Australia provides information and access to resources to assist and can be reached on 03 9654 1400 or through their website at www.bca.org.au.

Commercial clearance

Television

Commercials Advice Pty Limited (CAD) is operated on behalf of television broadcasters that are members of Free TV Australia and provides the following services:

- classification of commercials under the Commercial Television Industry Code of Practice. Commercials must be classified before broadcast on television;
- issue of advice numbers — CAD issues an advice number after a commercial has been classified. Television stations choose to accept a commercial conditional upon it having a current advice number; and
- an information service for advertisers, agencies and production houses on legislative and regulatory requirements relevant to TV commercials.

CAD's Television Commercials Production Checklist contains a general overview of the main legislative requirements affecting commercials and is available on their website at www.freetv.com.au or by phoning (02) 8968 7200.

Radio, print, outdoor, cinema and digital

Media other than television do not classify advertising material or offer advice numbers in the manner of CAD. Radio, print, outdoor and digital media organisations do however subscribe to guidelines and codes for their own conduct. Further information is available from:

Radio
Commercial Radio Australia
www.commercialradio.com.au
Phone: (02) 9281 6577

Print
Australian Publishers' Bureau (APB)
www.publishersbureau.com.au
Phone: (02) 9499 3412

Digital
Australian Interactive Media
Industry Association
www.aimia.com.au
Phone: (02) 9248 7900

Outdoor
The Outdoor Media Association
www.oma.org.au
Phone: (02) 8356 9000

Cinema
Val Morgan
www.valmorgan.com
Phone: (02) 8113 5600

Authorisation tags

Under the *Broadcasting Services Act 1992*, all television and radio broadcasters must accompany the broadcast of any political matter with a tag to assist the public to identify broadcasts which are political, and to prevent anonymous or falsely attributed political matter being aired.

The Australian Communications and Media Authority has developed a fact sheet to assist advertisers entitled Broadcasting and Communication of Political and Election Matter that is available at www.acma.gov.au.

CAD includes guidelines for tags to political material in their Television Commercials Production Checklist. Visit Free TV Australia's website at www.freetv.com.au or phone (02) 8968 7200. Creative services agencies and TV production houses can also assist with information.

The tag requirements for radio advertisements are the same as for television.

It should be noted that what constitutes political matter will be decided by CAD in the context of the political climate in the market, which may change through the lifetime of a commercial. There is frequently extended correspondence between CAD and government advertisers before a determination is reached on the need for a tag and allowance should be made for this possibility when setting time-lines.

Legal deposit obligations and record keeping requirements

Government agencies must fulfil both their legal deposit obligations (LDO) and record keeping responsibilities for all published work in accordance with the *Commonwealth Copyright Act 1968*, *State Libraries Act (SA) 1982* and *State Records Act 1997*.

This includes a requirement for one copy of any publication produced for external use to be deposited with the State Library and the Parliamentary Library (s.35, *Libraries Act, 1982*).

The definition of a publication encompasses books, newspapers, magazines, journals, pamphlets, maps, plans, charts, printed music, records, cassettes, films, video or audio tapes, computer software, CD-ROMs, compact discs and any other published items made available to the public, whether by sale or otherwise.

NB: Websites are excluded from legal deposit obligations although record keeping requirements do apply.

Please contact your departmental records manager or State Records, Department of Administrative Services, for further information on both LDO and record keeping responsibilities.

Complaints regarding South Australian Government advertising

Complaints regarding South Australian Government advertising may be directed to the following key organisations:

Strategic Communications Unit, Department of the Premier and Cabinet

Please direct complaint or feedback in writing to:

Email:	stratcomms@saugov.sa.gov.au
Address:	'Complaints' Strategic Communications Unit Department of the Premier and Cabinet GPO Box 2343 Adelaide SA 5001
Website:	http://www.premcab.sa.gov.au/stratcomms

Advertising Standards Bureau (ASB)

Refer to website for information regarding the process for making a complaint:

Website: http://www.adstandards.com.au

The South Australian Ombudsman

Refer to website for information regarding process for making a complaint:

Website: http://www.ombudsman.sa.gov.au

The South Australian Auditor-General's Department

Email: audgensa@audit.sa.gov.au
Address: 9th Floor, State Administration Centre
200 Victoria Square
Adelaide South Australia 5000
Website: http://www.audit.sa.gov.au

