



THIRTY-EIGHTH PARLIAMENT

REPORT 21

**STANDING COMMITTEE ON ESTIMATES AND
FINANCIAL OPERATIONS**

**REPORT ON THE
INQUIRY INTO PUBLIC SECTOR EXPENDITURE**

Presented by Hon Giz Watson MLC (Chair)

May 2009

STANDING COMMITTEE ON ESTIMATES AND FINANCIAL OPERATIONS

Date first appointed:

30 June 2005

Terms of Reference:

The following is an extract from Schedule 1 of the Legislative Council Standing Orders:

‘2. Standing Committee on Estimates and Financial Operations

2.1 *An Estimates and Financial Operations Committee* is established.

2.2 The Committee consists of 5 Members, 3 of whom shall be non-government Members.

2.3 The functions of the Committee are to consider and report on -

- (a) the estimates of expenditure laid before the Council each year;
- (b) any matter relating to the financial administration of the State;
- (c) any bill or other matter relating to the foregoing functions referred by the House;
- (d) to consult regularly with the Auditor General and any person holding an office of a like character.’

Members of the Standing Committee on Estimates and Financial Operations for the purpose of the inquiry into Public Sector Expenditure:

Hon Giz Watson MLC (Chair)

Hon Sue Ellery MLC (substitute for Sheila Mills MLC)

Hon Brian Ellis MLC

Hon Jon Ford MLC (substitute for Hon Ken Travers MLC)

Hon Helen Morton MLC

Hon Ken Travers MLC (participating Member pursuant SO326)

Staff as at the time of this inquiry:

Suzanne Veletta, Advisory Officer (General)

Renae Jewell, Committee Clerk

Address:

Parliament House, Perth WA 6000, Telephone (08) 9222 7222

lcco@parliament.wa.gov.au

Website: <http://www.parliament.wa.gov.au>

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Note

The Twenty First Report of the Standing Committee on Estimates and Financial Operations consists of a Report of the Committee and a Minority Report of Hon Brian Ellis MLC.



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Government Response

This Report is subject to Standing Order 337:

After tabling, the Clerk shall send a copy of a report recommending action by, or seeking a response from, the Government to the responsible Minister. The Leader of the Government or the Minister (if a Member of the Council) shall report the Government's response within 4 months.

The four-month period commences on the date of tabling.

CONTENTS

GOVERNMENT RESPONSE

EXECUTIVE SUMMARY AND RECOMMENDATIONS..... i

EXECUTIVE SUMMARY i

RECOMMENDATIONS i

CHAPTER 1 ESTABLISHING THE INQUIRY INTO PUBLIC SECTOR

EXPENDITURE..... 1

TERMS OF REFERENCE..... 1

THE COMMITTEE 2

CHAPTER 2 CONDUCT OF THE INQUIRY..... 3

WRITTEN REQUESTS, RESPONSES AND SUBMISSIONS..... 3

GOVERNMENT AGENCIES 4

PUBLIC HEARINGS 4

HON TROY BUSWELL, TREASURER 4

THE STRUCTURE OF THIS REPORT..... 5

CHAPTER 3 THE EFFICIENCY DIVIDEND 7

THE LABOR GOVERNMENT ANNOUNCES AN EFFICIENCY DIVIDEND IN AUGUST 2008 7

THE GOVERNMENT'S IMPLEMENTATION OF THE EFFICIENCY DIVIDEND 8

THE GOVERNMENT'S BROADER REFORM AGENDA 9

CHAPTER 4 PUBLIC SECTOR AGENCY EVIDENCE..... 11

DEPARTMENT OF HEALTH..... 11

DEPARTMENT OF EDUCATION AND TRAINING 13

WESTERN AUSTRALIA POLICE 15

DEPARTMENT OF CORRECTIVE SERVICES..... 17

DEPARTMENT OF TREASURY AND FINANCE 19

PUBLIC TRANSPORT AUTHORITY 21

DEPARTMENT OF ENVIRONMENT AND CONSERVATION 22

DEPARTMENT OF CHILD PROTECTION 23

DISABILITY SERVICES COMMISSION 25

DEPARTMENT OF HOUSING 26

DEPARTMENT OF FISHERIES..... 27

RESOURCES SAFETY DIVISION..... 28

DEPARTMENT OF MINES AND PETROLEUM..... 29

DEPARTMENT OF COMMERCE 31

THE LIBRARY BOARD OF WESTERN AUSTRALIA..... 32

Committee comment and recommendations 33

COMMITTEE COMMENT REGARDING PUBLIC SECTOR EVIDENCE 34

CHAPTER 5 THE OFFICE OF THE AUDITOR GENERAL OF WESTERN AUSTRALIA.....	37
OAG'S ROLE AND RELATIONSHIP WITH PARLIAMENT	37
OAG EVIDENCE	38
FURTHER EVIDENCE.....	39
The Parliament of the Commonwealth of Australia Joint Committee of Public Accounts and Audit Report 413: The efficiency dividend and small agencies: Size does matter	40
COMMITTEE COMMENTS AND RECOMMENDATION.....	40
CHAPTER 6 STAKEHOLDER EVIDENCE	43
COMMUNITY AND PUBLIC SECTOR UNION/CIVIL SERVICE ASSOCIATION OF WA	43
UNIONS WA.....	44
WESTERN AUSTRALIAN COUNCIL OF SOCIAL SERVICE INC.....	45
AUSTRALIAN MEDICAL ASSOCIATION	46
MR BARRY BLAIKIE	47
CHAPTER 7 THE IMPACT OF THE EFFICIENCY DIVIDEND ON SMALLER AGENCIES	49
THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT <i>REPORT 413: THE EFFICIENCY DIVIDEND AND SMALL AGENCIES: SIZE DOES MATTER</i>	49
FURTHER EVIDENCE.....	50
CHAPTER 8 ALTERNATIVE METHODS OF ACHIEVING A THREE PER CENT REDUCTION IN GOVERNMENT EXPENDITURE	53
THE LABOR PARTY APPROACH.....	53
The Gallop Labor Government's efficiency dividends	53
How the Labor Party, if elected to Government in 2008, would have implemented the efficiency dividend.....	54
ALTERNATIVE METHODS FOR ACHIEVING A REDUCTION IN GOVERNMENT EXPENDITURE.....	55
Exemptions and not applying the efficiency dividend uniformly.....	55
The Chamber of Commerce and Industry	56
WACOSS	58
CHAPTER 9 THE IMPACT OF THE CURRENT FINANCIAL CRISIS, SUSTAINABILITY OF KEY ECONOMIC INDICATORS AND IMPACT OF FAILING TO FULLY IMPLEMENT THE EFFICIENCY DIVIDEND	59
THE IMPACT OF THE CURRENT FINANCIAL CRISIS ON THE STATE'S ECONOMY AND FINANCES.....	60
THE SUSTAINABILITY OF THE RATE OF GROWTH OF GENERAL GOVERNMENT EXPENDITURE, THE FORECAST DECREASE IN OPERATING SURPLUS AND THE FORECAST INCREASE IN NET DEBT DETAILS IN THE <i>2008-09 BUDGET</i>	62

THE IMPACT OF FAILING TO IMPLEMENT A THREE PER CENT EFFICIENCY DIVIDEND ON THE OPERATING SURPLUS AND NET DEBT	66
COMMITTEE COMMENT.....	68
APPENDIX 1 LIST OF WRITTEN SUBMISSIONS RECEIVED	69
APPENDIX 2 ADVICE FROM THE CLERK OF THE LEGISLATIVE COUNCIL....	73
APPENDIX 3 LIST OF WITNESSES.....	79
APPENDIX 4 THREE PER CENT EFFICIENCY DIVIDEND - ALLOCATION BY AGENCY	85
APPENDIX 5 AGENCY APPROVED FTE CEILING	89
APPENDIX 6 SUMMARY OF SUBMISSIONS.....	93

EXECUTIVE SUMMARY AND RECOMMENDATIONS

EXECUTIVE SUMMARY

- 1 The Standing Committee on Estimates and Financial Operations' Inquiry into Public Sector Expenditure inquired into the three per cent efficiency dividend and related matters.
- 2 This report informs of the Committee's activities, findings and recommendations, and of evidence received by the Committee.
- 3 In particular, this report summarises the evidence received from fifteen public sector agencies on how their agency is implementing the efficiency dividend. This report also notes stakeholder evidence on various aspects of the efficiency dividend.
- 4 The Committee also inquired into broader issues relating to the State's financial health and the impact of failing to fully implement the efficiency dividend.
- 5 The Committee made the recommendations noted below.

RECOMMENDATIONS

- 6 Recommendations are grouped as they appear in the text at the page number indicated:

Page 33

Recommendation 1: The Committee recommends that the Government excludes the value of private donations, sponsorships and bequeaths from The Library Board of Western Australia's calculation base when imposing the three per cent efficiency dividend.

Page 33

Recommendation 2: The Committee recommends that the Government considers excluding grants and fees for service in the efficiency dividend calculation base of The Library Board of Western Australia, the Department of Fisheries and other agencies who receive grants and fees for service.

Page 41

Recommendation 3: The Committee recommends that the Office of the Auditor General be exempt from the three per cent efficiency dividend.

CHAPTER 1

ESTABLISHING THE INQUIRY INTO PUBLIC SECTOR EXPENDITURE

TERMS OF REFERENCE

1.1 On 3 December 2008 the Standing Committee on Estimates and Financial Operations, by own motion, established an Inquiry into Public Sector Expenditure (**the inquiry**).

1.2 The inquiry's terms of reference are:

The Committee is to inquire into and report on Government measures to audit the operational and financial performance of the Western Australian public sector, and any other means by which efficiencies in public sector expenditure can be gained and all the circumstances surrounding the implementation of the three percent efficiency dividend including -

- a) the impacts of a three percent efficiency dividend on the general level of service delivery across all agencies; in particular any impacts on service delivery to regional areas;*
- b) consider alternative methods for achieving a three percent reduction in government expenditure, including:
 - i) the approach of the former Government;*
 - ii) whether certain agencies or functions of agencies should be exempt from the efficiency dividend; and*
 - iii) whether the rate of the dividend should vary according to agency size or function, and if so specific advice on which agencies or functions should contribute a disproportionate share of savings over the forward estimates.**
- c) whether a three percent efficiency dividend has a disproportionate impact on smaller agencies, including whether or not smaller agencies are disadvantaged by poorer economies of scale or a relative inability to obtain funding for new policy proposals;*
- d) what measures agencies are taking to implement the three percent efficiency dividend, and the effect on their functions, performance and staffing arrangements;*

- e) *the impact of the current financial crisis on the state's economy and finances;*
- f) *the sustainability of the rate of growth in general government expenditure detailed in the 2008-09 budget;*
- g) *the sustainability of the forecast decrease in operating surplus detailed in the 2008-09 budget;*
- h) *the sustainability of the forecast increase in net debt detailed in the 2008-09 budget; and*
- i) *the impact of failing to fully implement the three percent efficiency dividend on the operating surplus and net debt.*

THE COMMITTEE

- 1.3 On 9 December 2008, the Standing Committee on Estimates and Financial Operations granted leave to substitute Hon Sue Ellery MLC for Hon Sheila Mills MLC, and Hon Jon Ford MLC for Hon Ken Travers MLC for the purposes of the Inquiry into Public Sector Expenditure (**the Committee**).
- 1.4 The Committee established a subcommittee comprising Hons Helen Morton, Brian Ellis, Sue Ellery and Jon Ford MLCs, with Hon Ken Travers MLC as a participating Member, to gather evidence and report back to the Committee. The subcommittee's first meeting was on 15 December 2008.
- 1.5 On 10 February 2009, the Committee resolved that membership of the subcommittee be reduced from four to three Members. Hon Helen Morton MLC resigned from the subcommittee effective immediately.
- 1.6 The Committee further resolved that the subcommittee be comprised of Hons Sue Ellery (Chair), Jon Ford and Brian Ellis MLCs, with Hon Ken Travers MLC as a participating Member with leave to deliberate (**the Subcommittee**).
- 1.7 The Subcommittee gathered the evidence noted in this report on behalf of the Committee.

CHAPTER 2

CONDUCT OF THE INQUIRY

2.1 The Committee conducted the inquiry in the manner noted below.

WRITTEN REQUESTS, RESPONSES AND SUBMISSIONS

2.2 The inquiry was advertised in *The West Australian* on 20 December 2008.

2.3 In December 2008 the Committee wrote to:

- 164 Government agencies, requesting information regarding the three per cent efficiency dividend, including how the agency proposed to implement the dividend, and inviting a submission addressing the terms of reference;
- Hon Troy Buswell MLA, Treasurer, requesting information and inviting a submission addressing the terms of reference;
- Hon Eric Ripper MLA, Leader of the Opposition, inviting a submission addressing the terms of reference; and
- eleven external organisations, inviting a submission.

2.4 Submissions were due by 30 January 2009.

2.5 Hon Dr Kim Hames MLA, Acting Premier, in a letter dated 19 January 2009, effectively advised the Committee that government agencies would not be responding to the Committee's requests to agencies (see 'Government agencies' below).

2.6 The Committee received seventeen submissions. A list of submissions received is attached at Appendix 1.

2.7 The Committee also received letters from a number of government agencies advising that the three per cent efficiency dividend did not apply to their agency, and why the dividend did not apply. A summary of the responses received from government agencies can be accessed on the Committee's internet site.¹

¹ www.parliament.wa.gov.au (viewed on 11 May 2009). Choose Legislative Council, Committees, Estimates and Financial Operations Committee, Inquiry into Public Sector Expenditure, then relevant document.

GOVERNMENT AGENCIES

- 2.8 In January 2009, Hon Dr Kim Hames, Acting Premier, advised the Committee that ‘*in accordance with Legislative Council Standing Order 331, it is not appropriate that Government agencies make submissions in relation to matters of policy*’. The Acting Premier informed the Committee that agency information will be published in the *2009-10 Budget*.²
- 2.9 The Committee wrote to Hon Colin Barnett MLA, Premier, challenging this interpretation of Standing Order 331 and forwarded advice obtained from Mr Malcolm Peacock, Clerk of the Legislative Council. A copy of the advice is attached at Appendix 2.
- 2.10 Subsequently, the Premier advised that the Directors General would be available to meet with the Committee.

PUBLIC HEARINGS

- 2.11 The Committee conducted twenty public hearings with witnesses from fourteen Government agencies, five stakeholder organisations and Mr Barry Blaikie (former MLA). A list of witnesses is attached at Appendix 3.
- 2.12 During the public hearings questions were taken on notice. Additional questions were also provided to witnesses after their hearings.³

HON TROY BUSWELL, TREASURER

- 2.13 The Treasurer did not appear as a witness before the Committee.
- 2.14 The Premier, (and earlier Hon Dr Kim Hames, Acting Premier) indicated to the Committee that it may wish to invite the Treasurer to appear before the Committee.⁴
- 2.15 After inviting Hon Barry House MLC, Parliamentary Secretary to the Treasurer, at short notice to give evidence with Mr Tim Marney, Under Treasurer, (**the Under Treasurer**) the Committee determined that the appropriate process to follow to secure the Treasurer’s attendance was to initiate the process provided for in Standing Order 423. This process involves asking the Legislative Council to send a Message to the Legislative Assembly requesting the Legislative Assembly give leave for the Member

² Letter from Hon Dr Kim Hames, Acting Premier, 19 January 2009, p2.

³ The transcripts of the hearings and evidence provided by witnesses prior to, at and after the hearings are available on the Committee’s internet site at www.parliament.wa.gov.au (viewed on 11 May 2009). Choose Legislative Council, Committees, Estimates and Financial Operations Committee, Inquiry into Public Sector Expenditure, then relevant transcript.

⁴ Letter from Hon Dr Kim Hames, Acting Premier, 19 January 2009, and letter from Hon Colin Barnett, Premier, 11 March 2009.

to attend. This process is consistent with the Legislative Council Standing Order 423, the procedural ruling from the President of the Legislative Council, Hon Nick Griffiths MLC, dated 21 August 2007, and the Standing Committee on Estimates and Financial Operations' past practice.⁵

- 2.16 The Committee asked the Legislative Council to send a Message in *Report 16, Interim Report on the Public Sector Expenditure Inquiry: Request for a Member of the Legislative Assembly to appear before the Committee*, tabled on 7 April 2009.
- 2.17 A media article informed the Committee that the Treasurer would not be appearing as a witness. The article quoted the Treasurer as saying '*The Opposition will have ample opportunity to question me during the Budget estimates process*'.⁶

THE STRUCTURE OF THIS REPORT

- 2.18 The next chapter of this report, Chapter 3, informs how the Government is implementing the efficiency dividend and summarises its broader reform agenda.
- 2.19 Chapters 4 and 5 relate to the inquiry's terms of reference (a) and (d) and informs of the evidence government agencies provided to the Committee on how they are implementing the efficiency dividend and other related matters. Chapter 5 deals with the Office of the Auditor General.
- 2.20 Chapter 6 informs of the views stakeholder witnesses (who are not public agency witnesses) provided to the inquiry.
- 2.21 Chapter 7 deals with term of reference (c), the impact of the efficiency dividend on smaller agencies.
- 2.22 Chapter 8 deals with term of reference (b), alternative methods for achieving a three per cent reduction in government expenditure.
- 2.23 Chapter 9 deals with terms of reference (e) to (i): the impact of the current financial crisis on the State's economy and finances; the sustainability of general government expenditure, the decrease in operating surplus and increase in debt detailed in the *2008-09 Budget*; and the impact of failing to fully implement the efficiency dividend.

⁵ See for example, Standing Committee on Estimate and Financial Operations, Report 9, *Interim Report on the Balga Works Inquiry: Request for a Member of the Legislative Assembly to Appear Before the Committee*, 18 September 2007.

⁶ 'Buswell snubs Upper House probe into cuts', *The West Australian*, 9 April 2009, p14.

CHAPTER 3

THE EFFICIENCY DIVIDEND

- 3.1 Public sector efficiency dividends are not unique or new to Western Australia.⁷ Efficiency dividends were imposed on the State's public sector in the 1990s and 2000s.⁸
- 3.2 Efficiency dividends have reflected Governments' focus on the need for economy and efficiency in the public sector, and have been used to reduce Government expenditure at a time when corrective action to that State's operating balance and the level of State debt was desired.
- 3.3 A few witnesses appearing before the Committee questioned the use of the term 'efficiency dividend' and referred to the dividend as a budget cut.⁹ For consistency, this report will refer to the 'efficiency dividend'.

THE LABOR GOVERNMENT ANNOUNCES AN EFFICIENCY DIVIDEND IN AUGUST 2008

- 3.4 On 16 August 2008, Hon Eric Ripper MLA, Treasurer, announced that the Labor Government would impose a three per cent efficiency dividend if elected in the upcoming election.
- 3.5 The *Pre Election Financial Projections Statement (PFPS)* released that day stated:¹⁰
- A decision [was] taken by the Government prior to the dissolution of the Legislative Assembly on 7 August 2008 to impose a one-off efficiency dividend of 3% on appropriation-supported agencies with effect from 1 January 2009.*
- 3.6 The efficiency dividend was to apply to appropriation-funded agencies and to all categories of expense other than grants and (non-cash) depreciation costs.¹¹

⁷ For example, the Commonwealth Government has applied an annual efficiency dividend to the operational appropriations of Commonwealth public sector agencies since 1987-1988. The rate of the dividend now stands at 1.25 per cent, with the Government imposing an additional one-off two per cent efficiency dividend for 2008-2009 appropriations (with a pro-rata reduction in 2007-2008 appropriations): Parliament of the Commonwealth of Australia Joint Committee of Public Accounts and Audit, *Report 413 The efficiency dividend and small agencies: Size does matter*, December 2008, pxi.

