

## CHAPTER 16: VIBRANT DEMOCRACY

### Key findings of the Committee:

- 16.1** The 2009-10 Budget plans on delivering an operating surplus for 2009-10 of \$165.1 million, exceeding the Government's revised short-term target for an operating surplus of at least \$100 million in each year.
- 16.2** In revising the former target for an operating surplus of at least 1 per cent of revenue to be achieved, the Government's intention was to ensure that the target remains relevant in the current fiscal and economic environment.
- 16.3** The budget predicts:
- a significant reduction of \$216.7 million or 56.8 per cent in the budgeted operating surplus to be delivered in 2009-10 compared to the 2008-09 Budget Update forecast; and
  - in terms of the forward estimates, an increase of \$30.2 million or 18.3 per cent in the budgeted operating surplus in 2010-11 compared to 2009-10 and substantial incremental increases of \$95.0 million (or 48.6 per cent) and \$271.8 million (or 93.6 per cent) respectively in the subsequent out years (2011-12 compared to 2010-11 and 2012-13 compared to 2011-12).
- 16.4** In comparing the budget results for 2009-10 between the states and territories and the Commonwealth, Victoria was one of only three jurisdictions (the others comprising Western Australia and the Northern Territory) to budget for a positive net operating balance (total revenue less total expenses) in 2009-10.
- 16.5** According to the Budget Papers, better asset utilisation is being achieved through the Government's Shared Facility Partnerships guide to good governance for schools and the community, and a series of initiatives under the Efficient Government Policy are keeping the Government's corporate services cost efficient.
- 16.6** In terms of the \$1.8 billion in aggregate savings expected to be achieved between 2007-08 and 2012-13, the Government expects that the estimated efficiencies totalling \$388 million to be realised in 2009-10 (which includes revenue to be received from outer budget agencies and excludes implementation costs in relation to the efficiency initiatives contained in the 2007-08 budget) will comprise:
- \$125 million under the auspice of the Efficient Government Policy; and
  - \$263 million in terms of other/general efficiencies.
- 16.7** Savings measures adopted by departments concentrated to a large extent on administrative or support functions of a discretionary nature, with a clear message that any impact on service delivery to the community would be avoided or minimised.
- 16.8** The concept adopted by the Department of Human Services of promoting a culture of efficiency through the development of a specific strategy is supported by the Committee, as is the creation of a dedicated Savings Implementation Committee by the Department of Justice to manage budget savings requirements across the department.

- 16.9** The 2009-10 Budget earmarks that \$86.5 million in general efficiencies is to be achieved by departments in 2009-10 (\$665 million over four years to 2012-13), which is a significant figure when compared to the Government's estimated operating surplus of \$165 million for 2009-10. Without the generation of these savings, the Committee observed that the estimated surplus would be considerably lower.
- 16.10** The Committee noted that the Government expects to achieve a large incremental increase in general efficiency savings in 2010-11 compared to 2009-10 (an increase of \$57.7 million or 66.7 per cent) and in 2011-12 over 2010-11 (an increase of \$72.4 million or 50.2 per cent) before stading in 2012-13.
- 16.11** Departments are required to generate efficiency savings in the order of \$357.6 million in 2009-10 according to the 2007-08, 2008-09 and 2009-10 Budget Papers and information provided by departments. Savings pursuant to the Efficient Government Policy comprise \$104.7 million or 29.3 per cent of this amount.
- 16.12** In line with the Government's savings directions for 2009-10, half of the efficiency savings targets are to be met by the Department of Education and Early Childhood Development (\$52.4 million), the Department of Human Services (\$78.3 million) and the Department of Justice (\$51.1 million).
- 16.13** Departments should be requested to outline, during the budget development process, their respective plans of where they see potential exists for efficiency savings to be achieved over ensuing four year period. This information should be presented in broad terms in the Budget Papers to further explain general efficiencies.
- 16.14** The Committee believes that commentary in annual reports on areas reviewed to achieve efficiencies of a general nature could assist in information sharing and consistency among departments about potential areas to be considered for achieving future savings.

## **16.1 Introduction**

In its analysis of the budget estimates, the Committee asked a total of 83 questions pertaining to the Vibrant Democracy vision of the *Growing Victoria Together* initiative. This represented 17.3 per cent of all questions asked in the Budget Estimates hearings.