APPENDIX E: INTERSTATE COMPARISON OF PAYROLL TAX RATES & THRESHOLDS

Table E1: Payroll tax scales (to apply from 2010-11)

	SA	NSW[(a)]	VIC	QLD[(b)]	WA[(c)]	TAS	NT	ACT
Basic Rate %	5.15	5.65	4.90	4.75	5.50	6.10	5.90	6.85
Exemption Threshold $	550,000	657,000	550,000	1,000,000	750,000	1,010,000	1,250,000	1,500,000

(a) NSW have announced the payroll tax rate will reduce to 5.50 per cent with effect from 1 January 2011. Threshold indexed annually to Sydney CPI. Threshold of $657,000 is calculated based on indexation of 2009-10 threshold ($638,000) to the Sydney CPI in the year to March 2010.

(b) For payrolls $1 million to $5 million, deduction of $1 million reducing by $1 for every $4 payroll exceeds $1 million. No deduction for payrolls of $5 million or more.

(c) Western Australia announced in their 2009-10 Budget that a one-off rebate will be provided in 2010-11 for 2009-10 payroll tax liabilities to firms whose national payrolls do not exceed $3.2 million. Full rebate available to firms with payrolls below $1.6 million. Rebate phases down for employers with payrolls between $1.6 million and $3.2 million.

Table E2: Tax payable at selected payrolls (2010-11)

Annual Payroll	SA $	NSW $	VIC $	QLD $	WA $	TAS $	NT $	ACT $
500,000	—	—	—	—	—	—	—	—
1,000,000	23,175	19,380	22,050	—	13,750	—	—	—
2,000,000	74,675	75,880	71,050	59,375	68,750	60,390	44,250	34,250
3,000,000	126,175	132,380	120,050	118,750	123,750	121,390	103,250	102,750
5,000,000	229,175	245,380	218,050	237,500	233,750	243,390	221,250	239,750
10,000,000	486,675	527,880	463,050	475,000	508,750	548,390	516,250	582,250
20,000,000	1,001,675	1,092,880	953,050	950,000	1,058,750	1,158,390	1,106,250	1,267,250

Table E3: Average tax rates (2010-11)

Annual Payroll	SA %	NSW %	VIC %	QLD %	WA %	TAS %	NT %	ACT %
500,000	—	—	—	—	—	—	—	—
1,000,000	2.32	1.94	2.21	—	1.38	—	—	—
2,000,000	3.73	3.79	3.55	2.97	3.44	3.02	2.21	1.71
3,000,000	4.21	4.41	4.00	3.96	4.13	4.05	3.44	3.43
5,000,000	4.58	4.91	4.36	4.75	4.68	4.87	4.43	4.80
10,000,000	4.87	5.28	4.63	4.75	5.09	5.48	5.16	5.82
20,000,000	5.01	5.46	4.77	4.75	5.29	5.79	5.53	6.34

APPENDIX F: COMMISSION MEMBER BIO-SUMMARIES

Mr Geoff Carmody (Chair)

Mr Geoff Carmody is currently Director, Geoff Carmody & Associates. Mr Carmody was the co-founder of Access Economics in 1988 and continues contracting work with that company.

Mr Geoff Carmody has a B.Ec (First-Class Honours), and, later, an M.Ec from the Australian National University.

He has previously worked in key policy areas in the Federal Treasury, including Budget, wages and foreign investment policy areas. He represented Australia at the International Monetary Fund and later at the Organisation for Economic Co-operation and Development.

Mr Carmody has worked on projects ranging from numerous taxation policy submissions to Federal and State Governments, through to National Wage Case advocacy and extensive analysis for Australia's tourism industry. He was involved in the development of Fightback! for the Hewson Opposition in the early 1990s, and other policy costings for Federal and State Oppositions before and since, including costing the Labor Opposition's Policy Platform for the 2001 Federal Election. He has been an advisor to the Business Coalition for Tax Reform since the mid-1990s.

In 1996 Mr Carmody was the Executive Officer for the National Commission of Audit.

From January 2004 to May 2006 he was a Director on the Board of Patrick Corporation.