⁸ See Chapter 8 for details on how the former Labor Government imposed the efficiency dividend.

⁹ For example, the Australian Medical Association disputed the accuracy of the term 'efficiency dividend' and Unions WA and other submitters referred to the 'budget cuts' in their submissions.

¹⁰ The Government of Western Australia, *Pre Election Financial Projections Statement*, August 2008, p1.

- 3.7 The application of a one-off efficiency dividend of three per cent was then estimated to reduce government expenses over the forward estimates period (to 2011-12) by \$1.449 billion.

THE GOVERNMENT'S IMPLEMENTATION OF THE EFFICIENCY DIVIDEND

- 3.8 During the 2008 election campaign, the Liberal Party also announced that they would implement a public sector three per cent efficiency dividend if they formed government.
- 3.9 On 13 October 2008, the Liberal Government Cabinet endorsed the implementation of the three per cent efficiency dividend with effect from 1 January 2009.¹²
- 3.10 The efficiency dividend applies to the 59 government agencies noted in the '3% Efficiency Dividend - Allocation by Agency' table (provided by the Treasurer) attached at Appendix 4. The table outlines each agency's savings targets.
- 3.11 The efficiency dividend is projected to achieve a total savings over the forward estimates period (the three and a half years from 1 January 2009 to 30 June 2012) of \$1.38 billion.¹³
- 3.12 The efficiency dividend does not apply to government agencies whose savings for a full year do not exceed \$200,000. The Treasurer advised the Committee:¹⁴

the efficiency dividend applies to all appropriation-funded agencies with full-year savings from the dividend in excess of \$200,000 - agencies that had a savings target below \$200,000 are exempt from the dividend ...

The Chief Executive Officer of the agency is responsible for considering how the efficiency dividend will be achieved in consultation with their Minister. This will then be considered by the Economic and Expenditure Reform Committee of Cabinet as part of the 2009-10 Budget process.

¹¹ Ibid. The footnote on p63 of the PFPS adds 'The calculation of this arrangement excludes those expenses that have a significant non-discretionary element. These include grants, including monies on-passed from the Commonwealth, and depreciation, which is non-cash cost associated with the value of infrastructure carried on agency balance sheets'.

¹² Submission No 15 from the Treasurer, 3 February 2009, Attachment 1 - Letter from Mr Michael Barnes, Acting Deputy Under Treasurer, dated 16 October 2008.

¹³ The \$69 million difference between \$1.38 billion and the previous reported savings of \$1.449 billion is attributed to a 'rounding error'.

¹⁴ Submission No 15 from the Treasurer, 3 February 2009, 'Attachment', p1. The attachment also adds 'the expense base on which the 3% efficiency dividend is calculated excludes depreciation and great (transfer) expenses'.

- 3.13 Government agencies received the following instruction on how to implement the dividend:

To deliver these savings, agencies are encouraged to: carefully assess the need to fill currently vacant positions and positions that become vacant due to natural attrition; examine the scope for ceasing low priority activities; and identify opportunities for more cost effective delivery of services. Savings should not be harvested from revenue-generating activities, or proper priority service delivery areas that are essential to the achievement of key Government desired outcomes, particularly election commitments.¹⁵

The scope of the 2009/10 Budget process specifically excludes consideration of cost pressures or new initiatives other than those associated with implementation of the election commitments and the 3% efficiency dividend. As such, current policy cost pressures or new initiatives have to be absorbed and funded from within existing resource allocations, if considered a priority by your Minister.¹⁶

- 3.14 Government agencies were requested to provide ministerially signed submissions to the Department of Treasury and Finance by 16 January 2009.¹⁷
- 3.15 The Government has repeatedly stated that the efficiency dividend will not impact on ‘service delivery’ or ‘front line services’. The Government has stated that details of how agencies are implementing the efficiency dividend will be included in the 2009-10 Budget.

THE GOVERNMENT’S BROADER REFORM AGENDA

- 3.16 Implementing the efficiency dividend is only one part of the Government’s broader reform agenda.¹⁸
- 3.17 The Government’s broader economic reform initiatives include:
- The Economic Audit Committee.

¹⁵ Submission No 15 from the Treasurer, 3 February 2009, Attachment 1 - Letter from Mr Michael Barnes, Acting Deputy Under Treasurer, 16 October 2008, p1.

¹⁶ Submission No 15 from the Treasurer, 3 February 2009, Attachment 2 - Letter from Mr Michael Barnes, Acting Deputy Under Treasurer, 24 November 2008, p2.

¹⁷ Ibid, p1.

¹⁸ The Treasurer has been quoted as saying that ‘*The three per cent efficiency dividend, which was Labor’s election idea, will only scratch the surface*’: P Kerr, ‘Job losses not ruled out in spending cuts’, *The West Australian*, 20 November 2008, p16. These broader initiatives are noted at this point in the report as witnesses whose evidence is summarised in the following chapters refer to these initiatives in their evidence.

This Committee, established in November 2008, consists of Government and non government members. This Committee will examine Government spending and identify efficiencies and cuts further to the three per cent efficiency dividend. The Committee will undertake the most significant examination of the operational and financial performance of the Western Australia public sector since the landmark McCarrey Report in 1993.¹⁹ The Committee is to report in time for recommendations to be considered for the *2009-10 Budget*.

- An audit of capital works projects. All capital works projects with a value of more than \$20 million are being audited.
- A cap on the public sector workforce (announced in February 2009). The Government has set a cap of 99,155 full time equivalent positions (**FTE**) in general government agencies (not including government trading enterprises).²⁰ This ceiling is the number of FTE identified in the *2008-09 Budget*, plus a factor to allow for the impact of implementing the Government's election commitments and other policy decisions. The Treasurer announced that the ceiling would apply immediately, requiring all agencies to audit staff numbers and to review any plans to create new positions. The Public Sector Commission, as well as the Department of Treasury and Finance, have a role in implementing this initiative.

The Under Treasurer provided the Committee with a list of the approved FTE ceiling for each agency. The list is attached at Appendix 5.

- Offering voluntary severance packages for up to 500 public sector employees (announced in March 2009).²¹

3.18 The Expenditure and Economic Review Committee (**EERC**) also has a role in implementing the Government's agenda.

¹⁹ The Treasurer, *Ministerial Media Statement*, 19 November 2008.

²⁰ The Treasurer, *Ministerial Media Statement*, 3 February 2009.

²¹ The Treasurer, *Ministerial Media Statement*, 16 March 2009.

CHAPTER 4

PUBLIC SECTOR AGENCY EVIDENCE

- 4.1 This Chapter informs of the evidence given by Directors General and Chief Executive Officers from fourteen public sector agencies at public hearings and by way of written evidence provided to the Committee during and after the agency's hearing.
- 4.2 Public sector witnesses were asked how their agency was implementing the efficiency dividend, whether the agency expected to meet the three per cent savings target in 2008/09, the agency's budget outlook in 2008-09, and about their agency's FTE numbers and demand and cost pressures.

DEPARTMENT OF HEALTH

- 4.3 The Department of Health (**DOH**) has the largest savings target of all agencies. DOH's total savings target of \$458.1 million over the forward estimates period (to 2011-12) represents around 33 per cent of the total projected savings of \$1.38 billion.
- 4.4 DOH informed the Committee as follows:²²

Cost savings

- DOH's three per cent efficiency dividend savings target are:

Financial year	2008-09	2009-10	2010-11	2011-12
Savings (\$ million)	59.9	126.2	132.5	139.5

- The savings for the 2008-09 financial year will fall short by \$26.8 million. (\$33.1 million of the \$59.9 million target has been achieved). DOH will achieve the 2008-09 shortfall in the out years (2010-11 to 2012-13) after systems designed to achieve savings are put in place.²³
- DOH will achieve the 2008-09 savings by implementing:²⁴

²² The information below is sourced from the evidence of Dr Peter Flett, Director General, and Dr Robyn Lawrence, Executive Director, Innovation and Health System Reform, DOH, *Transcript of Evidence*, 18 March 2009, unless otherwise noted.

²³ Dr Flett has '*every confidence*' that the three per cent target will be met.

²⁴ The following details are sourced from the evidence at hearing on 19 March 2009, the document tabled by Dr Flett, Director General, DOH, at the hearing on 18 March 2009, and the Answers to Questions on Notice provided under cover of letter from Dr Robyn Lawrence, Acting Director General, DOH, 9 April 2009.

- Targeted FTE management (savings of \$10.1 million). As employment costs comprise approximately 70 per cent of health expenditure, it is not possible to realise significant savings without reductions to FTEs. A reduction of 316 FTEs by 30 June 2009 is expected (this constitutes less than 50 in head count numbers).
- Royal Street Division efficiencies (savings of \$7.974 million). Savings of \$4.6 million will be realised from the targeted reduction of FTEs through the abolition of vacant positions, internal reorganisations and natural attrition.
- Area Health Services Expenditure reductions (savings of \$5.063 million). The majority of these savings will come from a review of pharmacy prescribing, a target reduction of ten per cent in repairs and maintenance, and a reduction in recruitment advertising.²⁵
- Agency nurses (savings of \$2.6 million). The plan is to reduce reliance on the use of agency nurses and move to directly employ these nurses and others wishing to return to the workforce through permanent full and part-time, casual and temporary contracts.
- Services superseded by the Friend in Need Election Commitment (savings of \$2.5 million).
- PathWest initiatives (savings of \$1.309 million).
- Care awaiting placement beds (savings of \$1.24 million).
- Mental Health Division (savings of \$900,000).
- Ambulatory care reform reduction (savings of \$820,000). There will be no changes to the Hospital in the Home or Rehab in the Home programs.
- Health Corporate Network efficiencies (savings of \$465,000).
- Drug and Alcohol Office initiatives (savings of \$165,000).
- DOH is committed to achieving the savings target without *'impacting on access to the current level of care for patients and their families'*. Front line services are services that affect the patient.

²⁵

See Answers to Questions on Notice from Dr Peter Flett, Director General, Department of Health, 9 April 2009, pp1-2 for details of this amount.

Cost / demand pressures

- DOH faces demand pressures. In the year to January 2009, there was a 4.5 per cent increase in discharges from hospital and a 9.4 per cent increase in elective surgery waitlist admission. Demand increases with an increase in the aged population. Thirteen per cent of the Australian population is aged 65 or older. This is expected to rise to eighteen per cent by 2021.²⁶

Other

- DOH recorded a net financial deficit of \$157 million for the eight months to February 2009.²⁷ A net financial deficit of \$79 million was forecast in the *Government Financial Projections Mid-Year Financial Projections Statement* (December 2008). The final budget will not be known until July 2009.²⁸
- DOH has 31,281 FTEs (as at February 2009). The *2008-09 Budget* FTE number was 29,008.²⁹
- There has been a capital works audit. (However, DOH did not provide a list of capital works projects identified for delay or abolition (over and under \$20 million), despite being asked to provide a list during the hearing. DOH advised after the hearing that '[as] *the capital works audit has yet to be finalised, the Director General cannot provide details of changes to WA Health's capital works program at this time*').³⁰

DEPARTMENT OF EDUCATION AND TRAINING

4.5 The Department of Education and Training (**DET**) has the second largest savings target of all agencies. DET's total savings target of \$334.8 million over the forward estimates period (to 2011-12) represents around 24 per cent of the total projected savings of \$1.38 billion.

4.6 DET informed the Committee as follows:³¹

²⁶ Ibid, p3.

²⁷ Ibid, p6. This is comprised of a negative expenditure variance of \$180 million offset by a favourable variance of \$23 million.

²⁸ Ibid, p6.

²⁹ Ibid, pp4-5. This document also notes that the 2008-09 actual growth forecast in hospital services (four per cent over 2007-08 levels) is higher than the assumed growth (two per cent), necessitating an increase in hospital FTEs.

³⁰ Ibid, p6.

Cost savings

- DET's three per cent efficiency dividend savings target are:

Financial year	2008-09	2009-10	2010-11	2011-12
Savings (\$ million)	45.6	93.6	96.3	99.3

- The savings for the 2008-09 financial year will fall short by \$17 million. (That is, around \$28 million of the \$45.6 million target has been achieved).³² DET will attempt to deliver the shortfall across the next four years. Meeting the dividend over the four years will be '*challenging*', given that so much expenditure is allocated to the delivery of front line services.³³
- DET's efficiency dividend initiatives include:
 - Cutting central and district offices' administrative and operational budgets. The efficiency cuts are directed largely around these areas.
 - Reducing central and district offices' staffing through natural attrition, not filling existing vacancies, and the non renewal of contract staff where it is not a front line service.
 - Program cuts including: cutting a number of curriculum improvement programs that are coming to an end; cuts to learning with ICT (assisted teachers to develop IT skills to deliver learning in classrooms - this has been consolidated with another program); not pursuing the syllabus development plan previously in the forward plan (these were delivered last year); and one off adjustments in running costs of schools that will not impact front line services.
 - Cuts to training field programs including: cutting the Profit from Experience program (provides career guidance and work experience, other programs will take this up); reducing curriculum development programs; and a small reduction in TAFE's research and development fund.

³¹ The information below is sourced from the evidence of Ms Sharyn O'Neill, Director General, DET, *Transcript of Evidence*, 24 March 2009, unless otherwise noted.

³² A breakdown in DET savings was given by Mr Peter McCaffrey, Deputy Director General, Finance and Administration, DET, *Transcript of Evidence*, 24 March 2009, p8. In 2008-09 '*Administration operations elements*' should realise about \$7.4 million in savings for 2008-09, the '*central schools services and program area of the schools sector*' should net \$11 million in savings, training sector administration and operations another \$1 million, training and support another \$2.5 million, and reduction in grants to TAFE colleges \$4 million.

³³ About 75 per cent of DET's budget relates to school based operations which are essential to maintaining front line service delivery.

- Reductions in grants to TAFE colleges.
- DET considers the delivery of front line services to mean '*the maintenance and good order of schools and the way schools operate*'. No school grant will be reduced.

Cost / demand pressures

- In 2009, 4,294 additional students enrolled in the public school system.³⁴ Fourteen new schools will be built over the next four years. Demand in teacher housing, particularly in the North West, continues. Government behaviour management announcements are another demand and cost pressure.
- DET started this year with a vacancy of eight teachers. The forecast is that within a couple of years there will be considerable shortages in teachers. The forecast could possibly go into the thousands in four, five or six years.³⁵

Other

- DET expects a budget deficit of around \$50 million in 2008-09.
- DET's year to date average FTE is 32,257.³⁶ The 2008-09 Budget FTE number was 31,260. '*FTE, particularly in response to teachers is not something we can cap ... The ceiling for us is certainly a new and interesting notion*'.
- DET's capital works program is looking very strong. The Treasurer has advised that there will be no reductions to the capital works program.

WESTERN AUSTRALIA POLICE

4.7 Western Australia Police (**WA Police**) informed the Committee as follows:³⁷

³⁴ Letter from Ms Sharyn O'Neill, Director General, DET, 9 April 2009 (second letter received dated this date), p1.

³⁵ However, B Hiatt, 'Teachers face axe as pupil numbers drop', www.thewest.com.au, 3 May 2009 (viewed at 3 May 2009), reported that due to the drop in year 8 students next year teacher numbers may drop. Ms O'Neill was reported saying that '*No permanent teacher will lose his or her job as a result of the half cohort of students in Year 8 next year ... As is the case every year, the opportunity for fixed-term contract teachers to gain employment in 2010 will depend on enrolment numbers and the educational requirements of students*'. The State School Teachers Union reports that up to 500 teachers could be cut.

³⁶ Letter from Ms Sharyn O'Neill, Director General, DET, 9 April 2009, p1.

Cost savings

- WA Police's three per cent efficiency dividend savings targets are:

Financial year	2008-09	2009-10	2010-11	2011-12
Savings (\$ million)	12.5	25.4	25.9	26.4

- WA Police will make \$4.7 million of the 2008-09 dividend target.
- There is little flexibility in the WA Police budget. Approximately 72 per cent of their total cost of service is allocated to salary related costs and staffing obligations, nineteen per cent is tied to contractual arrangements and nine per cent is activity driven cost including shifts and overtime, travel costs, and vehicle operating costs.
- A range of police activities that are not police core business, such as licensing function, custodial transfers and loading court data,³⁸ could be done by other government agencies or people. WA Police is looking at these areas to achieve the dividend in the forward estimates period. The Commissioner understands that the 2008-09 shortfall will be paid over this period.
- WA Police will achieve the 2008-09 savings by:
 - Ceasing some recruitment schools (savings of \$700,000). WA Police do not need to run some recruitment schools because their attrition rate has declined.
 - A cash contribution of about \$4 million. WA Police '*are basically drawing down or running down our bank account to fund \$4 million towards this financial year*'.
- Front line services are those services that are provided towards traffic, crime investigation and patrol work, officers required to go out and investigate or respond to calls for assistance, and officers directly required to support that, such as forensic facilities.
- WA Police are not contemplating closing PCYCs (Police and Citizens' Youth Clubs) but are contemplating changing the way PCYCs do their business,

³⁷ The information below is sourced from the evidence of Dr Karl O'Callaghan, Commissioner, Mr Les Bechelli, Acting Director of Finance, and Mr Greg Italiano, Executive Director, WA Police, *Transcript of Evidence*, 2 April 2009, the document tabled by Dr Karl O'Callaghan on 2 April 2009, and Answers to Questions on Notice, 28 April 2009.

³⁸ The projected 2008-09 cost for infringement processing is \$7.8 million, court data entry is \$1.5 million and the cost (to January 2009) of prisoner transport was \$1.25 million plus an external contractor at a cost of \$150,000.

such as trying to measure their long term impact and focusing on at risk youth. The Police Pipe Band will not be cut.

Cost / demand pressures

- WA Police face increases in demand for services. Over the last five years the number of exhibits sent to PathWest has increased by eighty per cent. Vehicle and vehicle maintenance costs pressures exist. Changes in legislation also drive demand and require police resourcing. Mandatory child abuse reporting required staff. The child sex offender register requires police to monitor sex offenders. 'Hoon' legislation will have a significant impact on police. Police briefs and court charges have gone up by forty per cent in the last two years. Eighty per cent of violent crime is related to alcohol and '*the answer is to work further upstream with the problem*'. Therefore, they police licensed premises and the family violence regime at higher rate. The WA Police Enterprise Bargaining Agreement (EBA) is due to be negotiated. Costs escalate well above the budget CPI increases.

Other

- WA Police is expecting to be on budget this year.
- WA Police has about 5,300 sworn officers and about 1,800 police staff (a total of around 7,100). The Commissioner has not received advice from the Government regarding the FTE cap. The 2008-09 FTE Budget Estimate stated in the *2008-09 Budget* is 7,054 (the 'estimate actual' 2007-08 number was 6,815). The Under Treasurer advised that the WA Police FTE ceiling is 7,177.³⁹
- WA Police's entire capital works budget is subject to the audit process, including the Perth Police Complex and election commitments. Capital works projects that have commenced or are yet to commence have an estimated total cost of \$132.683 million, and capital works projects subject to the audit review or not commenced have an estimated total of \$205.782 million.⁴⁰

DEPARTMENT OF CORRECTIVE SERVICES

4.8 The Department of Corrective Services (DCS) informed the Committee as follows:⁴¹

³⁹ See Appendix 5 of this report.

⁴⁰ WA Police provided a list of these projects and their approved estimated total cost, see Answers to Questions on Notice, 28 April 2009, p3. The Perth Police Complex is estimated to cost \$113 million.

⁴¹ The information below is sourced from the evidence of Mr Ian Johnson, Commissioner, and Mr Graeme Doyle, Assistant Commissioner, Corporate Support, DCS, *Transcript of Evidence*, 24 March 2009, unless otherwise noted.