Given that the ability of the Government to attract people, promote investment, create new jobs, provide better services and protect the environment depends on a strong and secure financial base, the Committee was interested in examining:

- the budget position planned for Victoria compared to other jurisdictions; and
- the planned efficiency savings and related initiatives to be pursued by departments in 2009-10 and over the forward estimates.

## 16.2 Analysis of Surpluses and Deficits

### 16.2.1 Background

Chapter 2 of this report, which discusses key aspects of the 2009-10 Budget, provides comments relating to the target and projected budget surplus for 2009-10 as well as coverage of revenue and expense projections contained in the budget.

Figure 16.1 shows the estimated net operating balance (budgeted operating surplus) for 2009-10 and over the forward estimates to 2012-13. As shown in the table, the budget plans on delivering an operating surplus for 2009-10 of \$165.1 million which exceeds the Government's revised short-term target for an operating surplus of at least \$100 million in each year.<sup>579</sup> In revising the former target for an operating surplus of at least 1 per cent of revenue to be achieved, the Government's intention was to ensure that the target remains relevant in the current fiscal and economic environment.<sup>580</sup>

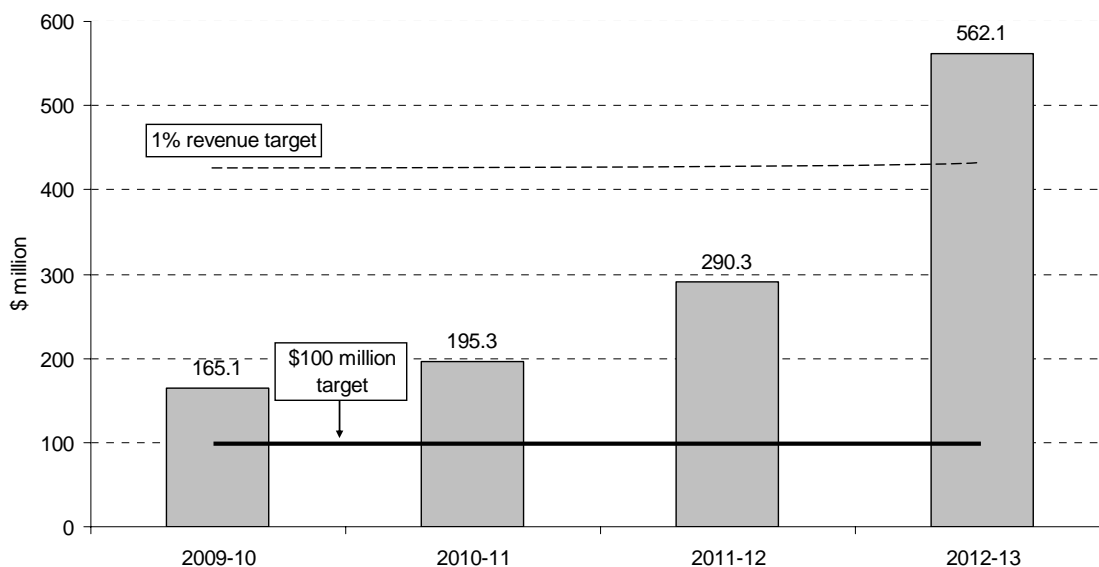
The Committee also noted that the Government has budgeted for:

- a significant reduction of \$216.7 million or 56.8 per cent in the budgeted operating surplus to be delivered in 2009-10 compared to the *2008-09 Budget Update* forecast;
- an increase in the budgeted operating surplus to be delivered in 2010-11 compared to 2009-10 (an increase of \$30.2 million or 18.3 per cent); and
- substantial incremental increases in the budgeted operating surpluses in 2011-12 compared to 2010-11 (an increase of \$95.0 million or 48.6 per cent) and in 2012-13 compared to 2011-12 (an increase of \$271.8 million or 93.6 per cent).