Mr Carmody was also a Panel Member of COAG's Energy Reform Implementation Group (ERIG) which investigated practical reform options for Australia's electricity markets and reported to COAG on this matter in January 2007.

Mr Bruce Carter

Mr Bruce Carter is the Managing Partner of Ferrier Hodgson in Adelaide and was one of the founding partners of the Adelaide practice in 1992. Mr Carter was formerly a partner at Ernst & Young.

Mr Carter has an Economics Degree and a Master of Business Administration. He is a Fellow of the Institute of Chartered Accountants.

Mr Carter has spent over 30 years in corporate recovery and insolvency. Mr Carter has worked across a broad range of industries overseas and in Australia. Mr Carter has conducted work for all of the major financial institutions within Australia and has been involved in a number of Government appointed restructurings and reviews.

Mr Carter is the Chair of the Economic Development Board, the Olympic Dam Steering Committee and a director/chair of a number of companies and government bodies including ASC Pty Ltd (Submarine Corporation) and SkyCity Entertainment Group Limited. Mr Carter is also the National President of the Heart Foundation.

Monsignor David Cappo AO

Monsignor David Cappo AO is a Catholic Priest and social policy leader.

Monsignor Cappo was appointed inaugural Chair of the South Australian Social Inclusion Board at its inception in 2002, and was appointed Commissioner for Social Inclusion in 2006.

A former National Director of the Australian Catholic Social Welfare Commission and current Vice-Chair of the Australian Social Inclusion Board, he continues to make major contributions to social policy development.

Professor Jennifer Westacott

Professor Jennifer Westacott is the National Partner in Charge of Sustainability, Climate Change and Water, KPMG.

When Professor Jennifer Westacott joined KPMG in October 2005, she arrived with over twenty years' experience working in State Government in Victoria and New South Wales at the senior executive and Chief Executive level. Jennifer has held the positions of the Director of Housing in Victoria, the Secretary of Education in Victoria, the Executive Director NSW Health Council and the Director General of the Department of Infrastructure Planning and Natural Resources in NSW.

Professor Westacott is now the Lead Partner responsible for KPMG's service to the NSW Government, in addition to her role as National Partner in Charge of Sustainability, Climate Change and Water, which entrusts her with the co-ordination of KPMG's strategy, product and service offering and service delivery in these areas.

Jennifer is the Chair of the South Australian Public Sector Performance Commission and has been progressing a major process of reform of public sector performance and accountability and the development of a more coherent approach to leadership development.

Jennifer is also a Commissioner with the Commonwealth Grants Commission and has extensive knowledge of Federal and State fiscal policy. She is an Adjunct Professor of the City Futures Research Centre and a Chevening Scholar. In 2003, Jennifer was awarded the Centenary Medal for outstanding contribution to the community.

Mr Chris Eccles

Mr Chris Eccles commenced as Chief Executive of the Department of the Premier and Cabinet (DPC) in February 2009.

Chris joined DPC from the Victorian Department of the Premier and Cabinet where he held the position of Deputy Secretary, Sector Improvement Group and later Deputy Secretary, National Reform and Climate Change Group.

Prior to joining Victoria's DPC in 2007, Chris worked in a variety of government and private sector senior management positions. He has held leadership roles with the ACT Chief Minister's Department and with the Australian National Training Authority. As an Associate Director with KPMG, Chris headed the national education consulting practice. He subsequently became a foundation Director of the consulting firm, Phillips KPA, which works across all education and training sectors.

Chris holds a Bachelor of Arts and a Bachelor of Laws from the Australian National University.

Mr Jim Wright

Mr Jim Wright is the Under Treasurer of South Australia; he commenced in that that role in 1999. During this period there has been significant budgetary and financial management reform within the State public sector. The credit rating of the State has been upgraded twice and the State is now rated triple-A.

Mr Wright was educated at Flinders University in South Australia where he studied economics.

Mr Wright has worked in the Commonwealth Public Service in a number of departments and agencies including the Industry Commission, the former Department of Resources and Energy, Treasury, and Industry, Science and Resources. He has specialised in taxation, industry policy, macroeconomic policy and fiscal policy.

Mr Wright has extensive experience in the design of goods and services taxes, including the modelling of both the 1985 Broad Based Consumption Tax proposal and the 1991 GST proposal in Fightback!