Cost savings

- DCS's three per cent efficiency dividend savings targets are:⁴²

Financial year	2008-09	2009-10	2010-11	2011-12
Savings (\$ million)	7.6	15.5	15.8	16.4

- DCS will meet the 2008-09 dividend target.⁴³
- DCS intends to implement the efficiency dividend in 2008-09 and 2008-09 by:⁴⁴
 - Vacancy management (savings of \$3.887 million in 2008-09, \$4.55 million in 2009-10). Critical occupation groups are excluded from this strategy (including prison officers, juvenile custodial officers, community corrections officers, juvenile justice officers, psychologists, teachers and TAFE lecturers, and medical practitioners and nurses).
 - Prison Officer/Juvenile Custodial Officer overtime management (savings of \$1.87 million in 2008-09, \$3.716 million in 2009-10). Overtime will be reduced as prison officer vacancies are filled.
 - Maintenance (savings of \$400,000 in 2008-09, no savings in 2009-10).
 - Travel (savings of \$320,000 in 2008-09, \$659,000 in 2009-10).
 - Shared Services (savings of \$146,000 in 2008-09, \$296,000 in 2009-10).
 - Training (savings of \$478,000 in 2008-09, \$500,000 in 2009-10).
 - Vehicle and associated costs (savings of \$490,000 in 2008-09, \$1.01 million in 2009-10). However, all 37 vehicles in the secure fleet will be replaced by the end of 2010.

⁴² Mr Ian Johnson, Commissioner, DCS, *Transcript of Evidence*, 24 March 2009, pp1,2, confirmed the targets for 2008-09 and 2009-10 only, the remaining targets are sourced from the '3% Efficiency Dividend - Allocation by Agency' table provided by the Treasurer, see Appendix 4 of this report.

⁴³ Mr Ian Johnson, *Transcript of Evidence*, pp1,2 re 2008-09; DCS Answers to Questions on Notice, provided under cover of letter from Ian Johnson, Commissioner, DCS, 17 April 2009, projects that the 2009-10 target will also be met.

⁴⁴ The information below is sourced from the evidence of Mr Ian Johnson, Commissioner, and Mr Graeme Doyle, Assistant Commissioner, Corporate Support, DCS, *Transcript of Evidence*, 24 March 2009, and Answers to Questions on Notice, 17 April 2009.

- Office equipment (savings of \$39,000 in 2008-09, \$81,000 in 2009-10).
- Acacia Prison increased muster (no savings in 2008-09, savings of \$1.954 million in 2009-10).
- 'In Reach' program (no savings in 2008-09, savings of \$2.774 million in 2009-10). Prison programs are under review.

Cost / demand pressures

- The prison population has been rising considerably, and they are yet to see the impact of truth in sentencing and other legislative reform, and the impact of the 500 additional police.⁴⁵

Other

- DCS is expecting to be on budget.
- DCS has 3,717 FTEs, including the 170 being trained. This is under the estimate in the *2008-09 Budget* (of 4,009). (The Under Treasurer advised that the agency ceiling is 4,077).⁴⁶ There is a shortage of prison officers and community justice officers.
- DCS's capital expenditure is not being delayed.

DEPARTMENT OF TREASURY AND FINANCE

- 4.9 The Under Treasurer advised that the Department of Treasury and Finance (**DTF**) is implementing the dividend as follows:⁴⁷

Cost savings

- DTF's three per cent efficiency dividend savings targets are:⁴⁸

⁴⁵ Mr Ian Johnson, *Transcript of Evidence*, pp2,3. Mr Johnson informed the Committee that the prison population as at 19 March 2009 was 4,091 adults and 159 juveniles. The estimated impact of truth in sentencing legislation over four years is 604 more prisoners, a growth of 475 prisoners is expected due to additional police and around 90 to 100 more prisoners per year are expected due to population growth. The prisons 'current design capacity' is 3,462 and the 'modified capacity' (incorporating double bunking) is 4,238. One hundred and fifty beds are approved in Derby and 50 in Wooroloo. Strategies to increase capacity have been submitted to the Government.

⁴⁶ The FTE number from the *2008-09 Budget*, is sourced from *2008-09 Budget*, Budget Paper 2, Volume 3, p1035. The Under Treasurer's data is sourced from Appendix 5 of this report.

⁴⁷ The information below is sourced from the evidence of the Under Treasurer, DTF, *Transcript of Evidence*, 24 March 2009, and the document the Under Treasurer tabled at the hearing.

Financial year	2008-09	2009-10	2010-11	2011-12
Savings (\$ million)	2.7	5.5	5.5	5.8

- DTF will make the savings this year and in the forward estimates period.
- DTF will achieve savings in 2008-09 and the forward estimates period in the following business units/areas:
 - State Revenue - service reductions (savings of \$1.1 million in 2008-09 and \$2.4 million in 2009-10). Debt recovery is at a comfortable level so resources will be reshuffled from this area. State revenue compliance audits will have to be reduced but it is question of targeting audits and deciding how far processes are streamlined.
 - Centre for Excellence in Innovation and Infrastructure Delivery initiatives (savings of \$1.0 million in 2008-09 and \$1.18 million in 2009-10). DTF will reduce the use of consultants.
 - Procurement business development (savings of \$182,000 in 2008-09 and \$423,000 in 2009-10).
 - Shared services - service reductions (savings of \$251,000 in 2008-09 and \$414,000 in 2009-10).
 - Shared services - no salary reductions (savings of \$100,000 from 2009-10).
 - ICT and strategic procurement sourcing (savings of \$40,000 in 2008-09 and \$256,000 in 2009-10). DTF will streamline reporting, research and supplier analysis on common use contract arrangement and their reporting on agency buyer behaviour, again reducing the use of private sector consultants.
 - Gateway initiative (over \$590,000 in savings from 2009-10 onwards). DTF will reduce the use of consultants.
 - Procurement Policy officer (over \$100,000 in savings from 2009-10 onwards).
- Across the board DTF are cutting back on some internal training (but not in State Revenue), and the use of consultancies, particularly in IT systems.

⁴⁸ These figures provided by the Under Treasurer and noted as 'cabinet endorsed' in the tabled document, are more than the targets noted in the '3% Efficiency Dividend - Allocation by Agency', see Appendix 4 of this report.

PUBLIC TRANSPORT AUTHORITY

4.10 The Public Transport Authority (PTA) informed the Committee as follows:⁴⁹

Cost savings

- PTA's three per cent efficiency dividend savings targets are:

Financial year	2008-09	2009-10	2010-11	2011-12
Savings (\$ million)	5.2	10.9	11.3	12.1

- PTA will make the savings target in 2008-09. Further, PTA has implemented an efficiency review of PTA, overseen by a Steering Committee, to identify opportunities for efficiency improvements.
- PTA will achieve the savings in 2008-09 by:
 - Targeting reductions in FTEs by not filling corporate and administrative support positions (savings of \$320,000 in 2008-09 and \$1 million over a full year).
 - Reducing interest expenses by \$4.8 million as a result of lower interest costs on PTA borrowings. Lower interest rates have delivered significant benefits. (PTA has debt in the order of \$956 million. The efficiency dividend included debt costs and financing costs). It is yet to be seen if DTF will accept this as a three per cent reduction.
- PTA does not anticipate any significant reductions that will have a major impact on public transport over the next few years.

Cost / demand pressures

- PTA faces demand pressures including changes due to the recession (when there is a higher use of public transport), an increase in underlying demand (they believe it is between six and eight per cent), and the free travel for seniors program.

Other

- PTA is expecting to be on budget this year.

⁴⁹

The information below is sourced from the evidence of Mr Reece Waldock, CEO, and Mr Peter King, Executive Director, Finance and Contracts, PTA, *Transcript of Evidence*, 24 March 2009.

- PTA has 1,350 FTEs. The agency approved FTE ceiling is 130 higher at 1,475. Employing transit officers has been an ongoing challenge. They are now hoping to recruit these people.
- PTA is not expecting pressure on their capital program.

DEPARTMENT OF ENVIRONMENT AND CONSERVATION

4.11 The Department of Environment and Conservation (**DEC**) informed the Committee as follows:⁵⁰

Cost savings

- DEC's three per cent efficiency dividend savings targets are:

Financial year	2008-09	2009-10	2010-11	2011-12
Savings (\$ million)	4.0	7.7	7.7	7.7

- DEC will save \$3.974 million in 2008-09. Savings were targeted following six fundamental principles, being: to maintain delivery of statutory functions; maintain service delivery in regions as much as possible; maintain areas of risk management; maintain the delivery of approvals processes; maintain core function of biodiversity, conservation and land management as much as possible; and drive efficiency and simplicity in internal processes.
- DEC will achieve the savings in 2008-09 in fifteen areas, including:
 - A one per cent cut across all divisions and branches with a requirement that directors and managers apply that to administrative expenditure as much as possible and abide by the above principles (savings of around \$1.1 million).
 - A cut in the contaminated sites management fund, which has been undersubscribed in recent years (savings of \$600,000).
 - Ceasing the marine parks advertising program (savings of \$350,000).
 - Reducing areas in the air quality management branch (savings of \$250,000).
 - Cutting general staffing and administrative expenditure in the Office of Climate Change (savings of \$250,000).

⁵⁰ The information below is sourced from the evidence of Mr Keiran McNamara, Director General, and Dr John Byrne, Chief Financial Officer, *Transcript of Evidence*, 1 April 2009, unless otherwise noted.

- Reducing the low emissions energy development fund (savings of \$250,000).
- Reducing the size and complexity of management plans (savings of \$250,000).
- Small administrative and organisational changes in the head office environmental services area (savings of \$200,000).
- DEC regard the majority of what they do as front line. Front line services include people who are physically outside doing something in a public way (such as rangers) and people involved in the approvals processes.

Cost / demand pressures

- DEC faces cost pressures in the delivery of regional services. Forty five per cent of their staff are in the regions (including the Swan Region).⁵¹

Other

- DEC is expecting to be on budget this year. (Not including supplementary bushfire expenditure above the \$4 million base allocated).
- The agency approved FTE ceiling is 1,944, not including Swan River Trust officers (who are paid by DEC). DEC is about one per cent above the ceiling but do not see any difficulties in meeting the target at the end of the year.

DEPARTMENT OF CHILD PROTECTION

4.12 The Department of Child Protection (**DCP**) informed the Committee as follows:⁵²

Cost savings

- DCP's three per cent efficiency dividend savings targets are:⁵³

Financial year	2008-09	2009-10	2010-11	2011-12
Savings (\$ million)	4.2	8.8	9.4	9.9

⁵¹ Letter from Mr Keiran McNamara, Director General, DEC, 28 April 2009, p1.

⁵² The information below is sourced from the evidence of Mr Terry Murphy, Director General, and Ms Jennifer McGrath, Executive Director, Corporate and Business Services, DCP, *Transcript of Evidence* 24 March 2009, and the document tabled during the hearing, unless otherwise noted.

⁵³ Answers to Questions on Notice provided by Ms Jennifer McGrath, Executive Director, Corporate and Business Services, DCP, 9 April 2009. The 2009-10 onwards figures are lower than the targets noted for DCP in the '3% Efficiency Dividend - Allocation by Agency' table provided by the Treasurer at Appendix 4 of this report, which may include the Department for Communities targets.

- DCP will make the 2008-09 savings targets. DCP will make only 54 per cent of the 2009-10 target but continues to work on this.
- DCP will achieve the savings in 2008-09 by:
 - Delaying recruitment (savings of \$1.38 million), reducing the contract and service budgets (\$380,000), and the operating budget (\$285,000). (These budgets will be cut by three per cent in 2008-09 and five per cent in the out years).
 - Delaying commencing services and FTE cuts in the Services, Standards and Contracting areas (savings of \$1.761 million). This includes delaying commencing services in mandatory reporting, child sexual abuse treatment services (delaying recruiting staff and IT savings), delaying commencing the hardship utility grants scheme (the take up in this scheme has not been as expected), and cutting consultants.
 - Making cuts in the Corporate and Business Services area (savings of \$365,000), including reducing FTEs, vehicle fleet efficiencies and cuts to Working with Children advertising.
 - FTE cuts in Strategic Services and Country/Metropolitan Services (savings of \$54,000).

Cost / demand pressures

- DCP has a number of demand pressures for which funding has never been received, such as high cost placements for the most difficult children and young people, country housing pressures, and legal and settlements costs for past abuse and care. Next year's estimates of demand are around ten per cent for children in care, ten per cent for reports of abuse and 3.5 per cent for support for individuals and families.

Other

- DCP is expecting a budget deficit of around \$9.5 million this year.
- DCP employs around 1,890 FTEs. They are seeking to fill 2,063 FTEs (and are also abolishing 30 FTE positions as a result of the dividend). The DCP 2008-09 usage number should be around 1,940 FTEs. DCP are talking to DTF about their FTE ceiling because the Budget figure of 1,822 is too low. This was a usage figure when people were not being quickly recruited. DCP's establishment figure might be a couple of hundred more than 1,822 (or 2,033, 2,063 minus the 30 FTE positions).

- DCP is confident that they will keep up their level of service to the ‘bush’ over the next four years. Regional Aboriginal employment in going well.
- DCP have no capital projects over \$20 million and have not adjusted projects.

DISABILITY SERVICES COMMISSION

4.13 The Disability Services Commission (DSC) informed the Committee as follows:⁵⁴

Cost savings

- DSC’s three per cent efficiency dividend savings targets are:

Financial year	2008-09	2009-10	2010-11	2011-12
Savings (\$ million)	2.1	4.3	4.4	4.5

- DSC will make the 2008-09 savings target.
- DSC will achieve savings from:
 - Part year cost savings from growth funding allocations. In previous years these savings were applied to one off initiatives.
 - A reduction of expenditure in base activities, such the activities noted below (which will result in annual savings of \$800,000).⁵⁵
 - Planned delays in filling staff vacancies (except in service delivery areas).
 - Absorbing the reform and organisational development functions within existing directorates.
 - Replacing information technology equipment and infrastructure over a longer period.
 - Improving asset management.
 - Increasing the percentage of four cylinder vehicles in the Commission’s fleet.
- DSC cuts will not impact on front line services. Front line services are everything that is a direct service response to either people with disabilities,

⁵⁴ The information below is sourced from the evidence of Dr Ronald Chalmers, Director General, DSC, *Transcript of Evidence*, 24 March 2009, and the document tabled at the hearing, unless otherwise noted.

⁵⁵ Answers to Questions on Notice, DSC, 14 April 2009.

their families or their carers. There will be no impact on the non government agencies they contract to provide services (where a majority of their budget goes).

Cost / demand pressures

- Demand for accommodation support remains a demand pressure.

Other

- DSC is expecting to be on budget.
- DSC is negotiating with DTF and the Public Sector Commission over their FTE ceiling. The FTE number in the 2007-08 Budget is 1,554. Many positions then vacant are now being filled. The '*approved establishment is over 1,600*'. (The Under Treasurer advised that the ceiling is 1,554).⁵⁶
- DSC has no capital works programs over \$20 million.

DEPARTMENT OF HOUSING

4.14 The Department of Housing (**Housing**) informed the Committee as follows:⁵⁷

Cost savings

- Housing's three per cent efficiency dividend savings targets are:

Financial year	2008-09	2009-10	2010-11	2011-12
Savings (\$ million)	1.9	3.4	2.8	Not advised

- Housing will make the savings target in 2008-09.
- Housing will achieve the savings by:
 - Amalgamating and centralising the administration arrangements for a number of Housing programs into three areas rather than nine or ten (anticipated savings of \$875,000). There will be marginal FTE changes but none at the service delivery end.
 - Changes to fit-out and minor asset purchases (savings of \$570,000).

⁵⁶ See Appendix 5 of this report.

⁵⁷ The information below is sourced from the evidence of Mr Grahame Searle, Director General, Housing, *Transcript of Evidence*, 8 April 2009, and Answers to Questions on Notice, 6 May 2009.

- Changing the way vacancies are backfilled, better managing higher duties and contract employees (savings of \$550,000). Services relating to customer interaction will not be changed.
- Front line services include the rental scheme, where the bulk of the face to face service delivery occurs.

Cost / demand pressures

- Housing waiting lists are a demand pressure. The waiting list is over 20,000 (it was 15,000 in 2007). The demand for bond assistance is significant. Land development revenue (sale of lots) has declined by around 36 per cent.

Other

- Housing has 1,038 FTEs. Housing's approved FTE is 1,038.
- In relation to Housing's capital works, the Commonwealth and State economic stimulus packages have directly benefited the department. At the State level, \$300 million for capital construction in the forward estimates period has been brought forward to this year (\$200 million coming out of Royalties for Regions) and there will be nearly \$600 million in Commonwealth money over the next couple of years. There is adequate construction money for the next 18 months.

DEPARTMENT OF FISHERIES

4.15 The Department of Fisheries (**Fisheries**) informed the Committee as follows:⁵⁸

Cost savings

- Fisheries' three per cent efficiency dividend savings targets are:⁵⁹

Financial year	2008-09	2009-10	2010-11	2011-12
Savings (\$ million)	0.75	1.5	1.5	1.6

- Fisheries expects to meet the savings target in 2008-09.
- Fisheries will achieve the savings in 2008-09 by:

⁵⁸ The information below is sourced from the evidence of Mr Stuart Smith, CEO, and Bruno Mezzatesta, Director, Corporate Services, Fisheries, *Transcript of Evidence*, 1 April 2009, and Answers to Questions on Notice, 8 May 2009, unless otherwise noted.

⁵⁹ Data sourced from Appendix 4 of this report, except the 2008-09 data which was confirmed by the Fisheries witness.

- Greater discipline to non salaries expenditure and deferring or delaying any discretionary and non urgent expenditure (savings around \$650,000). This includes savings on operational lease, rental and hire costs (savings of around \$134,000), professional and administration contracted services (around \$70,000), staff related travel (around \$65,000), and fuel and oil costs (around \$55,000).⁶⁰
- Carefully managing the recruitment process to ensure that only vacant positions with front line service delivery impacts are filled (savings of around \$100,000).
- Front line services are the areas that interact with the public.
- Around half of Fisheries' budget comes from industry contributions raised from the five largest fisheries (rock lobster, pearls, prawns, scallops and abalone). The efficiency dividend applies to the entire budget, including cost recovered money. (The Committee's concerns about including fees for service in the calculation base for the efficiency dividend are dealt with at paragraphs 4.25 to 4.27, 4.36 and recommendation 2).

Cost / demand pressures

- Demand on some fisheries areas is growing (such as the number of recreational fishing boats) while other fisheries' demands (such as activity in the pearling industry) are not.

Other

- Fisheries has about 440 FTEs (including casual staff). The Fisheries 2008-09 estimate was 413 FTE (and the Under Treasurer confirmed that this is Fisheries FTE ceiling).⁶¹ Fisheries is expecting an increase in their Regional Services Division (fisheries, marine officers, communication and education officers in all regions, including the Perth region), which effectively is their front line service. Fisheries can not say how they could meet the (Budget paper) 397 FTE figure without understanding how this was derived.
- Fisheries' capital program is unchanged. No programs have been deferred.

RESOURCES SAFETY DIVISION

4.16 The Department of Mines and Petroleum (**DMP**) and Department of Commerce (**DOC**) officers were invited to appear before the Committee to answer questions

⁶⁰ Answers to Questions on Notice, Mr Stuart Smith, Fisheries, 20 April 2009.

⁶¹ See Appendix 5 of this report.

regarding their agency and the transfer of the Resources Safety Division (**RSD**) from DOC to DMP on 1 January 2009 (when DMP was established).