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<sup>579</sup> Department of Treasury and Finance, Budget Paper No. 2, *2009-10 Strategy and Outlook*, May 2009, p.8  
<sup>580</sup> *ibid.*, p.8

**Figure 16.1: Estimated net operating balance 2009-10 to 2012-13**



Source: Mr J Lenders MLC, Treasurer, 2009-10 Budget Estimates hearing, 12 May 2009, presentation slide 15

### 16.2.2 2009-10 Budget results for Victoria compared to other jurisdictions

Table 16.1 shows a comparison of budget results for 2009-10 between the states and territories and the Commonwealth, together with a summary of the key strategies to be implemented to improve the budget position of those jurisdictions. As can be seen from the information contained in Table 16.2, Victoria was one of only three jurisdictions (the others comprising Western Australia and the Northern Territory) to budget for a positive net operating balance (total revenue less total expenses) in 2009-10.

**Table 16.1: Budget positions – estimated operating results Australia and states and territories – 2009-10 to 2012-13**

Jurisdiction	2009-10 Budget Net operating result (\$ million)	2010-11 estimate Net operating result (\$ million)	2011-12 estimate Net operating result (\$ million)	2012-13 estimate Net operating result (\$ million)	Key strategies designed to improve the fiscal position
Victoria	165.1	195.3	290.3	562.1	<p>According to the 2009-10 Budget, growth in revenue and expenses is similar in 2009-10 and 2010-11, but expenditure grows more slowly than revenue during the later forward estimates years.</p> <p>This widening gap between revenue and expenditure growth from 2011-12 reflects a rebuilding of the taxation base as economic conditions improve as well as the Government's commitment to prudent management of operating expenditure.</p> <p>The 2009-10 Budget requires that general efficiency savings in the order of \$86.5 million are to be made in 2009-10 (\$665.0 million between 2009-10 and 2012-13).</p> <p>The Government has reduced ongoing Enterprise Bargaining Agreement (EBA) wage increases. After the first week in May 2009, a new wages model would be based on restricting increases to 2.5 per cent rather than 3.25 per cent, thereby resulting in a reduction in wage outcomes.</p> <p>The indexation of non-wage costs going forward has been reduced, reflecting a reduction in inflation across the economy.</p>
New South Wales	-990	-116	86	642	<p>The budget incorporates a five point <i>Better Services and Value Plan</i> to improve service delivery and contain the growth in expenses. The Plan:</p> <ul style="list-style-type: none"> <li>• maintains the Government's wages policy and extends the public sector staffing freeze;</li> <li>• amalgamates 160 government agencies and offices into 13;</li> <li>• establishes a Better Services and Value Taskforce to oversee a series of strategic value-for-money reviews of whole-of-government expenditures;</li> <li>• calls for line-by-line audits of agency activities; and</li> <li>• requires performance reviews to be undertaken of state owned corporations.</li> </ul> <p>The Plan will significantly enhance agency service delivery and allow agency efficiency dividends to be extended to 2011-12 and 2012-13.</p>

Jurisdiction	2009-10 Budget Net operating result (\$ million)	2010-11 estimate Net operating result (\$ million)	2011-12 estimate Net operating result (\$ million)	2012-13 estimate Net operating result (\$ million)	Key strategies designed to improve the fiscal position
Queensland	-1,954	-3,459	-4,090	-3,290	<p>Key initiatives in the 2009-10 Budget include:</p> <ul style="list-style-type: none"> <li>• abolition of the Queensland Fuel Subsidy Scheme;</li> <li>• further public sector efficiency measures which leverage off savings from the recent machinery of government changes;</li> <li>• reform to local government grants and subsidy programs;</li> <li>• revision to the Government's wages policy;</li> <li>• changes to procurement policy; and</li> <li>• a comprehensive program of asset sales.</li> </ul> <p>Measures that have been announced since the 2008-09 budget include:</p> <ul style="list-style-type: none"> <li>• Government-owned corporation reform;</li> <li>• closure of the defined benefits scheme; and</li> <li>• taxation measures announced in December 2008.</li> </ul>
South Australia	-304	78	96	304	<p>According to 2009-10 Budget, new savings of \$831 million, along with a return to positive GST and taxation revenue growth post 2009-10, support the Government's capital program and deliver the budget back into operating surplus over the four years to 2012-13. New savings will not be sought in 2009-10 in recognition of forecast negative economic growth in that year.</p> <p>To identify measures to improve the budget position, the Government will establish a Sustainable Budget Commission, which will make its initial recommendations to the Government for the 2010-11 Budget.</p> <p>To meet a proportion of the savings task, the Government will seek to limit future wage outcomes to 2.5 per cent per year across the public sector, saving the Government up to \$290 million by 2012-13.</p>