Mr Wright was also:

- the Australian Treasury representative in Tokyo for three years.
- heavily involved in the design and implementation of the tax reforms of the late 1980s, including the fringe benefits tax and the foreign tax credit system.
- Senior Economic Adviser to Treasurers John Dawkins and Ralph Willis.
- head of the Industry Policy Division in the Commonwealth Department of Industry Science and Resources.
- a senior member of the Secretariat of the Ralph review of Business Taxation.

Mr Wright is currently a director of Funds SA.

GLOSSARY

Assets: Resources controlled by an entity as a result of past events and from which future economic benefits are expected to flow to the entity.

Balance sheet: A statement showing the financial position (at a specific time) of a reporting entity in terms of its recognised assets, liabilities and equity at the end of a reporting period.

Bottom line measures: Financial indicators, including net operating balance and net financial liabilities, which reflect the State's financial performance and position.

Budget improvement measure: Either expenditure reductions or revenue increases reflecting a saving in respect of the Commission's task.

Casemix: A method of classifying types of patients, their treatment and associated costs. Casemix classifications are used routinely in the health sector in Australia and internationally to assist with clinical management and funding.

Consumer price index: A general indicator of the rate of change in prices paid by households for consumer goods and services published by the Australian Bureau of Statistics.

Cost recovery: The recovery of some or all of the costs of a particular activity.

Credit rating: Measures of credit quality offered on marketable government and corporate debt. A triple-A rating represents a low risk of default.

Depreciation: The systematic allocation of the cost of an asset less its residual value over its useful life.

Disability factors: A term used by the Commonwealth Grants Commission. Disability factors are cost drivers which result in a state's service delivery circumstances being different from the national average. Disabilities are beyond the control of policy makers and require states to spend more (or allow them to spend less) per capita than others to provide the average level of service.

Discount rate: The rate of interest used in conjunction with the present value formula to express the expected future cash inflows or outflows associated with an asset or liability as an equivalent single amount, the present value of the expected future cash flows concerned. In valuing the unfunded superannuation liability, the discount rate reflects the risk-free interest rate and is set on the basis of the longest dated Commonwealth Government nominal bond.

Effectiveness: Program effectiveness relates to the achievement of program objectives or outcomes.

Efficiency (technical or productive): Technical efficiency indicators measure how well services use their resources (inputs) to produce outputs for the purpose of achieving desired outcomes. Government funding per unit of output delivered is a typical indicator of technical efficiency — for example, recurrent funding per annual curriculum hour for vocational education and training.

Efficiency dividend: Annual reduction in the amount of resources consumed for the same level of output.

Equisep: A weighted completed episode of care that use(s) the cost and complexity of the episode of care to equalise the value for care for funding purposes. Hospital encounters (or episodes of care) vary in complexity and cost (ie, a liver transplant is significantly more expensive and complex compared with varicose vein removal). The equisep measure attempts to standardise raw episodes of care to take account of the difference in patient complexity within the funding allocation process. This is done by applying a weighting to each episode of care. The more complex and costly the episode of care, the higher the weighting and the higher the allocation of funding. Conversely, a relatively simple episode of care is given a lower weight which results in a lower allocation of funding when multiplied by the standard price for weighted activity (ie for a single episode of care — weight*episode of care*standard price = funding).

Expenses: Total value of all of the resources consumed in producing goods and services or the loss of future economic benefits in the form of reductions in assets or increases in liabilities of an entity.

Externality: Costs or benefits arising from an economic activity that affect somebody other than the people engaged in the economic activity and are not reflected fully in prices.

Financial sustainability: Ensuring a government's present and future policy settings are not threatened by an untenable operating balance and/or balance sheet position.

General government: The sector of government that includes all government agencies that provide services free of charge or at prices significantly below the cost of production or provide regulatory services.

Government businesses: Government businesses are classified as either public non-financial corporations (PNFC) or public financial corporations (PFCs). PNFC and PFC revenue, expenditure and profit do not directly affect the general government targets. However, contributions paid by PNFCs and PFCs (dividend and income tax equivalent payments) and subsidies received by them, including grants and community service obligations (CSO) payments, are reflected in the general government results.

Government department: A government controlled entity, established under the *Public Sector Management Act 1995* or otherwise designated as a government department by the government which controls it.