- 4.17 The transfer of RSD was highlighted by Mr Dave Robinson, Unions WA, during his hearing when he expressed his agreement with the views expressed in the Chamber of Commerce and Industry submission, that ‘*service agencies should not regulate themselves*’, and in the Chamber of Minerals and Energy submission, that ‘*contemporary and effective regulators make for strong industries*’.⁶²
- 4.18 The Committee sought answers to why the RSD was transferred to DMP, rather than remain with an independent agency. Hon Norman Moore MLC, Minister for Mines and Petroleum, advised that the transfer was:⁶³

Consistent with State Government policy, part of this restructure [of Departments] involved the Resources Safety Division and its mining inspectors being transferred to the Department of Mines and Petroleum. The integration of the Resources Safety Division to the Department of Mines and Petroleum and the resulting improvement in the integration of all of its regulatory services, including those involving mine and petroleum safety and the important obligations imposed on mining tenement holders, will ensure that these services are dispensed with greater focus and efficiency.

- 4.19 The issue of mine safety is, off course, a critical issue. As at late March 2009 there had been five mine fatalities in this State in around eight months, and a review of BHP Billiton’s safety activities was underway.⁶⁴ A *Review of Mines Safety and Inspection Act 1994 (The Kenner Report)* has recently been published (see below).⁶⁵

DEPARTMENT OF MINES AND PETROLEUM

- 4.20 DMP informed the Committee as follows:⁶⁶

Regarding the RSD:

⁶² Mr Dave Robinson, Secretary, Unions WA, *Transcript of Evidence*, 25 February 2009, pp4-5.

⁶³ Letter from Hon Norman Moore MLC, Minister for Mines and Petroleum, 9 April 2009.

⁶⁴ Hon Norman Moore MLC, Minister for Mines and Petroleum, *Parliamentary Debates (Hansard)*, 1 April 2009, p2419.

⁶⁵ Government of Western Australia, Commissioner S J Kenner, Member of the Western Australian Industrial Relations Commission and Chairman of the Coal Industry Tribunal of Western Australia, *Review of the Mines Safety Inspection Act 1994*, March 2009.

⁶⁶ The information below is sourced from the evidence of Dr Tim Griffin, Acting Director General, and Mr Jeremy Hawke, General Manager Finance, DMP, *Transcript of Evidence*, 8 April 2009, and Answers to Questions on Notice, 24 April 2009.

- They have 37 mining inspectors and 43 positions. Six senior staff manage the inspectors. They are responsible for 275 mines sites or group sites. One mining inspector lives in the Pilbara. None live in the Kimberley. There are nine positions in the Goldfields, seven of these are filled. Inspectors based in Collie regularly conduct inspections in the Pilbara and North West.
- The Kenner Report noted that Western Australia's ratio of mines inspectors to mining workers is 1 to every 1,402 (DMP updated this and advised that with the six vacancies it is currently 1 to 1,597), compared with 1 to 607 in New South Wales and 1 to 844 in Queensland.⁶⁷ Reviews and inquiries have '*highlighted lower levels of funding and the difficulty in attracting suitably qualified and experienced staff because the restrictions on the levels of public service remuneration that impact on government's capacity to compete with the private sector*'. Reviews highlight that Western Australia is struggling to meet the standard of mine safety regulation that is experienced in other states.
- The cost of transferring RSD to DMP was around \$550,000 associated with IT infrastructure integration, stationery, licences and integrating the telephone system. They are optimistic of savings in the future.⁶⁸

Regarding budget matters:

Cost savings

- DMP's efficiency dividend savings targets are '*slightly adjusted down*' from the targets allocated to the Department of Industry and Resources (**DOIR**):

Financial year	2008-09	2009-10	2010-11	2011-12
Savings (\$ million)	Slightly less than 1.8	Slightly less than 4.0	Slightly less than 3.7	Slightly less than 3.5

- DMP will achieve the savings target in 2008-09 by:
 - Cutting the program to integrate and review DMP and bring it together with DOIR (savings of \$500,000).
 - Contract savings, including consultant hiring savings (\$300,000-\$350,000).

⁶⁷ Answers to Questions on Notice, Dr Tim Griffin, Acting Director General, DMP, 24 April 2009, p4. See also the Kenner Report.

⁶⁸ However, a letter from Dr Tim Griffin, Acting Director General, DMP, dated 27 March 2009 suggests that there was no cost saving achieved by this transfer. RSD did not physically relocate, they remained in Cannington.

- Reducing field activities, including the number of trips made by field staff (\$200,000).
- Cutting back, improving systems, delaying work and managing work at a slower rate in systems developments, mainly information technology (\$100,000-\$200,000).

Cost / demand pressures

- Demand pressures are very, very significant. There has been a huge increase in the number of people wanting to apply for approvals. They have made advances in mineral titles after receiving special allocations from the former Government. They still have big backlogs to deal with. At the end of March 2009, the total backlog of applications for Exploration Licences, Mining Leases and Prospecting Licences was 8,826. The backlog of mining approvals was 299. Resource safety is another demand pressure (see above).

Other

- DMP's operational FTE is 771. Their revised FTE ceiling is 771.

DEPARTMENT OF COMMERCE

4.21 DOC informed the Committee as follows:⁶⁹

Regarding the RSD:

- RSD has 142 FTEs. At the Department of Consumer and Employer Protection (**DOCEP**) (now DOC), RSD was kept separate from Worksafe. RSD retain their seat on the Commission. RSD followed the same policies, procedures and protocols as others at DOCEP.

Regarding budget matters:

Cost savings

- DOC's three per cent efficiency dividend savings targets are:

Financial year	2008-09	2009-10	2010-11	2011-12
Savings (\$ million)	1.6	3.4	3.4	3.5

- DOC will make the savings target in 2008-09. The efficiency dividend applies to Worksafe but the savings applicable to their portion will be

⁶⁹ The information below is sourced from the evidence of Mr Brian Bradley, Director General, and Ms Joanne Hunt, Manager, Policy and Executive Service, DOC, *Transcript of Evidence*, 8 April 2009.

achieved from other parts of the agency. After the announcement that the dividend will be imposed (in August 2008) DOC took steps to ensure that the 2008-09 dividend was reflected in the internal allocations of *2008-09 budget* to all relevant operating divisions. Therefore, no further adjustment was required for this year.⁷⁰

Cost / demand pressures

- DOC has demand pressures arising out of The Council of Australian Governments (COAG) reform regarding consumer protection.

Other

- DOC has between 950 and 970 FTEs. The agency approved FTE ceiling is 922 FTEs.

THE LIBRARY BOARD OF WESTERN AUSTRALIA

4.22 The Library Board of Western Australia (**Library Board**) provided a written submission to the Committee highlighting how the Library Board is financially disadvantaged by the way the dividend applies to it. The operational budget of the Library Board is part of the appropriation of the Department of Culture and the Arts.⁷¹

4.23 The Library Board informed the Committee that:

- The dividend is calculated on the State Library's total cost of service, including grants, fee for service payments and private sector donations and sponsorships. These are immensely important to the library.
- The budget provision for the above non-government revenue for 2008-09 is \$1,868,000. The required savings from this revenue for a full year is \$56,040 - but savings cannot be realised from these budget items and have to be realised from the library's recurrent funding (from budget items like salaries and wages), in addition to the dividend being applied there.
- The exclusion of sponsorships, donations and commissioned activity from the calculation base for the three per cent would avoid this inadvertent impact on government services.

⁷⁰ Letter from Mr Brian Bradley, Director General, DOC, 23 April 2009.

⁷¹ Letter from the Treasurer, 6 March 2009.

Committee comment and recommendations

- 4.24 The Committee is of the view that applying the efficiency dividend to the value of the Library Board's grants, fees for service payments, and private sector donations, sponsorships and bequeaths is inequitable.
- 4.25 While there may be an argument that any 'prescribed receipts' the Government permits agencies to retain (such as public grants and fees), could be subject to the dividend, there is no reason why the value of private donations, sponsorships and bequeaths should be included in the calculation base.
- 4.26 Including fees for a service in the calculation base raises two issues. Taking three per cent off a fee imposed to provide a service but continuing to provide the same service raises questions about the validity of how the cost of the service is determined, because the same service continues despite the dividend cut. Further, if the three per cent dividend is imposed on a fee, the people paying the fee should have a say in which part of the service is cut to achieve the dividend. It is inequitable not to give the people paying the fee a say on this.
- 4.27 The above comments regarding fees for a service also apply to other government agencies who receive fees for a service, including the Department of Fisheries.
- 4.28 Including private sector donations, sponsorships and bequeaths in the calculation base effectively deprives the Library Board of the benefit of three per cent of this money. This is not justifiable given that the purpose of the dividend is to reduce government expenditure, and this money is not government expenditure.

Recommendation 1: The Committee recommends that the Government excludes the value of private donations, sponsorships and bequeaths from The Library Board of Western Australia's calculation base when imposing the three per cent efficiency dividend.

Recommendation 2: The Committee recommends that the Government considers excluding grants and fees for service in the efficiency dividend calculation base of The Library Board of Western Australia, the Department of Fisheries and other agencies who receive grants and fees for service.

COMMITTEE COMMENT REGARDING PUBLIC SECTOR EVIDENCE

- 4.29 As noted above, a number of public agencies will not achieve the efficiency dividend target savings in 2008-09.
- 4.30 The Under Treasurer also informed the Committee that he was ‘*extremely frustrated*’ and not confident that some agencies have the willingness to make the savings.⁷²
- 4.31 Recent media suggests that the Treasurer has conceded that the savings will not be achieved this year and this will have an effect on the 2009-10 Budget’s bottom line, but some agencies will recover the shortfall in later years.⁷³
- 4.32 Imposing the efficiency dividend part way through the year has caused difficulties. For example, Ms Sharyn O’Neill, Director General, DET, advised that it was challenging implementing the dividend because schools are funded for a calendar year and resource allocations are determined in term four of each year. Ms O’Neill also noted that the numbers of teachers is set by other factors when she advised that ‘*FTE, particularly in response to teachers is not something we can cap. If kids turn up, there is demand. It is demand driven so teachers are provided. The ceiling for us is certainly a new and interesting notion*’.⁷⁴
- 4.33 There was a delay with agencies implementing the efficiency dividend on 1 January 2009 from the start as ministerially signed submissions were to be presented to DTF on 16 January 2009.
- 4.34 Regarding the FTE ceiling, with the exception of evidence from one agency, it appears that the ceiling was announced by the Treasurer without any consultation with agencies and without any process to determine if the FTE cap was reasonable.
- 4.35 Further, it appears that the Government has given little advice to agencies regarding their agency’s FTE ceiling since the announcement. For example, Dr O’Callaghan, Commissioner for Police, advised the Committee that he was not consulted or given any advice about the ceiling or how WA Police will meet the ceiling.⁷⁵ Dr Chalmers, Director General, DSC, advised that the FTE figure was based on an unrealistic understanding of the DSC’s position.⁷⁶

⁷² The Under Treasurer, DTF, *Transcript of Evidence*, 24 March 2009, p4.

⁷³ R Taylor, ‘Budget cuts not possible: Buswell’, *The West Australian*, 20 March 2009, p1. The Treasurer is quoted as saying ‘*It’s pointless us claiming or attributing savings to a 3 per cent program that are not going to materialise ... We’re not going to get to \$1.5 billion at this stage. Some agencies won’t meet their target in the first year, some agencies, like health, will recover in the out years and what that highlights is the extent of the reform challenge*’.

⁷⁴ Ms Sharyn O’Neill, Director General, DET, *Transcript of Evidence*, 24 March 2009, p10.

⁷⁵ Dr Karl O’Callaghan, Commissioner for Police, WA Police, *Transcript of Evidence*, 2 April 2009, p4.

⁷⁶ Dr Ron Chalmers, Director General, DSC, *Transcript of Evidence*, 24 March 2009, p6.

4.36 The Committee also has concerns about fees for service being included in the calculation base. These are noted in paragraphs 4.25 to 4.27 and Recommendation 2 above. These comments apply to the Department of Fisheries in particular.

4.37 It is of interest to note that the Parliament of the Commonwealth of Australia Joint Committee of Public Accounts and Audit *Report 413: The efficiency dividend and small agencies: Size does matter* (**Report 413**) noted that the Commonwealth dividend and associated Budget rules resulted in unintended consequences, including:⁷⁷

- some agencies tend to view reducing their regional presence as a source of convenient efficiencies;
- cultural agencies' funding does not support their legislated mandate to grow and develop their collections;
- agencies' capacity to innovate has diminished over time; and
- agencies have implemented false economies to meet their financial targets, including service cuts and cost shifting.

⁷⁷ The Parliament of the Commonwealth of Australia Joint Committee of Public Accounts and Audit *Report 413: The Efficiency Dividend and small agencies: Size does matter*, December 2008, pxxiii-xxiv. Report 413 can be accessed at www.aph.gov.au/house/committee/jpaa/efficdiv/report.htm (viewed on 28 April 2009).

CHAPTER 5

THE OFFICE OF THE AUDITOR GENERAL OF WESTERN AUSTRALIA

- 5.1 The Auditor General and the Office of the Auditor General of Western Australia (**OAG**) have a unique status, role and relationship with Parliament. The Committee considered whether the efficiency dividend should apply to the OAG and the consequences of the dividend applying.

OAG'S ROLE AND RELATIONSHIP WITH PARLIAMENT

- 5.2 The OAG is an independent body responsible for auditing the Western Australian public sector, which comprises some 210 government departments, statutory authorities and other bodies. Together these agencies generate a combined revenue and expenditure in excess of \$34 billion annually.⁷⁸
- 5.3 The Estimates and Financial Operations Committee (**EFO Committee**) has a legislated role in recommending the budget of the OAG. Section 43 of the *Auditor General Act 2006* provides that the Houses of Parliament are to establish a Joint Standing Committee on Audit, and section 44 provides:

44. Recommendations by the Joint Standing Committee on Audit

(1) In the determination of the budget of the OAG for a financial year regard is to be had to any recommendation as to that budget made to the Treasurer by the Joint Standing Committee on Audit.

(2) Regard is to be had to any recommendation as to organizational structure or resources of the OAG made by the Joint Standing Committee on Audit.

- 5.4 As a Joint Standing Committee on Audit has yet to be established, the EFO Committee hears submissions from the Auditor General regarding the OAG's budget and reports on this issue. For example, in *Report 18 Budget of the Office of the Auditor General* (7 May 2009) the EFO Committee endorsed the OAG request for a budget appropriation of \$17.925 million for 2009/10.
- 5.5 The OAG scrutinises the public sector to see that there has not been a waste of taxpayers' resources and that government agencies deliver services in an equitable, efficient and effective manner. The OAG's Performance Review Division conducts

⁷⁸ OAG website, www.audit.wa.gov.au/insideoag/index.html (viewed on 28 April 2009).

comprehensive examinations of government activities. They deliver reports to Parliament detailing findings, identifying matters of significance and making recommendations for changes that will improve public sector performance. Most of their recommendations are accepted and implemented by government.

OAG EVIDENCE

5.6 OAG gave the following evidence:⁷⁹

- OAG's three per cent efficiency dividend savings targets are:

Financial year	2008/09	2009/10	2010/11	2011/12
Savings \$ (million)	0.2	0.5	0.5	0.5

- There is a case for exempting the OAG from the efficiency dividend. While DTF has advised the Auditor General that there is no impediment to these reductions, DTF did not change the Auditor General's view that authority does not exist for anyone other than Parliament to reduce the budget of the OAG within the current financial year.
- At the time of the hearing (25 March 2009), Treasury was still deliberating whether the efficiency dividend would apply to AOG.
- A paramount issue is that the OAG's independence is enshrined in legislation and the Auditor General can not be directed.
- AOG will meet the efficiency dividend amount in the order of \$240,000 in 2008-09. However, ANO have made no cuts to audit programs to meet this amount. A number of events, such as a senior position becoming vacant, have fortuitously given OAG a budget saving this year.
- OAG are concerned about the resources allocated to them. OAG constantly pursue efficiencies and operate in an environment of restraint. An aim for many years has been to do more performance audit work which provides very useful information to Parliament and the agency concerned.
- The efficiency dividend will result in a reduction in the level of audit activity and reporting to Parliament due to the OAG's legislated mandate to conduct audits and a cost structure that is dominated by fixed costs, staff and contractor expenses.

⁷⁹

The following evidence is sourced from the evidence from Mr Colin Murphy, Auditor General, Mr David Gilchrist, Assistant Auditor General, and Mrs Sadie Godfrey, Assistant Auditor General, Strategy and Corporate Services, OAG, *Transcript of Evidence*, 25 March 2009, and Submission No 7 from OAG, 30 January 2009.

- ANO wants to engage Parliament on how they can achieve the efficiency savings in the future, *if* they apply. Seventy five per cent of their work is audit work and opinions issued at the end of the financial year and only about 25 per cent of the audit effort goes into performance audits (compliance and performance examinations). Making cuts to performance audits will amplify the effect of the three per cent dividend. If allocated to this area, this would half the number of reports or cut about five reports per year. The OAG has identified the prospect of using a relatively new provision of the *Auditor General Act 2006* (section 14(2)) to reduce financial audit activity. (This provision was made to avoid conducting audits on inactive or dormant entities).
- The efficiency dividend would likely see a reduction in the Office's capacity to visit regional areas and obtain regional evidence first hand.
- OAG's FTE establishment number is 106. (The Under-Treasurer advised that the OAG's FTE ceiling is 103).⁸⁰
- The OAG needs to do more work in the current economic environment. A concern is that agencies will cut back office services. The Auditor General will need to be convinced that agencies are not cutting internal controls and probity checks and balances. On the other hand, retaining auditors may become easier than it has been in this economic climate.

FURTHER EVIDENCE

- 5.7 Ms Toni Walkington, General Secretary/Branch Secretary, Community and Public Sector Union-Civil Service Association (CPSU/CSA), supported the OAG in her evidence, when she volunteered the following:⁸¹

We note the Auditor General's submission to this inquiry and likewise have had cause to question the authority of Treasury to simply adjust department budgets that have been approved by Parliament. We believe that the committee should examine that issue to establish which body has the power to adjust budgets and approved funding in this manner.

- 5.8 Also, Mr David Robinson, Secretary, of UnionsWA, referred to the OAG's written submission, that the three per cent efficiency dividend would result in a reduction in

⁸⁰ See Appendix 5 of this report.

⁸¹ Ms Toni Walkington, General Secretary/Branch Secretary, CPSU/CSA, *Transcript of Evidence*, 25 February 2009, p5.

the level of audit activity and reporting to Parliament due to their fixed costs structure, to support his argument that the efficiency dividend is a blunt instrument.⁸²

The Parliament of the Commonwealth of Australia Joint Committee of Public Accounts and Audit Report 413: The efficiency dividend and small agencies: Size does matter

- 5.9 The OAG's position is similar to that faced by the Australian National Audit Office (ANAO). The findings and recommendations of the Commonwealth Parliament Joint Committee of Public Accounts and Audit (JCPAA) in Report 413 regarding the ANAO are relevant and of interest.
- 5.10 Report 413 considered the imposition of the Commonwealth efficiency dividend on the ANAO.
- 5.11 In May 2008, the ANAO informed the JCPAA that the level of its current budget forced a reduction in the extent of detailed checking in audits of agencies' financial statements, and the number of performance auditors and better practice guides they produce.⁸³
- 5.12 The JCPAA considered the ANAO the '*most important*' non executive agency and its drop in performance examinations concerning. They considered that the ANAO saves the Australian taxpayer significant sums of money each year through reduced opportunity for fraud, better accountability and improved agency performance. They stated that saving small sums on the ANAO's budget only costs the Government larger sums later on.⁸⁴
- 5.13 Recommendation 1 of Report 413 effectively recommended that ANAO be exempt from the Commonwealth efficiency dividend. Recommendation 1 states:

In addition to being adequately funded for other assurance activities, the Australian National Audit Office be funded to conduct the number of performance audits that is determined by the Auditor-General and endorsed by the Joint Committee of Public Accounts and Audits.