Jurisdiction	2009-10 Budget Net operating result (\$ million)	2010-11 estimate Net operating result (\$ million)	2011-12 estimate Net operating result (\$ million)	2012-13 estimate Net operating result (\$ million)	Key strategies designed to improve the fiscal position
Western Australia	409	23	-513	-458	<p>The 2009-10 Budget Papers reveal a range of corrective measures to protect the State's finances. The Committee noted that the first stage of an Economic Audit established in October 2008 has identified a range of reform initiatives that will generate savings of \$1.1 billion over the next four years. These include, among other things, increased user pays where people have a choice as to what services are used, phasing out of lower priority activities and introducing a ceiling on Full-Time Equivalent staffing levels.</p> <p>Since the 2008-09 mid-year review in December, projected revenue from State taxes, GST grants from the Commonwealth and mining royalties has fallen by \$4 billion over the forward estimates to 2011-12.</p> <p>The budget indicates that, while deficits are currently projected in the last two years of the forward estimates period (2011-12 and 2012-13), in the current environment there is considerable uncertainty in projecting this far into the future. The Government's objective is to ensure the budget remains in surplus and there is ample time for the Government to take further action, should it be necessary, to ensure this outcome.</p>
Tasmania	-117	-87	-24	74	<p>Budget savings of \$760 million over four years are forecast in the 2009-10 Budget. Strategies include:</p> <ul style="list-style-type: none"> <li>• employment management strategies, that include vacancy control, early retirement and targeted voluntary redundancies;</li> <li>• a new wages policy with salary increases no greater than 1 per cent per annum in 2009-10 and 2010-11; and 2.5 per cent in 2011-12 and 2012-13;</li> <li>• a freeze on Parliamentary and executive salaries for one year; and</li> <li>• a reduction in the Resource Allowance for Members of Parliament.</li> </ul> <p>An Interim Fiscal Strategy establishes a set of targets, the progressive achievement of which will return the Budget to a sustainable position.</p>
Northern Territory	215	116	122	79	<p>Growth in general government operating expenses to be less than the growth in revenue, excluding tied Commonwealth revenue, over the economic cycle thereby achieving a sufficient operating balance to fund general government capital spending.</p>

Jurisdiction	2009-10 Budget Net operating result (\$ million)	2010-11 estimate Net operating result (\$ million)	2011-12 estimate Net operating result (\$ million)	2012-13 estimate Net operating result (\$ million)	Key strategies designed to improve the fiscal position
Australian Capital Territory	-82.2	-112.4	-164.9	-152.2	<p>The Government has adopted a longer term approach to dealing with the effects of global events on the budget. Services in priority areas have not only been maintained, but supplemented where necessary to meet the needs of the community and respond to growth in demand.</p> <p>New policy initiatives are largely being offset through reprioritisation, wage restraint and efficiency dividends.</p>
Australia	-47,601	-49,687	-35,612	-25,306	<p>The Government's strategy to return the budget to surplus as the economy recovers is to be achieved by banking increases in tax revenue naturally associated with the economic recovery, and by limiting real growth in spending to 2 per cent a year until the budget returns to surplus.</p> <p>The Government's fiscal strategy is currently expected to halve the budget deficit by 2012-13 and return the budget to surplus by 2015-16. As part of this strategy, the Government has fully offset spending proposals in the final year of the forward estimates period.</p> <p>The Government has found savings of \$22.6 billion over four years.</p>

Sources: Compiled by the Committee from information contained in Budget Papers of the various jurisdictions within Australia



## 16.3 Efficiencies

### 16.3.1 Background

The policy for an '*Efficient Government*', announced as part of the Government's 2006 election commitments, has been a topic of continuing interest to the Committee since the 2007-08 Budget disclosed a series of measures to implement this commitment, including the *Buying Smarter, Buying Less* strategy.<sup>581</sup>

In implementing the commitment for an efficient government, subsequent budgets have indicated that:

- a growing and ageing population placing increasing demands on public services require assessments to be constantly made on how to better use public funds to deliver more frontline services to the community;<sup>582</sup>
- the current fiscally-constrained environment makes it important for the public sector to improve the efficiency of its own operations in order to protect jobs and maintain key government services for a growing and ageing population;<sup>583</sup> and
- linked to efficiency improvement, productivity growth is encouraged through skills reform, infrastructure initiatives and reducing the regulatory burden on businesses in order to prepare for the upturn and address the longer-term challenges emerging from the ageing population.<sup>584</sup>

With a view to improving the efficiency of the Government's own operations, the 2009-10 Budget outlines a number of contemporary initiatives that are underway. For example, the Budget Papers disclose that better asset utilisation is being achieved through the Government's *Shared Facility Partnerships* guide to good governance for schools and the community.<sup>585</sup> A report by the Victorian Competition and Efficiency Commission into the sharing of government and community facilities in Victoria was submitted to the Treasurer on 14 September 2009.<sup>586</sup>

The Committee also noted that according to the Government, a series of *Efficient Government* initiatives are keeping its corporate services cost efficient. These include:<sup>587</sup>

- creating a new shared library service;
- establishing a shared facilities management service for Victorian Government accommodation;
- consolidating Victorian Government car pools; and
- standardising core information and communication technology services across government.

<sup>581</sup> Department of Treasury and Finance, Budget Paper No. 3, *2007-08 Service Delivery*, pp.35, 344

<sup>582</sup> *ibid.*

<sup>583</sup> Department of Treasury and Finance, Budget Paper No. 2, *2009-10 Strategy and Outlook*, May 2009, p.71

<sup>584</sup> *ibid.*

<sup>585</sup> *ibid.*, p.78

<sup>586</sup> VCEC (website), accessed 22 September 2009, <http://vcec.vic.gov.au>

<sup>587</sup> Department of Treasury and Finance, Budget Paper No. 2, *2009-10 Strategy and Outlook*, May 2009, p.79

Output efficiency targets that have been set in the budgets for 2007-08, 2008-09 and 2009-10 are presented in Chapter 2 of this report, both in aggregate terms as well as highlighting the 2009-10 component. Of the \$1.8 billion in aggregate savings expected to be achieved between 2007-08 and 2012-13, the Government expects that the estimated efficiencies totalling \$388 million to be realised in 2009-10 will comprise:<sup>588</sup>

- \$125 million under the auspice of the Efficient Government Policy; and
- \$263 million in terms of other/general efficiencies.

It is important to note that the aggregate information drawn from Chapter 2 of this report differs from the efficiency savings shown for individual departments referred to in this chapter because the aggregate efficiency savings includes revenue to be received from outer budget agencies and excludes implementation costs.<sup>589</sup>

On what basis have decisions regarding applicable savings measures been made by departments?

Information provided by departments about decision-making approaches surrounding departmental savings programs and impact on direct service delivery revealed that:

- decisions in the Department of Education and Early Childhood Development about general efficiencies and savings measures are taken by the departmental Management Committee on advice from the Resources Committee as part of the development of the internal budget;<sup>590</sup>
- to minimise the level of savings passed on to critical services to people in need of health, housing and other community services, savings are generally applied by the Department of Human Services to areas of corporate and program support functions. While nine major improvement projects were delivered in 2008, a further 10 projects are planned for 2009, which will focus on areas of operational administration within head office and regions. In some instances, however, savings may be passed on to direct service provision through minor reductions in price in order to promote service efficiencies. The department's *Doing Business Better* strategy seeks to develop a culture of efficiency through:
  - the development of people and capability to solve problems;
  - giving people the authority and responsibility to control their own work; and
  - continuously improving the value delivered to clients by eliminating waste and duplication, simplifying processes and improving quality and productivity;<sup>591</sup>

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<sup>588</sup> Public Accounts and Estimates Committee, *Report on the 2009-10 Budget Estimates*, May 2007, Chapter 2, Table 5  
<sup>589</sup> Department of Treasury and Finance, Budget Paper No. 3, *2007-08 Service Delivery*, p.344 Table A.25 Efficiency Initiatives Note (a)

<sup>590</sup> Department of Education and Early Childhood Development, response to the Committee's 2009-10 Budget Estimates questionnaire, received May 2009, p.20

<sup>591</sup> Department of Human Services, response to the Committee's 2009-10 Budget Estimates questionnaire, received 8 May 2009, p.12