General purpose payments: Grants the Commonwealth makes to the states (and local government) which the recipients can spend as they wish. The main form of such grants is the goods and services tax revenue the Commonwealth provides to the states.

Government finance statistics (GFS): Based on international statistical standards, GFS are statistics that measure the financial activities of governments and reflect the impact of those activities on other sectors of the economy.

Horizontal fiscal equalisation: The principle underlying the Commonwealth Grants Commission's assessment of per capita relativities, which are the basis for the interstate distribution of general revenue grants. Under this principle, grants are distributed so as to give each state and territory the capacity to provide public services at an average standard and level of efficiency, for comparable revenue effort.

Inflation: A measure of the change (increase) in the general level of prices.

Infrastructure assets: Items which meet the definition of an asset and comprise the facilities that provide essential services and enhance the capacity of the economy. Examples of assets commonly referred to as infrastructure are roads, sewerage systems, water supply systems and reservoirs, power generation plants and transmission grids, port and harbour facilities, busways and railways.

Land banking: The practise of acquiring real estate for future development.

Liabilities: Present obligations arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

Market failure: When a market left to itself does not allocate resources efficiently. Generally classified into one of four categories; abuse of market power; failure to capture externalities; under-provision of public goods and existence of asymmetric information.

Net debt: The sum of deposits held, advances received and borrowing, minus the sum of cash and deposits, advances paid, and investments, loans and placements. A negative number represents debt. A positive number would represent a net investment.

Net financial liabilities (NFL): Total liabilities less financial assets, other than equity in non-financial public corporations and in public financial corporations. This measure is broader than net debt as it includes significant liabilities other than borrowings, such as unfunded superannuation and long service leave entitlements.

Net financial liabilities-to-revenue ratio: A key fiscal indicator of the state's capacity to pay. It equals total liabilities less financial assets, other than equity in non-financial public corporations and in public financial corporations, divided by total revenue.

Net financial liabilities-to-revenue ratio (Standard & Poor's): Standard & Poor's net financial liabilities (NFL) to revenue ratio is calculated as the sum of net debt, unfunded superannuation and advances paid, divided by total revenue. Standard & Poor's has previously indicated that a non-financial public sector NFL-to-revenue ratio of 80 to 90 per cent is an acceptable range for South Australia.

Net lending: A GFS measure of the net operating balance, less acquisition of non-financial assets, plus consumption of fixed capital (depreciation). Measures the extent to which accruing operating expenses (less depreciation) and investment expenditures are funded by revenues. A negative number represents a deficit (net borrowing) position. A positive number represents a surplus (net lending) position.

Net operating balance (NOB): A GFS measure of the operating result of a sector of government. It is the excess of revenue over expenses. A negative number represents a deficit. A positive number represents a surplus.

Non-financial public sector: The combination of the general government sector and the public non-financial corporations sector.

Non recourse grant: A grant for a specified purpose, and with specified objectives that may or may not have a series of conditions attached. Failure to meet any or all of the conditions does not entitle the Government to recover the grant.

Patient separations: A term used to refer to an episode of care, which can be a total hospital stay (from admission to discharge, transfer or death), or a portion of a hospital stay beginning or ending in a change of type of care (for example, from acute to rehabilitation). 'Separation' also means the process by which an admitted patient completes an episode of care by being discharged, dying, transferring to another hospital or changing type of care.

Positive externalities: When benefits spill over to another party that is not involved in producing or consuming the good or service in question.

Public financial corporation: Government-controlled entity that is mainly engaged in financial intermediation or the provision of auxiliary financial services.

Public non-financial corporation: Government controlled entity that is mainly engaged in the production of market goods and/or non-financial services, which recovers a significant portion of its costs through user charges.

Public sector: The combination of the general government sector, the public non-financial corporations and the public financial corporations.

Real household incomes: Receipts, adjusted for inflation, which are of a regular and recurring nature and are received by the household or its members at annual or more frequent intervals.

Real per capita income: Income per person in a population, adjusted for inflation.

Real per capita terms: Per head of population corrected for inflation.

Redeployee: An employee who has been declared by the Chief Executive as excess to requirements.

Relativities: A weight assessed by the Commonwealth Grants Commission and used in calculating the share of the GST revenue a state requires to achieve horizontal fiscal equalisation.