COMMITTEE COMMENTS AND RECOMMENDATION

- 5.14 The Committee is of the view that the OAG is in a unique position given the independent status of the Auditor General enshrined in legislation, Parliament's

⁸² Mr David Robinson, Secretary, UnionsWA, *Transcript of Evidence*, 25 February 2009, p3.

⁸³ ANAO Submission to the JCPAA Committee, 24 July 2008, p6. This can be viewed on the JCPAA's website at www.aph.gov.au/house/committee/jpaa/efficdiv/report.htm (viewed on 28 April 2009).

⁸⁴ The Parliament of the Commonwealth of Australia JCPAA *Report 413: The Efficiency Dividend and small agencies: Size does matter*, December 2008, ppxix-xx.

legislated oversight of the OAG budget, and important role it fulfils in scrutinising government agencies to drive efficiency.

- 5.15 The Auditor General says the capacity of the OAG to provide an oversight of public sector funds is compromised by the efficiency dividend. If the Auditor General can demonstrate that the only way to meet the dividend is to cut audit activity, then the OAG should be exempt from the dividend. If the Auditor General is not able to carry out the functions stipulated in the *Auditor General Act 2006*, then the OAG should be exempt from the dividend.
- 5.16 There is also an argument that the efficiency dividend should not be imposed on the OAG on the basis that the Auditor General is ‘*an independent officer of Parliament*’⁸⁵ and Parliament has a legislated oversight of the OAG budget.⁸⁶
- 5.17 The Committee notes that the projected savings to be achieved from implementing the proposed efficiency dividend on the OAG is \$1.7 million over the forward estimates period. This is only 0.12 per cent of the total projected savings of \$1.38 billion.
- 5.18 The Committee doubts whether this relatively small saving ultimately achieves any public sector saving given the important audit work that will be foregone to achieve this saving and the lost efficiency resulting from not undertaking this work.
- 5.19 The Committee considers that it is inappropriate and a false economy to impose the efficiency dividend on OAG.
- 5.20 The Committee, by a majority (comprising Hons Giz Watson, Sue Ellery, John Ford MLCs), recommends:

Recommendation 3: The Committee recommends that the Office of the Auditor General be exempt from the three per cent efficiency dividend.

⁸⁵ Section 7 of the *Auditor General Act 2006*.

⁸⁶ Section 44 of the *Auditor General Act 2006*.

CHAPTER 6

STAKEHOLDER EVIDENCE

- 6.1 This Chapter summarises the evidence provided by stakeholders who provided a written submission and appeared before the Committee at a public hearing.⁸⁷
- 6.2 The Committee also received submissions from organisations and persons who did not give evidence at a hearing. A summary of those submissions is attached at Appendix 6.

COMMUNITY AND PUBLIC SECTOR UNION/CIVIL SERVICE ASSOCIATION OF WA

- 6.3 The Community and Public Sector Union/Civil Service Association of WA (CPSU) advised the Committee that:⁸⁸
- The efficiency dividend is a blunt tool that simply strips funds from already stretched public sector agency budgets and does not provide for individual agencies to address their needs and priorities. One size does not necessarily fit all.
 - The WA public workforce has diminished from 17 per cent of the total labour force in 1997 to 12 per cent in 2007. The FTE ceiling of 99,155 will reduce the sector by approximately 4.7 per cent (by 4,700), from the September 2008 FTE count of 104,100.⁸⁹
 - The public sector is not resourced well in many areas and is struggling to deliver basic core services and functions. Now is not the time to cut the public sector. There is increasing demand for public services as a result of population growth and other factors.
 - Across the board the experience of ‘efficiency dividends’ is similar. Money is saved, but services suffer. Backroom positions often provide support to front line staff and cutting such roles will lead to inefficiencies and ineffectiveness in service delivery.

⁸⁷ Except the Chamber of Commerce and Industry of Western Australia. The CCI submission is summarised in Chapter 8.

⁸⁸ The following is sourced from the evidence of Ms Toni Walkington, Secretary, CPSU, *Transcript of Evidence*, 25 February 2009, and Submission No 8 from CPSU, 30 January 2009, unless otherwise noted.

⁸⁹ ‘Assessing the likely impact of the Proposed Public Sector Employment Reductions in Western Australia’, CPSU, tabled at the hearing on 25 February 2009, p1.

- Public sector agencies/areas under pressure include DCP (who have a shortfall of 116 child protection workers), DCS (queries their ability to manage offenders in the community and provide treatment programs), and Dental Health Service Clinics (up to half of the clinics were closed in 2008 due to critical staff shortages). Staff shortages are a problem in regional Western Australia.
- Supports the OAG's submission (see Chapter 5).
- The efficiency dividend will have a disproportionate impact on smaller agencies (refers to Report 413) (see Chapter 7).
- There are alternative ways to implement the dividend (see Chapter 8). Comments on the Chamber of Commerce and Industry's recommendations (see Chapter 8). Individual bargaining leads to massive inequalities. Privatisation, often seen as a panacea for government costs, in effect is often cost shifting, and the private workers are paid less.
- Use of an efficiency dividend will seriously compromise the future success of the Government's own policy agenda and threatens the sustainability of the whole sector.
- Recommends that the efficiency dividend not be used in Western Australia and that departments and agencies maintain and strengthen the already established consultative mechanisms with employees and their union to identify new and innovative ways to build a responsive, efficient and sustainable public sector.

UNIONS WA

6.4 Unions WA advised the Committee:⁹⁰

- The efficiency dividend is a very blunt instrument which will have a deleterious effect on the staff of any agency and on the services and functions provided by an agency.
- The public sector has already been stretched to maximum dealing with population growth.
- There is a real risk of inequitable impacts on public sector agencies. The expenditure cut for some could well be disastrous, particularly social justice, regulatory, inspectorial and human resources areas.

⁹⁰ The following is sourced from the evidence of Mr David Robinson, Secretary, Unions WA, *Transcript of Evidence*, 25 February 2009, and Submission No 11 from Unions WA, 30 January 2009.

- The Government's FTE ceiling of 99,155 means an immediate reduction of around 5,000 employees before the impact of the three per cent cut. The public will no longer be duped into believing that cuts of this magnitude can be implemented without having a serious impact on services.
- Unions WA's preferred view is the State Government increases its budget to counter the impacts of the global economic crisis on Western Australians. The State needs to proceed with planned capital works and infrastructure development.
- Comments on the Chamber of Commerce and Industry's recommendations (see Chapter 8). The track record of services contracted out has been abysmal. Agrees that agencies should not regulate themselves and raised the issue of the Resources Safety Division being transferred to the DMP (see Chapter 4).

WESTERN AUSTRALIAN COUNCIL OF SOCIAL SERVICE INC

6.5 The Western Australian Council of Social Service Inc (**WACOSS**) advised the Committee that:⁹¹

- The Committee should consider the following principles when developing recommendations for public expenditure:
 - Services can be delivered more efficiently through outsourcing to not-for-profit community service organisations (see Chapter 8).
 - Rather than exempt entire agencies, individual programs, projects, funding streams and units (not agencies as a whole) that are vital to the level and quality of service received by the community should be exempt from expenditure reductions.
 - The size of the efficiency dividend should vary according to agencies' size and function (see Chapter 7).
 - The State Government should have regard to the medium and long term social and economic implications of expenditure reduction.
 - The economic implications of fiscal tightening should be carefully evaluated, and pro-cyclical fiscal policy avoided as far as possible.

⁹¹ The following is sourced from the evidence of Ms Sue Ash, Chief Executive Officer, WACOSS, *Transcript of Evidence*, 11 March 2009, and Submission No 14 from WACOSS, 30 January 2009.

- The demand on relationship, psychological and financial counselling and similar emergency services is likely to increase in hard economic times. Domestic violence also increases and the demand for refuges increases. These services should be considered front line services.

AUSTRALIAN MEDICAL ASSOCIATION

6.6 The Australian Medical Association of Western Australia (AMA) advised the Committee that:⁹²

- The efficiency dividend is simply a budget cut. This is a critical matter for the health system of Western Australia. It is about patient care, and maintaining, not deflating, the momentum of reform underway.
- The efficiency dividend will affect health care and front line services. Front line services are being cut. Health should be exempt from the dividend. The only way the dividend can be dealt with is reconditioning the populations' demands or rationing. Any efficiencies need to be reinvested.
- There is a shortage of doctors. The State Government says there is a shortfall of 800 nurses. There are real concerns about patient care. Some death and serious harm occurs because of emergency department overcrowding and staff fatigue from high workloads.⁹³ Rural health demands are critical. The AMA is deeply concerned that new doctors will not get proper training.
- Capital programs should be brought forward to facilitate efficiency, assist the economy and decrease unemployment. Capital stock is crumbling. The Reid Report premised that funding could only be reduced after recapitalisation and retooling. The Monash Report identified the need to significantly improve equipment replacement and retooling. Investment, such as computerising hospital systems, creates efficiencies. The right equipment facilitates early diagnosis avoiding transferring patients, duplication of booking and so forth. Only 3 to 5 per cent of the capital budget goes to health.
- Since at least 2001 governments have promised to fix the health system. Hospitals have never recovered from the reductions in the 1990s and from 2000. The Government's election policy statement said they would '*move decisively to create stability in our public hospital system*' and recognised a

⁹² The following is sourced from the evidence of Mr Peter Jennings, Deputy Executive Director, and Professor Gary Geelhoed, President, AMA, *Transcript of Evidence*, 25 February 2009, and Submission No 13 from AMA, 30 January 2009.

⁹³ Mr Jennings in evidence referred to a WA Health report and media article, see *Transcript of Evidence*, 25 February 2009, p4. The media article, 'Hospital errors kill 45 patients', *The West Australian*, 30 October 2008, noted that last year hospitals killed 45 patients, a 50 per cent increase on the year before.

recent report noting that the State faced a ‘*massive bill to replace decrepit medical requirement, including machines*’.⁹⁴

- It is self evident that the health system is under huge stress. Metropolitan hospitals occupancy levels are at 93 or 94 per cent, and are often at 100 or 102 per cent. The international benchmark suggests that hospitals should operate at 85 per cent occupancy levels, in order to have surgical capacity to deal with emergency demands. Western Australian hospitals have closed a lot more beds than the rest of Australia, and have the worst overcrowding in tertiary adult hospitals in Australia. Waiting lists cause inefficiencies. Demand is increasing with aging, birth rates, potential reduction of private health insurance and so on.

MR BARRY BLAIKIE

6.7 Mr Barry Blaikie is the former Parliament of Western Australia Legislative Assembly Member for Vasse.⁹⁵

6.8 Mr Blaikie suffers from chronic obstructive pulmonary disease (**COPD** or airways disease). Mr Blaikie is keen to bring COPD issues to public attention, given the prevalence of COPD and the lack of public awareness about COPD, and is concerned that rehabilitation classes may be cancelled as a result of the efficiency dividend.⁹⁶ There were media reports that lung care classes may be cancelled or moved.

6.9 Mr Blaikie advised the Committee that:⁹⁷

- He is concerned that lung health rehabilitation classes will fold as a result of the efficiency dividend. These classes must be maintained, particularly given the prevalence of COPD. Any threat to cease these services causes direct anguish to carers and a profound negative impact on the patient.
- Lung rehabilitation classes are punishing but extremely beneficial. Rehabilitation classes endeavour to keep a patient at a level of fitness that keeps them out of hospital.

⁹⁴ Mr Peter Jennings, Deputy Executive Director, AMA, *Transcript of Evidence*, 25 February 2009, p5.

⁹⁵ Mr Blaikie was the Member for Vasse between 1971 and 1996.

⁹⁶ For example, Mr Anthony Deceglie, ‘Lung care class folds’, *The Sunday Times*, 15 February 2009. It has also been reported that The Australian Lung Foundation found that just one per cent of people with COPD who would benefit from rehabilitation had access to it - Ms Bianca Nogrady, ‘Exercise can battle breathlessness’, *The Australian*, 22-23 November 2008.

⁹⁷ The following is sourced from the evidence of Mr Barry Blaikie, *Transcript of Evidence*, 1 April 2009, and Submission No 17 from Mr Blaikie, 17 February 2009.

- COPD is prevalent. The public needs to wake up to this. In 2008 COPD affected 1,184,397 people in Australia (5.6 per cent of the population) in its Stage II or higher form. COPD is more common in any year than then most common types of cancer, road traffic accidents, heart disease or diabetes.⁹⁸
 - People don't realise they have a problem until it is almost too late and hide the fact they are getting more puffed. Early screening for COPD could assist. Doctors can give patients a quick lung function test every couple of years.
 - Public attitude to COPD needs to change. There is a stigma attached to COPD. People believe that it is all caused by smoking and therefore it's your own fault (Mr Blaikie gave up smoking around 35 years ago).
- 6.10 DOH advised the Committee that no changes have been made to the chronic disease management teams in any form, that no pre existing hospital programs have been cut, no front line service are to be affected under these cuts, and services previously provided through the Joondalup Easy Breathers Program will continue to be available to patients locally through the Community Physiotherapy Service.⁹⁹

⁹⁸ Access Economics Pty Ltd, *Economic Impact of COPD and Cost Effective Solutions*, 2008, p60.

⁹⁹ Dr Robyn Lawrence, Executive Director, Innovation and Health System Reform, DOH, *Transcript of Evidence*, 18 March 2008, p7, and Answers to Questions on Notice, DOH, 9 April 2009, p3.

CHAPTER 7

THE IMPACT OF THE EFFICIENCY DIVIDEND ON SMALLER AGENCIES

- 7.1 The inquiry's term of reference (c) requires the Committee to consider whether the dividend has a disproportionate impact on smaller agencies, including whether or not smaller agencies are disadvantaged by poorer economies of scale or a relative inability to obtain funding for new policy proposals.
- 7.2 Witness gave evidence on this issue and the Commonwealth Parliament's Report 413 commented on how the Commonwealth efficiency dividend impacted on smaller agencies.
- 7.3 In Western Australia the smallest public agencies are not implementing the efficiency dividend, as the dividend does not apply to appropriation-funded agencies with full-year savings from the dividend in excess of \$200,000.
- 7.4 However the list at Appendix 4 notes that the dividend does apply to agencies that could be considered smaller government agencies, such as the Economic Regulation Authority, Swan River Trust and Kimberley College.

THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT *REPORT 413: THE EFFICIENCY DIVIDEND AND SMALL AGENCIES: SIZE DOES MATTER*

- 7.5 As the title to Report 413 suggests, the JCPAA ultimately concluded that the size of an agency does matter.
- 7.6 It is important to note that the Commonwealth dividend does not apply in exactly the same way as the Western Australian efficiency dividend. The Commonwealth dividend applies to agencies' appropriations for the ordinary annual services of the government but does not apply to some appropriated revenues and receipts, and funds for 'new policy proposals'.¹⁰⁰
- 7.7 The JCPAA broadly concluded that:

The system favours larger agencies and agencies with a stronger policy focus over small agencies. This latter type of agency usually has a technical, precisely defined function that gives them reduced

¹⁰⁰ Report 413, *ibid*, ppxvii,xi. As previously noted, the Commonwealth annual dividend now stands at 1.25 per cent, with the Government imposing an additional one-off two per cent efficiency dividend for 2008-09 appropriations.

discretion over how they manage their operations. They have poorer economies of scale ...

[The] Committee also received a great deal of evidence of agencies scaling back their activities, maintaining service levels at the expense of sustainability, and foregoing opportunities and innovation.¹⁰¹

- 7.8 The JCPAA noted that due to the agency's size, the dollar amounts are small so a request to absorb does not appear unreasonable. However, small dollar amounts can be large to a small agency. Smaller agencies are often established to fulfil a specific function or purpose, limiting their capacity to reprioritise or trim discretionary activities.

FURTHER EVIDENCE

- 7.9 Witnesses agreed that the efficiency dividend has a disproportionate impact on smaller agencies.

- 7.10 The OAG advised:¹⁰²

It is generally recognised that smaller agencies have less budget flexibility to address efficiency dividend reductions. This is certainly the case for this Office where the majority of costs are either fixed or directly related to audit activity.

- 7.11 The Committee heard evidence that the dividend will impose difficulties for smaller TAFE colleges. When asked about this, DET confirmed that the dividend applied to TAFEs but '*we certainly will be monitoring very closely any impact on TAFE colleges*'.¹⁰³

- 7.12 CPSU referred to Report 413 with approval.¹⁰⁴

- 7.13 WACOSS submitted that:¹⁰⁵

Smaller agencies are less able to cut expenditure without impacting on service delivery, as fixed costs represent a higher proportion of their total costs. Larger agencies benefit from economies of scale (for example, in 'back office' functions such as information management,

¹⁰¹ Report 413, *ibid*, pvii.

¹⁰² Submission No 7 from OAG, 30 January 2009, p3.

¹⁰³ Ms Sharyn O'Neill, Director General, DET, *Transcript of Evidence*, 24 March 2009, p8.

¹⁰⁴ Submission No 8 from CPSU, 30 January 2009, pp7-8.

¹⁰⁵ Submission No 14 from WACOSS, 30 January 2009, p3.

IT, HR, etc) that make them more able to bear a reduction in expenditure without affecting service delivery.

- 7.14 When asked about this at hearing, Ms Ash, from WACOSS, expressed the view that there is less capacity at an administrative level to absorb costs in a smaller agency. Ms Ash noted that smaller agencies had to comply with technical and human resources management requirements.¹⁰⁶

- 7.15 Mr John Mason, John Mason Admin Solutions, informed the Committee that:¹⁰⁷

The most costly resource in any agency is human resources and associated superannuation, leave and projected salary increases for staff, with any administration budget reflecting in excess of 60% being account for in salaries and associated expenses. As such this major component doesn't afford the advantage of economies of scale such as the supply of material resources, and accordingly is a constant expense, which impedes the smaller agencies operating and planning in strategic ways, particularly in implementing new policy proposals which are apt to occur with a change of government.

¹⁰⁶ Ms Sue Ash, Chief Executive Officer, WACOSS, *Transcript of Evidence*, 11 March 2009, p2.

¹⁰⁷ Submission No 1 from Mr John Mason, John Mason Admin Solutions, 7 January 2009, p2.

CHAPTER 8

ALTERNATIVE METHODS OF ACHIEVING A THREE PER CENT REDUCTION IN GOVERNMENT EXPENDITURE

- 8.1 The inquiry's term of reference (b) requires the Committee to consider alternative methods for achieving a three per cent reduction in government expenditure including:
- 8.1.1 the approach of the former government;
 - 8.1.2 whether certain agencies or functions of agencies should be exempt from the efficiency dividend; and
 - 8.1.3 whether the rate of the dividend should vary according to agency size or function, and if so, specific advice on which agencies or functions should contribute a disproportional share of savings over the forward estimates.

THE LABOR PARTY APPROACH

The Gallop Labor Government's efficiency dividends

- 8.2 The Gallop Labor Government introduced an efficiency dividend in the 2001-02 Budget in order (it is said) to return State finances to a net operating surplus and halt net debt. The dividend was set at 1.5 per cent of the agency's total operating expenses in 2001-02. Ben Wyatt MLA, Opposition Treasurer, informed the Committee that the dividend saved \$850 million without compromising key services.¹⁰⁸
- 8.3 Health, Education and Police were quarantined from this dividend. Through the Expenditure Review Process it was decided to extend the quarantine on core services to the Disability Services Commission and, in large measure, the Department of Community Development.¹⁰⁹
- 8.4 The Labor Party advised the Committee that other measures were also taken by previous Labor Governments to address Government spending, including cuts to the Ministerial vehicle fleet, employing consultants, advertising and promotional spending, interstate and overseas travel, reducing the number of Cabinet Members and senior public servants, and unnecessary spending on producing annual reports. Other

¹⁰⁸ Submission No 10 from Ben Wyatt MLA, Opposition Treasurer, 30 January 2009, and Hon K Chance MLC, Legislative Council, *Parliamentary Debates (Hansard)*, 13 November 2008, p226.

¹⁰⁹ See Submission No 10 from Ben Wyatt MLA, Opposition Treasurer, 30 January 2009, p1.

savings were achieved after the Machinery of Government Review recommended cost cutting measures including reducing government departments.¹¹⁰

How the Labor Party, if elected to Government in 2008, would have implemented the efficiency dividend

8.5 The Labor Party informed the Committee that they intended to implement the three per cent efficiency dividend following the 2008 election by:¹¹¹

- Undertaking a detailed, focussed and forensic examination of cost centres - not crude, untargeted cuts. The dividend would not necessarily have been uniformly applied across all agencies.
- Further reforming procurement practices - particularly in the areas of agency specific contracting, and implementing new procurement systems, and the wide adoption of more efficient processes (e.g. purchasing cards). Capital works and maintenance procurement have ongoing scope for savings.
- Revisiting the savings measures introduced in 2001 in areas such as travel, consultancies and advertising.
- Rejecting inefficient proposals that offer no service enhancement (such as the Royal Perth Hospital legislation).
- Rejecting fragmenting existing departments into smaller units.

8.6 The Labor Party advised the Committee that their process identified long term, sustainable cost savings by focussing on efficiencies, and did not simply delay expenditure.¹¹² The efficiency dividend proposed by Labor was intended to be a scalpel taken to waste not a sledgehammer to all services.¹¹³

8.7 The former Labor Government expressed its commitment to protecting front line services including police, teachers and nurses, and stated that implementing the above reforms would have been achieved without any adverse impact on the efficient delivery of core services across the State.¹¹⁴

¹¹⁰ Ibid, pp1-2.

¹¹¹ Ibid, p1.

¹¹² Ibid, p3.

¹¹³ Ben Wyatt MLA, Opposition Treasurer, 'Services suffer due to lazy approach', *Media Statement*, 29 October 2008.

¹¹⁴ Submission No 10 from Ben Wyatt MLA, 30 January 2009, p2.

ALTERNATIVE METHODS FOR ACHIEVING A REDUCTION IN GOVERNMENT EXPENDITURE

- 8.8 A number of alternatives methods on how to implement the efficiency dividend and achieve a reduction in public sector expenditure were put before the Committee.

Exemptions and not applying the efficiency dividend uniformly

- 8.9 Many stakeholders submitted that particular agencies were under such budget stress that they should be exempted from the dividend in their entirety. While it is acknowledged that exempting agencies in itself will not reduce government expenditure, it is appropriate to note a few of the suggested exemptions.
- 8.10 The Developmental Disability Council of WA submitted that DSC should be exempt.¹¹⁵ The AMA and Professor Mike Daube, Public Health Advocacy Institute of Western Australia, Curtin University of Technology, submitted that DOH should be exempt.¹¹⁶
- 8.11 WACOSS submitted that the Government should not cut programs that meet the needs of people who are low income and disadvantaged, and homeless programs should not be cut as these are critical.¹¹⁷
- 8.12 Further, a number of submissions and media reports have also reflected views that the police service, child services and programs for children and young people should be exempt.¹¹⁸
- 8.13 WACOSS submitted that individual agencies should not be exempt from the dividend, but individual programs, projects, funding streams and units that are vital to the level and quality of service received by the community should be exempt.¹¹⁹
- 8.14 Another view is that one size does not necessarily fit all, and agencies should be asked to achieve different percentage saving targets, according to their need.
- 8.15 Government agencies have different budget requirements, needs, demands and cost pressures. The CPSU considered that the blanket three per cent dividend does not take

¹¹⁵ Submission number 12 from the Developmental Disability Council of WA, 30 January 2009.

¹¹⁶ Submission No 13 from AMA, 30 January 2009; Submission No 30 from Professor Mike Daube, Director, Public Health Advocacy Institute of Western Australia, Curtin University of Technology, 11 February 2009.

¹¹⁷ Ms Sue Ash, Chief Executive Officer, WACOSS, *Transcript of Evidence*, 11 March 2009, p3.

¹¹⁸ For example, Submission No 1 from John Mason Admin Solutions, 7 January 2009 (exempt police, health and child services), and Ms Michelle Scott, Commissioner for Children and Young People, was reported as having called for programs directed and children and young people to be exempt (for example on Mornings, ABC radio, 12 January 2009).

¹¹⁹ See Submission No 14 from WACOSS, 30 January 2009 and Ms Sue Ash, Chief Executive Officer, WACOSS, *Transcript of Evidence* 11 March 2009.

into account the specific requirements of each agency. (The Labor Party holds a similar view, see above).

8.16 CPSU informed the Committee that:¹²⁰

CPSU/CSA opposes the use of a blanket tool such as a 3% efficiency dividend to achieve efficiencies and reduction in government expenditure.

In our opinion use of such a tool does not take into account the specific requirements of each Government Agency. It is also our opinion that Government has in place a rigorous and comprehensive annual budget process that provides ample opportunities for scrutiny and assessment of Department expenditure.

The current budget approach provides a more flexible approach ...

A genuine approach to improving productivity and efficiency must start from an analysis of the work ... A consultative approach to finding efficiencies that takes into account on-the-ground, local circumstances will yield far more effective and sustainable dividends for the WA Public Sector and the wider community.

The Chamber of Commerce and Industry

8.17 The Chamber of Commerce and Industry of Western Australia (CCI) advised of further, rather than alternative, methods of achieving a reduction in expenditure. CCI supports the implementation of the efficiency dividend.¹²¹

8.18 CCI considers that in recent years there has been ‘a worrying trend of excessive growth in government spending’ and curbing excess growth in expenditure is critical. CCI believes that the efficiency dividend and the economic audit of the public sector will go some way to ensure that expenditure growth is contained in the short to medium term.

8.19 CCI supports setting a spending growth target which aims to ensure that growth in general government spending does not exceed the rate necessary to match growth in prices and population.

¹²⁰ Submission No 8 from CPSU, 30 January 2009, p7.

¹²¹ The following is sourced from Submission No 4 from CCI, 22 January 2009, and the evidence of Mr John Nicolaou, Executive Director (Economic Policy) and Chief Economist, CCI, *Transcript of Evidence*, 25 February 2009, unless otherwise noted.

8.20 CCI considers that containing wages cost growth is essential to containing expenditure growth, and productivity improvement is also essential. CCI identified the following measures to contain labour costs:

- Setting aggregate wage growth targets for departments and agencies.
- Instituting an efficiency dividend on output costs of at least one per cent a year, to encourage ongoing productivity improvements.
- Reintroducing individual bargaining to retain and motivate staff, particularly high performers. A uniform pay structure does not encourage productivity gains.

8.21 CCI considers that broader reforms, such as reducing the number of departments and agencies are also necessary.

8.22 CCI believes that the Government should commit to public sector reform and a whole of government approach to public sector reform should be based on the following key principles:¹²²

- Activities should be regularly reviewed and programs which are no longer valuable should be abolished.
- Services which can be delivered more efficiently through the private sector should be contracted out.
- Responsibilities for policy development, regulation and service delivery should be separated wherever possible, in order to limit conflicts of interest and objectives of agencies and ministers.
- Within the separate spheres of policy development, regulation and service delivery, agencies and departments which share similar core objectives and client bases should be combined under a single agency or authority.
- Government businesses should operate according to clearly determined objectives and parameters, and with a commercial focus.
- Current public sector structures, staffing and funding should be adjusted to ensure that resources are used to deliver the appropriate level and quality of public services at the lowest cost.

¹²² For more detail of these reform principles see Submission No 4 from CCI, 22 January 2009, which can be accessed on the Committee's website (viewed on 11 May 2009).

WACOSS

- 8.23 WACOSS considers that a key method of reducing expenditure is Government outsourcing to not-for-profit community services organisations.¹²³ WACOSS advocates a Government review of the breadth and depth of services outsourced to such organisations.
- 8.24 WACOSS informed the Committee that there is no clear systemic logic underpinning agencies' decision to outsource or not, and there is the potential for efficiency gains through implementing a comprehensive rationale for outsourcing. This will bring consistency to agencies decision whether to outsource. A policy rationale and outsourcing guidelines could streamline the tendering process and yield better outcomes at lower levels of expenditure.
- 8.25 WACOSS considers that pursuing the following initiatives could yield efficiency dividends for the State Government:
- a standard policy for outsourcing services should be implemented;
 - more services should be outsourced; and
 - contracts with not for profit agencies should be better managed.

¹²³ This information is sourced from Submission No 14 from WACOSS, 30 January 2009, p2. For further detail on WACOSS's proposed reforms this submission can be accessed on the Committee's website, (viewed on 11 May 2009).

CHAPTER 9

THE IMPACT OF THE CURRENT FINANCIAL CRISIS, SUSTAINABILITY OF KEY ECONOMIC INDICATORS AND IMPACT OF FAILING TO FULLY IMPLEMENT THE EFFICIENCY DIVIDEND

- 9.1 The inquiry's terms of reference (e) to (i) require the Committee to consider broader issues relating to the State's economy and the impact of failing to implement the efficiency dividend.
- 9.2 These terms of reference require the Committee to inquire into and report on:
- (e) *the impact of the current financial crisis on the state's economy and finances;*
 - (f) *the sustainability of the rate of growth in general government expenditure detailed in the 2008-09 budget;*
 - (g) *the sustainability of the forecast decrease in operating surplus detailed in the 2008-09 budget;*
 - (h) *the sustainability of the forecast increase in net debt detailed in the 2008-09 budget; and*
 - (i) *the impact of failing to fully implement the three percent efficiency dividend on the operating surplus and net debt.*
- 9.3 Unfortunately, the Committee has received limited information from the Government or Under Treasurer relating to these terms of reference.
- 9.4 The Treasurer was invited to provide a submission on these terms of reference but did not address the terms of reference in the submission he provided.
- 9.5 The Under Treasurer declined to provide information relating to these terms of reference and advised the Committee that:¹²⁴

Answers to the above questions will become clearer once the economic and financial forecasts for the 2009-10 Budget have been finalised. Furthermore, it is intended that Budget Paper No. 3, Economic and Fiscal Outlook, will provide detailed commentary

¹²⁴

Letter from the Under Treasurer, DTF, 16 April 2009, Attachment A.

around these issues. The 2009-10 Budget will be released on 14 May 2009.

- 9.6 However, the Under Treasurer did answer a few questions relating to these terms of reference during his evidence before the Committee. Also, DTF financial reports, such as the *2008-09 Government Mid-Year Financial Projections Statement* (December 2008) (*Mid Year Review*),¹²⁵ provide some evidence relevant to these terms of reference (although somewhat dated evidence by May 2009). This Chapter relies on this information and CCI evidence.

THE IMPACT OF THE CURRENT FINANCIAL CRISIS ON THE STATE'S ECONOMY AND FINANCES

- 9.7 The global financial crisis has clearly had an impact on the State's economy, although the degree and duration of the impact may not be known.
- 9.8 In March 2009 the Under Treasurer highlighted the uncertainty in the economy when he publicly stated that he had no idea what was going to happen in the next 18 months to two years. The Under Treasurer was quoted by the media as having said:¹²⁶

I'm here to tell you what I think's going to happen in the next year to 18 months to two years. I've got no idea. I mean that's a fact. There are so many moving parts at the moment, it is very difficult to tell what is going to happen with certainty.

- 9.9 Previously, the *Mid Year Review* noted that the forecasts in the review were 'prepared against rapidly deteriorating and extremely volatile international and national conditions'.¹²⁷ The *Mid Year Review* added:¹²⁸

In recent months global financial markets have been in turmoil, and it is now clear that the financial crisis has spilled over to affect real economic activity worldwide ...

[The] slowdown of the global economy, weaker commodity prices and demand, lack of credit and increased risk aversion are affecting the Australian investment and export outlook, although for many exporters US dollar price decreases have so far been largely offset by the drop in the Australian dollar since August 2008 ...

¹²⁵ Government of Western Australia, *Government Mid-Year Financial Projections Statement*, December 2008.

¹²⁶ 'Economy faces uncertain future: Under-Treasurer', www.abc.net.au, 5 March 2009.

¹²⁷ *Mid Year Review*, p46.

¹²⁸ *Ibid*, pp33, 35.

... if the global recession is prolonged, the features of the State's economy that served it so well during the resources boom - its commodity endowment and export focus - could turn into points of comparative vulnerability ...

[However, the] Australian economy is relatively well placed to endure the global financial and economic crisis.

9.10 The Under Treasurer has also been reported as saying that the State's economy has good fundamentals, but the government needs to eliminate waste from the public sector. He is also reported as having said that the three per cent cuts are necessary if Western Australia is to weather the global economic downturn.¹²⁹ The Treasurer has recently reportedly stated that while Western Australia's economic growth will decline as the full effects of the global financial crisis are felt, it will be the last Australian state into the downturn and 'could easily' be the first state to recover from the downturn.¹³⁰

9.11 The March 2009 quarter *Access Economics Business Review* noted that Western Australia is still to feel the full effect of the global financial crisis but the State is well placed in the long term (as China's economy strengthens). *'The cycle has turned against Western Australia for now, but this State stands on the right side of history for the longer term - it might be unclear how soon and how much China recovers, but it is clear that China will recover.'*¹³¹

9.12 When asked how the economic crisis is going to impact on the Government's capacity to meet its savings targets, the Under Treasurer advised the Committee that:¹³²

there is probably not a huge impact on the ability to meet savings targets, other than, I guess, treading the fine line between trimming the expense base and ensuring that there is not a worsening of conditions.

9.13 CCI summarised the State's financial position and the impact of the global economic crisis (as at January 2009) in their submission to the Committee:

Western Australia's financial position is expected to deteriorate over the forward estimates as the economy moderates in response to the

¹²⁹ 'Economy faces uncertain future: Under-Treasurer', www.abc.net.au, 5 March 2009.

¹³⁰ 'WA last in, first out of recession: Buswell', www.abc.net.au, 28 April 2009.

¹³¹ *Access Economics Business Review*, March 2009, p109. The report also notes 'wherever business investment goes over the next couple of years, Western Australia's economy will go too', p107.

¹³² The Under Treasurer, DTF, *Transcript of Evidence*, 24 March 2009, p3.

worsening global economic crisis. Economic growth is expected to slow in 2009-10, down from 6.25 percent to 3.25 percent, as the full effects of the global financial crisis are felt. [See paragraph 9.14.] Slowing growth in revenues and continued strong growth in expenditure is likely to see the State record a net operating deficit of \$361 million by 2011-12.

The State's net debt to revenue ratio is expected to increase to 50 per cent by 2010-11 and 60.9 per cent by 2011-12, well over the 47 percent benchmark established by the previous Government as a level of debt that is consistent with a AAA credit rating.

Recurrent spending has grown strongly in recent years, rising by 61 per cent (or \$6.4 billion) since the beginning of the decade. Growth in recurrent spending has been underpinned by salaries expenditure, which has risen by 74.1 percent (or nearly \$3 billion) since the beginning of the decade. Continued growth in general government expenses of this magnitude is not sustainable.

- 9.14 However, the economy's performance in the last few months has caused the CCI to report a downward revision of the above growth forecast. In their *WA Economic Compass Outlook* for the March 2009 quarter, CCI stated that although Western Australia remained one of the world's few economies to experience growth this financial year, a weaker export market and ongoing economic uncertainty prompted a revision of its forecasts. CCI is predicting growth in 2008-09 to slide from a previously revised 3.5 per cent to 2 per cent, and says the Western Australian economy is likely to contract by around one per cent in 2009-10. CCI expects the State economy to make a strong recovery the following year, forecasting growth to reach five per cent in 2010-11 and six per cent the following year. CCI consider that there is a real risk of recession in 2009-10.
- 9.15 The Treasurer is reported to have agreed with the above forecast downturn. *"I think it is fair to say that our state economy is contracting."* The Treasurer apparently warned that household fees and charges might rise to protect the State's AAA credit rating.¹³³

THE SUSTAINABILITY OF THE RATE OF GROWTH OF GENERAL GOVERNMENT EXPENDITURE, THE FORECAST DECREASE IN OPERATING SURPLUS AND THE FORECAST INCREASE IN NET DEBT DETAILS IN THE 2008-09 BUDGET

- 9.16 There is evidence that the growth in general government expenditure, decrease in the operating surplus and forecast increase in debt are not sustainable.

¹³³ Ms Julie-anne Sprague, 'WA household fees may rise', *Australian Financial Review*, 16 April 2009, p7.

9.17 Further, evidence suggests that since the *Mid Year Review* these economic indicators have worsened, that net debt may continue to rise and the State may post an operating deficit earlier than forecast.

9.18 The Under Treasurer advised the Committee at his hearing, in the context of discussing the State's projected debt, that:¹³⁴

the numbers as presented in the midyear review were financially unsustainable ...

The Chair: It is a big statement for the Under Treasurer to say the financials in the midyear review were unsustainable. That is a big statement.

The Under Treasurer: I would have thought so once, but I have said it numerous times in the last three months - the novelty seems to have worn off.

9.19 The *Mid Year Review* summarised the concerning changes to key economic indicators as follows:¹³⁵

The outlook for the general government operating balance has deteriorated significantly since the PFPS. Across the four year forward estimates period, the cumulative operating balance has been revised down by around \$5.2 billion, including a \$744 million reduction in the 2008-09 operating surplus (from \$1,930 million in the PFPS to \$1,186 million in this mid-year review). This mid-year review also includes a forecast deficit of \$361 million in 2011-12, compared to a forecast surplus of \$995 million in the PFPS. As a result of this deteriorating operating outlook there is a significant deterioration in the capacity to fund the State's Capital Works Program. Combined with new capital spending commitments, total public sector net debt is projected to rise to \$16.7 billion by the end of the forward estimates period (an increase of around \$7.6 billion on the PFPS estimates), while the net debt to revenue ratio is forecast to exceed the 47% target limit in the last two years of the forward estimates.

¹³⁴ The Under Treasurer, DTF, *Transcript of Evidence*, 24 March 2009, p8.

¹³⁵ *Mid Year Review*, p2.

- 9.20 The day the *Mid Year Review* was released the Treasurer stated ‘*This Mid-Year Review describes a perfect storm with the combined effect of several factors leading the State towards deficit and record debt*’.¹³⁶
- 9.21 The *Mid Year Review* forecasts of general government expenditure (**expenses**), operating surplus (**net operating balance**) and net debt (**total public sector net debt**) are noted below.¹³⁷

Mid Year Review Key Budget Aggregates

	2007-08 Actual	2007-08 PFPS Revision	2008-09 Mid-Year Revision	2009-10 Forward Estimate	2010-11 Forward Estimate	2011-12 Forward Estimate
General Government						
Revenue (\$ million)	19,345	19,903	20,039	20,297	20,461	21,001
Revenue Growth (%)	10.1	4.6	3.6	1.3	0.8	2.6
Expenses (\$ million)	16,837	17,972	18,853	19,574	20,356	21,362
Expenses Growth (%)	9.9	7.5	12.0	3.8	4.0	4.9
Net Operating Balance (\$ million)	2,507	1,930	1,186 ¹³⁸	723	105	-361
Total Non-financial Public Sector						
Net Debt to Revenue Ratio (%)	18.3	30.6	29.1	41.8	50.0	60.9
Total Public Sector						
Net Debt at 30 June (\$ million)	3,634	6,826	6,921	10,287	12,897	16,722 ¹³⁹
Capital Works Program (\$ million)	6,024	7,867	7,688	7,656	6,577	6,913

- 9.22 Since the above revenue forecast, the DTF *Quarterly Financial Results Report (December 2008)* released in February 2009 (***Quarterly Report***) noted a ‘*softening revenue performance*’.¹⁴⁰ The report records that Government revenue in the six months to 31 December 2008 totalled \$9,992 million. This was \$530 million (or 5.6 per cent) higher than the same period in 2007-08.¹⁴¹
- 9.23 Since the above expenses forecast, the *Quarterly Report* recorded that expenses in the six months to 31 December 2008 totalled \$9,186 million, being 13.1 per cent higher

¹³⁶ The Treasurer, Media Conference PodCast, 18 December 2008.