Revenue: An inflow of economic benefit which arises in the course of the ordinary activities of the entity.

Stamp duty: A tax that is levied on documents or transactions, most commonly discussed in terms of property.

Sustainability: A position or process that can be maintained indefinitely.

Tax base: The amount on which a taxpayer pays taxes, eg, their taxable income in the case of an income tax, or the taxable value of their property in the case of a property tax.

Unfunded superannuation liability: The amount by which the liabilities of a superannuation scheme or schemes (measured as the present value of expected future superannuation benefits that have accrued to members) at the reporting date exceed the value of assets held by the superannuation scheme or schemes to meet those benefits.

Urban growth boundary: A boundary marking the limit between urban growth areas and other areas such as rural and resource areas where urban growth is not encouraged.

Whole-of-government: All entities under the control of the government.

Zero base budgeting: Process by which every department function is reviewed comprehensively and all expenditures must be approved, rather than only increases.

ACRONYMS

AARD — Aboriginal Affairs and Reconciliation Division

ABS — Australian Bureau of Statistics

ACT — Australian Capital Territory

AGD — Attorney-General's Department

AIHW — Australian Institute of Health and Welfare

CAA — Courts Administration Authority

CFS — Country Fire Service

CGC — Commonwealth Grants Commission

COAG — Council of Australian Governments

CPI — Consumer Price Index

CSO — Crown Solicitor's Office

DCS — Department for Correctional Services

DECS — Department of Education and Children's Services

DEH — Department for Environment and Heritage

DENR — Department of Environment and Natural Resources

DFC — Department for Families and Communities

DPC — Department of the Premier and Cabinet

DPLG — Department of Planning and Local Government

DFEEST — Department of Further Education, Employment, Science and Technology

DTED — Department of Trade and Economic Development

DTEI — Department for Transport, Energy and Infrastructure

DTF — Department of Treasury and Finance

DWLBC — Department of Water, Land and Biodiversity Conservation

EPA — Environment Protection Authority

ERBCC — Expenditure Review and Budget Cabinet Committee

FTE — Full Time Equivalent

GDP — Gross Domestic Product

GFC — Global Financial Crisis

GFS — Government Finance Statistics

GGS — General Government Sector

GST — Goods and Services Tax

HFE — Horizontal Fiscal Equalisation

IA — Internal Audit

ICT — Information and Communication Technology

IRC — Industrial Relations Commission

IT — Information Technology

LMC — Land Management Corporation

LSL — Long Service Leave

MAC — Motor Accident Commission

MoU — Memorandum of Understanding

MFS — Metropolitan Fire Service

MYBR — Mid-Year Budget Review

NFL — Net Financial Liabilities

NFL/Rev — Net Financial Liabilities-to-Revenue Ratio

NFPS — Non-Financial Public Sector

NGO — Non-Government Organisation

NOB — Net Operating Balance

NRM — Natural Resource Management

NSW — New South Wales

NT — Northern Territory

NWI — National Water Initiative

OHS — Occupational Health and Safety

OHS&W — Occupational Health, Safety and Welfare

OCIO — Office of the Chief Information Officer

PC — Productivity Commission

PCAG — Premier's Communications Advisory Group

PDI — Public Debt Interest

PFC — Public Financial Corporation

PI — Procurement Instruction

PIRSA — Department of Primary Industries and Resources

PNFC — Public Non-Financial Corporation

PPP — Public Private Partnership

PSM — Public Sector Management

PSWR — Public Sector Workforce Relations

QLD — Queensland

ROGS — Report on Government Services

SA — South Australia

SACE — South Australian Certificate of Education

SAFA — South Australian Government Financing Authority

SAFECOM — South Australian Fire and Emergency Services Commission

SAHT — South Australian Housing Trust

SAPOL — South Australia Police

SASP — South Australian Strategic Plan

SATC — South Australian Tourism Commission

SBC — Sustainable Budget Commission

SBCC — Sustainable Budget Cabinet Committee

SCU — Strategic Communications Unit

SES — State Emergency Service

TAFE — Technical and Further Education

TAS — Tasmania

TOD — Transport Oriented Development

TVSP — Targeted Voluntary Separation Program

VET — Vocational Education and Training

WA — Western Australia