¹³⁷ *Mid Year Review*, p2.

¹³⁸ See paragraph 9.25 of this report.

¹³⁹ See paragraph 9.26 of this report.

¹⁴⁰ Government of Western Australia, DTF, *Quarterly Financial Results Report (December 2008)*, February 2009, p3.

¹⁴¹ Ibid, p4.

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- than the same period in 2007-08. A record 14.6 per cent rise in public servants' salaries was recorded.¹⁴²
- 9.24 Since the above operating surplus forecast, the *Quarterly Report* recorded an operating surplus of \$819 million for the first six months of 2008-09, down \$925 on the surplus recorded for the same period in 2007-08.¹⁴³ The general government sector recorded an operating surplus of \$806 million for the six months to 31 December 2008, \$532 million lower than the surplus for the same period in 2007-08.¹⁴⁴
- 9.25 The State may go into deficit sooner than forecast in the *Mid Year Review* (2011-12). The Treasurer has apparently admitted that '*There is a possibility that in 2009-10 we will be in deficit*', and it was '*almost certain*' the State would also record a deficit for at least two years after that.¹⁴⁵ Recently, the Treasurer advised Parliament that there will be a surplus in 2009-10 '*in the vicinity of \$400 million*'.¹⁴⁶
- 9.26 Further to the above public sector debt projection, the *Quarterly Report* recorded public sector debt of \$4.7 billion, \$1.1 billion higher than the \$3.6 billion recorded at 30 June 2008.¹⁴⁷ In March 2009, the Treasurer was reported to have predicted that debt would blow out beyond the \$16.7 billion forecast in the *Mid Year Review*.¹⁴⁸
- 9.27 The State's finances are such that *Treasurer's Advance Authorisation Act 2009* authorised increasing the Treasurer's advance limit by \$762.3 million, bringing the Treasurer's advance limit for the current financial year to a record \$1.2 billion.
- 9.28 It has been reported that the rapid decline in the State's finances may cause the Government to rush through a Loan Bill authorising it to borrow hundreds of millions of dollars to fund its operations.¹⁴⁹
- 9.29 Public service net debt is forecast to rise to levels significantly higher than the target ratio of 47 per cent set in the 2008/09 budget, the level the PFPS identified as the target to retain the States' AAA credit rating.

¹⁴² Ibid, p6.

¹⁴³ Ibid, p8.

¹⁴⁴ Ibid, pp3,4.

¹⁴⁵ A Burrell, 'WA's financial bounty goes west', *Australian Financial Review*, 17 March 2009, p5.

¹⁴⁶ The Treasurer, Western Australia, Legislative Assembly, *Parliamentary Debates (Hansard)*, 5 May 2009, p3277. The Treasurer added '*Revenue has dropped by \$3.5 billion*'.

¹⁴⁷ *Quarterly Report*, p3.

¹⁴⁸ R Taylor, 'Budget cuts not possible: Buswell', *The West Australian*, 20 March 2009, p1.

¹⁴⁹ P Kerr, 'Government may borrow to pay bills', *The West Australian*, 15 April 2009, p19.

- 9.30 Regarding maintaining the AAA rating in the next year, the Treasurer recently advised Parliament that in 2009-10 *'The Government will deliver a budget surplus and financial result in the budget that will sit within the parameters set by Standard and Poor's for this state to maintain its AAA credit rating'*.¹⁵⁰
- 9.31 In March 2009 the Treasurer reportedly stated that the State Government would be unable to raise a planned \$1.3 billion of long term debt to fund its infrastructure program. The Treasurer is reported to have confirmed that the State had sought Commonwealth help over the credit squeeze.¹⁵¹
- 9.32 The media also reported that the Under Treasurer warned the Treasurer this month it would be *'very difficult'* to raise \$1.3 billion by 30 June 2009 because demand for long-term bonds had *'disappeared'* (this was undermined by the Federal Government's unlimited bank guarantee). The Under Treasurer was reported to have said in a memo that the State faced the prospect of attempting to refinance a further \$4.7 billion of short term debt in the June quarter. He said the Federal Government should allow the federal debt agency to buy Western Australian Treasury Corporation's (WATC) long term bonds and for the State to buy back the bonds when market conditions improved. *'We can't get long term paper ... and we're paying about 1.2 per cent more for interest than we should otherwise be paying'*.¹⁵²

THE IMPACT OF FAILING TO IMPLEMENT A THREE PER CENT EFFICIENCY DIVIDEND ON THE OPERATING SURPLUS AND NET DEBT

- 9.33 A shortfall in meeting the three per cent efficiency dividend target in any year means a decrease in the operating surplus and increase net debt that year.
- 9.34 The *Mid Year Review* noted the importance of the corrective action taken, and the integral role implementing the efficiency dividend would play in maintaining the State's financial health:¹⁵³

The forward estimates presented in this mid-year review require significant corrective action to ensure the State remains in a financially sustainable position. This will be the primary focus of the 2009-10 Budget, aided by the first stage of recommendations from the Government's Economic Audit Committee and the previously announced audit of the Capital Works Program.

¹⁵⁰ The Treasurer, Western Australia, Legislative Assembly, *Parliamentary Debates (Hansard)*, 5 May 2009, p3277.

¹⁵¹ A Burrell, 'Funding crisis undermines WA spending program', *Australian Financial Review*, 19 March 2009, p5.

¹⁵² Ibid.

¹⁵³ *Mid Year Review*, p3.

The Government is also committed to the full implementation of the 3% efficiency dividend, which was announced as a global provision in the PFPS and has been allocated to individual agencies as part of this mid-year review ...

Realisation of this 3% savings measure is integral to maintaining the State's financial health.

- 9.35 The Under Treasurer advised the Committee that he could not advise the exact impact of agencies failing to meet the dividend in 2008-09 on debt levels within the current year.¹⁵⁴

Those matters are currently being worked through by deliberations of the expenditure review committee. Until we get to the end of that process, we will not have an aggregate figure. We do not have a figure at this point, but suffice to say I am sure you are aware of the conceptual relationships involved, and any shortfall means net debt goes up.

- 9.36 The Under Treasurer considers that the efficiency dividend shortfall in 2008-09 is 'quite marginal in the acceleration in [State] debt' and he 'very much' doubts that agency budget blowouts by more than the efficiency dividend would be factored into the way people view the State's debt.¹⁵⁵
- 9.37 The Under Treasurer said he could not offer an opinion on whether agencies not meeting the three per cent efficiency dividend would put Western Australia's AAA credit rating at risk in light of the predicted blow out of \$16.7 billion debt forecast (in 2011-12) in the *Mid Year Review*.
- 9.38 The rating agencies were 'concerned about the trends in the finances' when the Under Treasurer discussed matters with them immediately after the *Mid Year Review*.¹⁵⁶
- 9.39 Further, the Under Treasurer said it was extremely difficult to say what the additional annual expenditure cost on interest would be *if* the State was downgraded to a AA rating. The Under Treasurer considers that other events have probably already cost the State. The Under Treasurer noted the 60.9 per cent net debt ratio forward estimate (for 2011-12, noted in the *Mid Year Review* table above), and advised:¹⁵⁷

¹⁵⁴ The Under Treasurer, DTF, *Transcript of Evidence*, 24 March 2009, p3.

¹⁵⁵ Ibid, p6.

¹⁵⁶ Ibid.

¹⁵⁷ Ibid.

I do not know how much it is going to cost. It has probably already cost us, because with regard to reputation the downgrade in Queensland [to AA rating] has a contagious effect across semi-government and the lenders to semi-government, to an extent, treat that as class of investment and there is a big dark cloud over the cost of investment by virtue of the downgrade and the [Commonwealth] guarantee arrangement ... I think that the more significant impact is not on the cost of debt ... [but] the impact on the confidence more broadly and what that then does to the state's future.

COMMITTEE COMMENT

- 9.40 A few agencies advised in evidence that good management practice involves constantly looking for new ways to be efficient. However, it should be noted that the Australian Labor Party and Liberal Party committed to a three per cent efficiency dividend during the election campaign for the purpose of funding election promises, not for the purposes of seeking efficiencies and economy from the public sector.



Hon Giz Watson MLC
Chair

Date: 19 May 2009

APPENDIX 1

LIST OF WRITTEN SUBMISSIONS RECEIVED

APPENDIX 1
LIST OF WRITTEN SUBMISSIONS RECEIVED

No.	Submission	Date
1	Mr John Mason John Mason Admin Solutions	07/01/09
2	Mr Peter Evans Private citizen	07/01/09
3	Mr Russell Coad General Manager, Training and Business Services West Coast TAFE	14/01/09
4	Mr James Pearson Chief Executive Chamber of Commerce and Industry Western Australia	02/09
5	Louise Durack Executive Director People with Disabilities (WA) Inc	29/01/09
6	Dr Margaret Nowak Chairman, Finance Committee The Library Board of Western Australia	29/01/09
7	Mr Colin Murphy Auditor General Office of the Auditor General	30/01/09
8	Ms Toni Walkington Branch Secretary Community and Public Sector Union/Civil Service Association of WA	30/01/09
9	Mr Reg Howard-Smith Chief Executive Chamber of Minerals and Energy Western Australia	30/01/09

No.	Submission	Date
10	Mr Ben Wyatt MLA Opposition Treasurer	30/01/09
11	Mr Dave Robinson Secretary UnionsWA	30/01/09
12	Ms Sue Harris Chief Executive Officer Developmental Disability Council of WA Inc	30/01/09
13	Mr Peter Jennings Acting Executive Director Australian Medical Association of Western Australia	30/01/09
14	Ms Sue Ash Chief Executive Officer Western Australian Council of Social Service Inc	30/01/09
15	Hon Troy Buswell MLA, Treasurer	03/02/09
16	Professor Mike Daube Director Public Health Advocacy Institute of Western Australia Curtin University of Technology	11/02/09
17	Mr Barry Blaikie Private citizen and former Member of the Legislative Assembly	17/02/09

APPENDIX 2
ADVICE FROM THE CLERK OF THE LEGISLATIVE COUNCIL

APPENDIX 2

ADVICE FROM THE CLERK OF THE LEGISLATIVE COUNCIL



PUBLIC



Hon Sue Ellery MLC
Chair of the Subcommittee of the Standing Committee on Estimates and Financial Operations
Parliament House
PERTH WA 6000

16 February 2009

Dear Chair

Application of Standing Order 331 - Evidence of Public Servants

The committee seeks my opinion on the response from the Government that Standing Order 331 makes it inappropriate for public servants to be invited to make submissions in relation to matters of policy.

I understand a subcommittee of the Estimates and Financial Operations Committee is currently inquiring into the Government's proposed public sector efficiency dividend. The subcommittee sent letters to all Government agencies seeking advice on each agency's proposed actions to implement the efficiency dividend requirements. Although some agencies have responded, the Acting Premier advised the subcommittee that there will not be any further responses as the implementation of the efficiency dividend by each agency is a policy matter that will be finalised by Cabinet and reported at Budget time.

I should state from the outset that Standing Orders do not "codify" the Council's proceedings and an attempted codification would be unwise if only because it would tend to stultify procedure and deny the very necessary element of flexibility.

Standing Order 331 was adopted on 1 March 1991. The Report of the Select Committee on a Committee System in the Legislative Council¹ stated:

"...it is proper for the Council to ask [public servants] what has been spent, what is proposed to be spent and for an explanation as to the difference between the 2 figures including policy shifts."

"It is envisaged that the responsible minister, departmental officials and the Auditor General could be interviewed."

Standing order 331 states:

¹ September 1985 by Hon VJ Ferry

"Where a committee examines a public servant, questions of policy shall not be asked of that person but shall be directed to the responsible Minister. A public servant is entitled to decline to answer any question on a matter of policy."

In my opinion the intent of the standing order is clear and unambiguous, where a committee "examines" a public servant they are entitled to decline to answer the question if it relates to policy. The standing order refers to a committee "examining" a witness. This suggests a formal interrogation during a committee hearing. It is also relevant that SO 331 follows on from the standing order that deals with the entitlements of witnesses at committee hearings (SO 330). In contrast, the correspondence sent by the subcommittee only invited agencies to provide a response to the subcommittee's questions, if the agencies so chose.

Public servants appear before committees as servants of the Government of the day and are subject to ministerial direction in terms of answers to be given and information to be supplied to committees. The exceptions are when they "appear" on issues in relation to which the Minister has no legal right of direction such as when they appear in a personal capacity or in relation to the exercise of an independent statutory responsibility which has been vested in them. In such cases the individual must answer directly to the committee.

The role of public servants is to explain existing government policy, the administrative arrangements and procedures involved in implementing a policy and to provide factual information. It is the Minister's responsibility to justify, advocate, defend or canvass the merits of a policy and any alternative proposals. The Council's own rules distinguish between policy and administration. Policy documents often contain material related to the formulation of policy, as opposed to the application and administration of policy, with which public servants are concerned.²

Given this protective framework it is reasonable for parliamentary committees to expect that public servants will be co-operative, provide information requested by a committee promptly and act in good faith in their dealings with committees. In providing factual information where the dividing line between policy and administration is unclear, a committee will usually permit a public servant to seek advice and instructions from more senior officials or the Minister.

I note that the first Estimates and Financial Operations Committee report, in relation to the 1990-91 Budget Estimates, raised a concern of a public servant not being allowed to answer questions.³ However, since that report was tabled the committee has noted that Ministers have allowed the "departmental representatives to answer questions relating to operational and financial matters directly"⁴. This practice continues today.

In practice a public servant can still volunteer information regarding policy (and sometimes do so in the form of a 'personal opinion'), but is entitled to decline to do so. This is referred to in the Witness Information Sheet provided to witnesses prior to committee hearings.

I note that the circular to Ministers 7/87 from the Office of the Premier and Cabinet titled *Guidelines re: Evidence to Parliamentary Committees* sets out guidelines for government officers and employees in relation to answering questions to parliamentary committees and official inquiries. Clause 15 states:

² For an illustration of how the Standing Order operates in relation to documents, see the report of the Legislative Council Select Committee of Privilege on a Failure to Produce Documents under Summons (debated May 27 1999).

³ See page 4 of the report. November 1990.

⁴ See page 3 of the Sixth Report of the Standing Committee on Estimates and Financial Operations - December 1993.

They should not be expected therefore to answer questions ...a) seeking their personal view on government policy; ...b) which would require the witness to offer judgement on the policies or policy options of the Western Australian or other governments...."

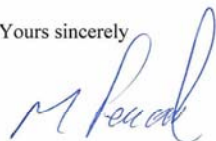
Standing Order 331 does not define "policy", but it is commonly interpreted to refer to the deliberative process of policy formulation by the Government.

It would seem that the subcommittee could argue that it was only seeking factual information from agency CEOs regarding the implementation of the efficiency dividend policy, and not any comment on the merits or origins of the policy - it is clear that SO 331 was never meant to apply to factual data relating to the implementation of a policy.

Ultimately, the subcommittee has to decide whether it wants to pursue this matter via the public servants or via the ministers - which, in effect, will just be those ministers in the Council.

I have no objection to my opinion being made public.

Yours sincerely



Malcolm Peacock
Clerk of the Legislative Council

Encs

APPENDIX 3
LIST OF WITNESSES

APPENDIX 3

LIST OF WITNESSES

Witnesses	Date
Mr Peter Jennings Acting Executive Director Australian Medical Association of Western Australia	25/02/09
Professor Gary Geelhoed President Australian Medical Association of Western Australia	25/02/09
Mr John Nicolaou Executive Director (Economic Policy) and Chief Economist Chamber of Commerce and Industry of Western Australia	25/02/09
Ms Toni Walkington Branch Secretary Community and Public Sector Union/Civil Service Association of WA	25/02/09
Mr Dave Robinson Secretary UnionsWA	25/02/09
Ms Sue Ash Chief Executive Officer Western Australian Council Of Social Service Inc	11/03/09
Dr Peter Flett Director General Department of Health	18/03/09
Dr Robyn Lawrence Executive Director, Innovation and Health System Reform Department of Health	18/03/09
Ms Sharyn O'Neill Director General Department of Education and Training	24/03/09

Witnesses	Date
Mr Peter McCaffrey Deputy Director General, Finance and Administration Department of Education and Training	24/03/09
Mr Timothy Marney Under Treasurer Department of Treasury and Finance	24/03/09
Dr Ron Chalmers Director General Disability Services Commission	24/03/09
Mr Terry Murphy Director General Department for Child Protection	24/03/09
Ms Jennifer McGrath Executive Director, Corporate and Business Services Department for Child Protection	24/03/09
Mr Ian Johnson Commissioner Department of Corrective Services	24/03/09
Mr Graeme Doyle Assistant Commissioner Corporate Support Department of Corrective Services	24/03/09
Mr Reece Waldock Chief Executive Officer Public Transport Authority	24/03/09
Mr Peter King Executive Director, Finance and Contracts Public Transport Authority	24/03/09
Mr Colin Murphy Auditor General Office of the Auditor General	25/03/09

Witnesses	Date
Mr David Gilchrist Assistant Auditor General Office of the Auditor General	25/03/09
Mrs Sadie Godfrey Assistant Auditor General, Strategy and Corporate Services Office of the Auditor General	25/03/09
Mr Barry Blaikie Private citizen and former Member of the Legislative Assembly	01/04/09
Mr Stuart Smith Chief Executive Officer Department of Fisheries	01/04/09
Mr Bruno Mezzatesta Director, Corporate Services Department of Fisheries	01/04/09
Mr Keiran McNamara Director General Department of Environment and Conservation	01/04/09
Dr John Byrne Chief Finance Officer Department of Environment and Conservation	01/04/09
Dr Karl O'Callaghan Commissioner of Police Western Australia Police	02/04/09
Mr Greg Italiano Executive Director Western Australia Police	02/04/09
Mr Les Bechelli Acting Director of Finance Western Australia Police	02/04/09
Dr Tim Griffin Acting Director General Department of Mines and Petroleum	08/04/09

Witnesses	Date
Mr Jeremy Hawke General Manager Finance Department of Mines and Petroleum	08/04/09
Mr Brian Bradley Director General Department of Commerce	08/04/09
Ms Joanne Hunt Manager, Policy and Executive Services Department of Commerce	08/04/09
Mr Grahame Searle Director General Department of Housing	08/04/09

APPENDIX 4

THREE PER CENT EFFICIENCY DIVIDEND - ALLOCATION BY AGENCY

APPENDIX 4

THREE PER CENT EFFICIENCY DIVIDEND - ALLOCATION BY AGENCY

3% Efficiency Dividend - Allocation by Agency

	2008/09	2009/10	2010/11	2011/12	
	\$'m	\$'m	\$'m	\$'m	
Agriculture & Food	2.7	5.0	5.0	5.2	
Attorney Generals Dept	4.5	9.2	9.5	9.5	
Botanic Gardens & Parks Authority	0.2	0.5	0.5	0.5	
Central TAFE	1.0	1.9	1.9	2.0	
Central West College	0.2	0.4	0.4	0.4	
Challenger TAFE	0.5	1.0	1.0	1.0	
Chemistry Centre WA	0.2	0.4	0.4	0.4	
Commissioner of Main Roads	4.8	11.2	11.7	12.7	
Consumer & Employment Protection	1.6	3.4	3.4	3.5	
Corruption & Crime Commission	0.3	0.7	0.8	0.9	
Country High School Hostels Authority	0.2	0.4	0.4	0.4	
Culture & The Arts	1.2	2.6	2.7	2.7	
Curriculum Council	0.3	0.5	0.6	0.6	
CY O'Connor College	0.1	0.3	0.3	0.3	
Dept for Child Protection	4.4	9.1	9.8	10.2	
Dept for Communities	0.5	1.3	1.1	1.0	
Dept of Corrective Services	7.6	15.5	15.8	16.4	
Dept of Water	1.2	2.2	2.1	2.1	
Disability Services Commission	2.1	4.3	4.4	4.5	
Economic Regulation Authority	0.1	0.3	0.3	0.3	
Education & Training	45.6	93.6	96.3	99.3	
Education Services	0.5	1.1	1.1	1.1	
Environment & Conservation	4.0	7.7	7.7	7.7	
Fire & Emergency Services Authority	2.6	5.5	5.8	6.0	
Fisheries	0.8	1.5	1.5	1.6	
Great Southern College	0.2	0.3	0.3	0.3	
Health	59.9	126.2	132.5	139.5	
Housing & Works	0.5	1.0	1.1	1.1	
Housing Authority	2.0	3.4	2.8	0.7	
Indigenous Affairs	0.4	0.7	0.7	0.7	
Industry & Resources	1.8	4.0	3.7	3.5	
Kimberley College	0.1	0.3	0.3	0.3	
Land Information Authority	1.6	3.3	3.5	3.6	
Legislative Assembly	0.4	0.8	0.8	0.8	
Legislative Council	0.2	0.5	0.5	0.5	
Local Government & Regional Development	0.2	0.5	0.5	0.5	
Office of Energy	0.4	0.5	0.5	0.5	
Office of the Auditor General	0.2	0.5	0.5	0.5	
Office of the Director of Public Prosecutions	0.4	0.9	0.9	0.9	
Parliamentary Services Department	0.2	0.3	0.3	0.4	
Pilbara College	0.3	0.6	0.6	0.6	
Planning & Infrastructure	3.8	7.8	7.7	7.9	
Premier & Cabinet	2.0	4.3	3.9	4.0	
Public Transport Authority	5.2	10.9	11.3	12.1	
Racing, Gaming & Liquor	0.1	0.3	0.3	0.3	
Registrar, WA Industrial Relations Commission	0.2	0.3	0.3	0.3	
Small Business Development Corporation	0.1	0.3	0.3	0.2	
South West Regional College	0.3	0.6	0.6	0.6	
Sport & Recreation	0.3	0.6	0.6	0.6	
Swan College	0.9	1.8	1.8	1.9	
Swan River Trust	0.1	0.3	0.3	0.3	
Treasury & Finance	2.5	5.1	5.2	5.5	
WA Electoral Commission	0.3	0.3	0.2	0.3	
WA Planning Commission	0.5	1.1	1.2	1.2	
WA Sports Centre Trust	0.3	0.7	0.7	0.7	
WA Tourism Commission	0.9	1.6	1.7	1.6	
West Coast College	0.4	0.8	0.8	0.9	
Western Australia Police	12.5	25.4	25.9	26.4	
Zoological Parks Authority	0.2	0.5	0.5	0.5	
TOTAL	186.6	386.1	397.3	410.0	1,380.0

Note:

1. The total of \$1,380m is slightly lower than the figure in the MYR (p.7) due to rounding error.

2. Amounts shown against agencies in the table represent reductions to spending by the agency which leave the general government sector. In some instances, agencies have met their efficiency dividend target by reducing internal spending (such as motor vehicle lease payments). Such internal savings are immaterial.

APPENDIX 5
AGENCY APPROVED FTE CEILING

APPENDIX 5

AGENCY APPROVED FTE CEILING

Agency approved FTE Ceiling	
Agency	Total FTE Ceiling
Agriculture and Food	1,591
Attorney General	2,167
Botanic Gardens and Parks Authority	112
Central TAFE	839
Central West TAFE	205
Challenger TAFE	713
Chemistry Centre WA	105
Child Protection	1,822
Commissioner for Children and Young People	18
Commissioner for Equal Opportunity	31
Commissioner of Main Roads	1,011
Consumer and Employment Protection	922
Corrective Services	4,077
Corruption and Crime Commission	153
Country High School Hostels Authority	115
Culture and the Arts	647
Curriculum Council	152
CY O'Connor TAFE	118
Department for Communities	239
Department of Water	668
Disability Services Commission	1,554
Economic Regulation Authority	48
Education and Training	31,260
Education Services	54
Environment and Conservation	1,944
Fire and Emergency Services Authority of Western Australia	1,258
Fisheries	413
Great Southern TAFE	208
Gascoyne Development Commission	12
Goldfields-Esperance Development Commission	12
Governor's Establishment	26
Great Southern Development Commission	15
Health	29,808
Heritage Council of Western Australia	30
Housing and Works	-
Indigenous Affairs	156
Industry and Resources	930
Kimberley TAFE	132
Kimberley Development Commission	12
Law Reform Commission of Western Australia	4
Legislative Assembly	30
Legislative Council	25
Local Government and Regional Development	123
Mid West Development Commission	13
Office of Energy	63
Office of Native Title	40
Office of the Auditor General	103
Office of the Director of Public Prosecutions	229
Office of the Information Commissioner	10
Office of the Inspector of Custodial Services	17
Office of the Public Sector Standards Commissioner	38
Parliamentary Commissioner for Administrative Investigations	48
Parliamentary Inspector of the Corruption and Crime Commission	2
Parliamentary Services	101
Peel Development Commission	12
Pilbara TAFE	230

- 2 -

Agency approved FTE Ceiling	
Agency	Total FTE Ceiling
Pilbara Development Commission	11
Planning and Infrastructure	1,748
Premier and Cabinet	755
Racing, Gaming and Liquor	101
Registrar, Western Australian Industrial Relations Commission	37
Rural Business Development Corporation	-
Salaries and Allowances Tribunal	2
Small Business Development Corporation	58
South West Regional TAFE	278
South West Development Commission	25
Sport and Recreation	154
State Supply Commission	13
Swan TAFE	737
Swan River Trust	47
The Agriculture Protection Board of Western Australia	-
The National Trust of Australia (Western Australia)	24
Treasury and Finance	1,534
Western Australia Police	7,177
Western Australian Electoral Commission	48
Western Australian Land Information Authority	895
Western Australian Planning Commission	-
Western Australian Sports Centre Trust	212
Western Australian Tourism Commission	169
West Coast TAFE	295
Wheatbelt Development Commission	13
Zoological Parks Authority	157
Total	99,155

APPENDIX 6
SUMMARY OF SUBMISSIONS

APPENDIX 6

SUMMARY OF SUBMISSIONS

FROM STAKEHOLDERS WHO DID NOT GIVE EVIDENCE AT A PUBLIC HEARING

The Chamber of Minerals and Energy of Western Australia	
	<p><i>Letter from Mr Reg Howard-Smith, Chief Executive, dated 30 January 2009</i></p> <ul style="list-style-type: none"> ▪ The Committee would find value in revisiting the findings and recommendations of recent reviews (noted in the submission). Past inquiries have recommended changes that have yet to be implemented. ▪ The Chamber advocates for improvements to the approvals process in Western Australia. Failings are well documented. ▪ There has been little change in government processes despite some effort of reform. ▪ The Chamber has identified a number of priority areas to reform project approvals. Implementing these matters and the previous review recommendations will result in significant improved efficiency across government.
Public Health Advocacy Institute of Western Australia, Curtin University of Technology	
	<p><i>Letter from Professor Mike Daube, Director, dated 11 February 2009</i></p> <ul style="list-style-type: none"> ▪ Professor Daube urges that: <ul style="list-style-type: none"> ▪ the Health Department and health systems be quarantined from the three per cent efficiency dividend; ▪ special care be taken to ensure that prevention programs are not seen as soft targets; and ▪ services for the disadvantaged and in areas that often lack popular appeal (such as mental health services) should also receive special consideration. ▪ The health system is already under significant pressure. Over the years they have been subjected to a number of cuts and dividends. Demands on services show no signs of abating. The pressures on the system are greater because of public expectations and demands and also recognised needs to increase levels of service to particular community sectors (e.g. rural and remote populations and disadvantaged groups). ▪ Health services traditionally require levels of funding over and above inflation (Health inflation). They are subject to costs not contained within inflation rates. ▪ Further cuts of any kind will inevitably affect the level and quality of services. ▪ Public health and prevention should not be seen as soft targets. Professor Daube is concerned about prevention program cuts which are not considered frontline services. ▪ Public health is already under funded (at most two per cent of expenditure, described by the Prime Minister as ‘crazy’). Public health activities, from monitoring and surveillance to health protection programs or activities designed to promote community health, should be seen as more important at a time when the system will be under severe pressure. ▪ If public health services are not supported, the community will be less healthy than it might have been.

The Developmental Disability Council of WA Inc	
	<p><i>Letter from Ms Sue Harris, Chief Executive Officer, dated 30 January 2009</i></p> <ul style="list-style-type: none"> ▪ The Developmental Disability Council of WA asks the subcommittee to: <ul style="list-style-type: none"> ▪ exempt Disability from the three per cent dividend; ▪ redirect any efficiencies that can be found in Disability to providing services and support to people with disabilities and their families desperately waiting for assistance; ▪ recommend that the growth committed to disability in the forward estimates be honoured, as a minimum; and ▪ consider options for focusing debate, as a matter of urgency, on how to resolve the ongoing disability funds crisis. ▪ The funding shortfall for disability remains critical. The Disability Services Commission is unable to help hundreds of people in dire need because of a lack of funding. Approximately eight out of ten people in critical need of assistance are turned away each (four monthly) funding round. The extent of disadvantage and difficulty this creates for people and their families is near impossible to imagine. The disability funding shortfall has been studied, analysed, counted, enquired into, consulted about and reported upon for well over a decade. Both political parties promised increases. ▪ With adequate funding the disability crisis would be resolved. The problem is exacerbated by the Commonwealth's refusal to accept shared responsibility until recently under the Commonwealth, State and Territory Disability Agreements. ▪ Disabled people's families in many instances have limited capacity beyond caring responsibilities to earn a decent living and save for their future as others do. There is a very sound case for exempting these people from taking their share of burden imposed by difficult economic times. ▪ The key questions are what is the cost of not providing the support and assistance the disabled citizens and their families need, what is the cost providing this support and assistance in a timely and dignified manner, and how and when will this funding be achieved.
People with Disabilities	
	<p><i>Letter from Ms Louise Durack, Executive Director, dated January 2009</i></p> <ul style="list-style-type: none"> ▪ Funding for people with a disability and their families remains inadequate and is not meeting basic needs. Further stress on the stretched Commission will not assist. ▪ The Director General, Disability Services Commission, advised in a letter dated 26 January 2009 that a recent Sector Health Check found that the Commission was a 'well run organisation that is working efficiently, but to capacity'. This does not reflect capacity to reduce spending. A three per cent reduction in funding will further stress the organisation and services and families will suffer. ▪ The efficiency dividend may result in a six per cent cut in public transport, particularly services after 8pm. This is likely to affect low income families and vulnerable people. This will increase social isolation for those without a driver's licence, which may breach the accessible public transport action plan, enforceable through the Australian Human Rights Commission.

Mr John Mason, John Mason Admin Solutions	
	<p><i>Letter from Mr John Mason, dated 7 January 2009</i></p> <ul style="list-style-type: none"> ▪ Recommends that: The Office of the Auditor General and the Public Service Commission conduct investigations on metropolitan agencies (Development Commissions can work on regional branches); Review the Office of Shared Services; Health, Police and Child Services be exempt from the budget cuts; Department of Education and Training non school areas of operation be closely scrutinised; Staffing at agencies be fully considered; Embargoes be placed on appointing highly paid consultants at the expense of permanent public servants. <p>Optimisation of State Government services to regional Western Australia</p> <ul style="list-style-type: none"> ▪ A well planned survey setting out the types of resources which would enhance the existing service delivery for each agency is needed. A Government committee could assess survey and make recommendations. <p>Inquiry's terms of reference</p> <ul style="list-style-type: none"> ▪ TOR (a) - The one size fits all philosophy is risky at best without an extensive overview. The biggest concern is that the exercises relate to the current financial period. ▪ TOR (b) - Police, health and child services should be exempt. The education portfolio needs a shake up. Extensive savings made investigating education and the Office of Shared Services would bolster the other agencies and contribute to the target of three per cent per agency. ▪ TOR (c) - Economies of scale impede smaller agencies operating and planning in strategic ways. ▪ TOR (d) - Agencies should embargo the appointment of consultants and contract staff, and train and upskill permanent staff. ▪ TOR (e) - The current financial crisis impacts in several ways: GST allocation to States shrink, stamp duty to the State reduces, royalties on sales of iron ore and nickel reduce, there is slower growth of the economy. ▪ TOR (f) - (h) - The three per cent cut should not impact on key areas of the capital works program. The current situation may necessitate a partial review of taxation cut strategies in order to ensure that the State's net debt doesn't balloon. Failing to implement the three per cent cuts could delay the provision of infrastructure. The intention of not increasing household electricity changes and 2008-09 and capping household fees may need to be rationalised.
Mr Peter Evans	
	<p><i>Letter from Mr Peter Evans dated January 2009</i></p> <ul style="list-style-type: none"> ▪ The level of service delivery can be improved in the following areas: homelessness expenditure or public housing; environmental concerns or Department Conservation and Land Management; and environmental concerns or Department of Environment and Conservation. They should focus on the need for recreational trail bike projects (efficient and sustainable projects). ▪ Government funding should not be reduced in any of the above areas regardless of any economical crisis scenario concerns.



THIRTY-EIGHTH PARLIAMENT

**MINORITY REPORT OF
HON BRIAN ELLIS MLC**

REPORT 21

**STANDING COMMITTEE ON ESTIMATES AND
FINANCIAL OPERATIONS**

**REPORT ON THE
INQUIRY INTO PUBLIC SECTOR EXPENDITURE**

Report 21 - Minority

May 2009

Minority Report of Hon Brian Ellis MLC

in regard to

Report 21 - Inquiry into Public Sector Expenditure

INTRODUCTION

- 1.1 As a member of the Estimates and Financial Operations Committee, I was appointed to the Committee's Inquiry into Public Sector Expenditure
- 1.2 It must be pointed out that a minority of the Estimates and Financial Operations Committee were opposed to a subcommittee being set up to inquire into Public Sector Expenditure, I felt that the appropriate time would have been after the new Government's first budget.
- 1.3 Having said that, it must be recognized (as the report does) that on 16 August 2008 Hon Eric Ripper MLA, Treasurer, announced that the Labor Government would impose a three per cent efficiency dividend if elected and during the election campaign the Liberal Party also announced that they would implement a public sector three per cent efficiency dividend if they formed government. Therefore all agencies should have been prepared and ready to start planning for the delivery of the dividend
- 1.4 I have had the opportunity of reviewing the transcripts of evidence tendered by various witnesses who have been called before the Inquiry and on the evidence presented to the Inquiry I consider the continued implementation of the three per cent Efficiency Dividend to be a worthwhile objective and achievable goal for the Barnett Government.
- 1.5 Since Mr. Ripper announced his Efficiency Dividend policy as part of a pre-election promise, the public is entitled to be somewhat confused and perplexed by the contradictory statements that have been made by members of the Labor Party both in and out of the Parliament. The Labor Party has been vague, unclear and undecided as to whether it supports or opposes the introduction of an Efficiency Dividend.
- 1.6 For example in 2008, Mr. Ripper said the Efficiency Dividend would apply to every portfolio, but since the recent State election it appears Labor has back flipped on its support for the position originally espoused by Mr. Ripper.
- 1.7 In contradiction to the policy announced in August 2008, Labor's Health spokesman, Mr. Roger Cook MLA, has stated that the Health portfolio should be exempt. Labor's Police spokesman has claimed the Police portfolio should be subjected to some undefined exemptions and Labor's Treasury spokesman, Mr. Ben Wyatt MLA has

added confusion in his statements on the merits of the proposed three per cent Efficiency Dividend.

- 1.8 Confusion is apparent in the Labor Party as on one hand some Labor spokesmen claim a number of portfolio areas should be exempted from Mr. Ripper's Efficiency Dividend they have not been able to nominate the specific areas to be exempt or the effect such exemptions would have on other portfolio areas.
- 1.9 On being elected to office the Barnett Government has had to grapple with the previous Labor Government's projected recurrent expenditure which was growing at an unsustainable rate. The Barnett Government has had to take remedial action to slow the increase in State debt to protect the States AAA credit rating.
- 1.10 The remedial action taken by the Barnett Government includes the implementation of Labor's proposed three per cent Efficiency Dividend which is intended to ensure that Government resources which are funded by the taxpayer are used more effectively.
- 1.11 Evidence provided in public session to the Inquiry, by various Government departments, indicate that there is scope for savings to be made in the use of Government resources.
- 1.12 Some examples of savings include the Department of Health, targeted FTE management \$10.1 million and Royal Street Division efficiencies \$7.974 million and others to achieve their total savings of \$458.1 over the forward estimates period to 2011-12.
- 1.13 The Department of Corrective Services, vacancy management \$3.887 million in 2008-09 and \$4.55 million in 2009-10. The Public Transport Authority will make its savings target in 2008-09 by targeting reductions in FTEs \$320,000 in 2008-09 and \$1million over a full year. Reducing interest expenses by \$4.8 million as a result of lower interest costs on PTA borrowings.
- 1.14 These are only some of the examples where departments achieved savings and they should be congratulated for making better use of Government resources.

HON TROY BUSWELL, TREASURER

- 1.15 I dissent from the Committee's actions in regard to the invitation for the Treasurer, Hon Troy Buswell to appear before the Committee. While I have no problem with the process as this was quite legitimate, I believe it was unnecessary. The Treasurer has his representative in the Legislative Council, the Parliamentary Secretary to the Treasurer the Hon Barry House. The Hon Barry House had been invited to attend the inquiry at short notice but could not appear due to prior commitments. He was not given another invitation to appear at an alternative date, this, I believe would have been the more appropriate course of action.

DISSENT FROM RECOMMENDATION 3

- 1.16 I dissent from recommendation 3 because unless there is a legal impediment then there is no case for exemption. The DTF advised the Auditor General that there is no impediment to these reductions.
- 1.17 There may be an argument that the efficiency dividend should not be imposed on the OAG solely based on their independence and Parliament's legislated oversight of their budget provided for in the Auditor General Act 2006 but this is unclear and at the time of the hearing, Treasury was still deliberating whether the efficiency dividend would apply to the OAG.

CHAPTER 7 – THE IMPACT OF THE EFFICIENCY DIVIDEND ON SMALL AGENCIES

- 1.18 Under the Terms of Reference the Committee considered whether the dividend has a disproportionate impact on smaller agencies. Some witnesses supported the view that size does matter but the Government has excluded agencies whose savings for a full year do not exceed \$200,000 therefore I believe the smaller agencies were not disadvantaged.

MEDIA COMMENT

- 1.19 Throughout the report there are many references to reports in the media or comments by media outlets e.g.; 2.17, 4.31, 8.12, 9.8, 9.10, 9.15, 9.28, 9.31, 9.32 of the report. I believe that the Terms of Reference did not include media comments unless made as a submission to the Committee or appearing before the Committee and consequently should not have been considered.

IN CONCLUSION

- 1.20 In conclusion I note that all agencies will achieve their three per cent efficiency dividends, if not in 2008-09, then in the following three years, without effecting frontline services. Once again I believe this inquiry would have been more useful if it had been held after the Government's budget to see if there had been any negative results on agencies due to the efficiency dividend. One can only conclude that this was a political inquiry by the majority of the subcommittee that achieved very little.



Hon Brian Ellis MLC

Date: 19 May 2009