- the Department of Justice has adopted a number of strategies targeted at reducing head office and corporate expenditure to maintain the current level of program services. A Savings Implementation Committee has been established to manage budget savings requirements across the Department (excluding Victoria Police). The Department is considering its workforce/recruitment strategies and accommodation needs in the light of the policy decision to limit staffing growth in the Central Business District. At Victoria Police, efficiency savings for 2009-10, expected to be in the order of \$7.5 million, are to be achieved through corporate rationalisation;<sup>592</sup>
- at the Department of Planning and Community Development, in allocating savings to administrative areas covering all areas of the department, the use of shared services or consolidations are to be used to achieve savings with an emphasis on minimising any impact on service delivery to the community;<sup>593</sup>
- the disaggregation of savings across the Department of Premier and Cabinet has considered fixed and variable costs, past trends, budget capacity and expenditure required to achieve the Department's required outcomes. Service delivery and program delivery requirements are to be maintained despite the imposition of these savings;<sup>594</sup>
- as advised by the Department of Primary Industries, efficiencies were detected by reducing investment in low priority areas in line with government priorities. Reductions are specifically targeted to not significantly impact the department's priorities and Strategic Plan;<sup>595</sup>
- in most cases, savings are applied across the Department of Sustainability and Environment and its portfolio entities on a pro-rata basis on their discretionary expenditure base;<sup>596</sup>
- in relation to the Department of Transport, as a large proportion of the Department's budget is committed to contractual public transport payments, high priority services and essential transport infrastructure projects, these areas are protected from savings measures. Exceptions to this are where efficiencies can be achieved through system, procurement and productivity improvements. In this regard, savings are generally targeted to areas of discretionary activity that will not impact on service and project delivery;<sup>597</sup> and
- in using its internal budgeting and reporting processes to estimate the savings targets, the Department of Treasury and Finance does not expect the efficiency to impact on programs or outputs to be delivered. <sup>598</sup>

<sup>592</sup> Department of Justice, response to the Committee's 2009-10 Budget Estimates questionnaire, received May 2009, pp.17-18

<sup>593</sup> Department of Planning and Community Development, response to the Committee's 2009-10 Budget Estimates questionnaire, received May 2009, p.13

<sup>594</sup> Department of Premier and Cabinet, response to the Committee's 2009-10 Budget Estimates questionnaire, received 11 May 2009, p.6

<sup>595</sup> Department of Primary Industries, response to the Committee's 2009-10 Budget Estimates questionnaire, received 14 May 2009, p.10

<sup>596</sup> Department of Sustainability and Environment, response to the Committee's 2009-10 Budget Estimates questionnaire, received 4 May 2009, p.12

<sup>597</sup> Department of Transport, response to the Committee's 2009-10 Budget Estimates questionnaire, received May 2009, p.11

<sup>598</sup> Department of Treasury and Finance, response to the Committee's 2009-10 Budget Estimates questionnaire, received 14 May 2009, p.14

In addition, the Committee was interested to see that in relation to the Department of Premier and Cabinet, strengthening organisational capability and efficiencies was one of the key budget themes identified as underpinning the development of the Department's budget.<sup>599</sup>

The Committee noted that savings measures adopted by departments concentrated to a large extent on administrative or support functions of a discretionary nature with a clear message that any impact on service delivery to the community would be avoided or minimised. The concept adopted by the Department of Human Services of promoting a culture of efficiency through the development of a specific strategy is supported by the Committee as is the creation of a dedicated Savings Implementation Committee by the Department of Justice to manage budget savings requirements across the department.

The Committee acknowledges that the Victorian budget forecasts an operating surplus of \$165.1 million in 2009-10 and an average surplus of \$349.2 million over the forward estimates period to 2012-13 (rising to \$562.1 million in 2012-13).<sup>600</sup> The Committee also notes that the budget calls for a substantial incremental rise in general efficiency savings to be made by departments over the forward estimates period compared to the 2009-10 Budget year (\$86.5 million in 2009-10, rising to \$144.2 million in 2010-11 and \$216.6 million in 2011-12 before levelling off at \$217.7 million in 2012-13)<sup>601</sup>.

**Recommendation 51:**

**Given the magnitude of the budget surpluses and efficiency savings expected to be achieved in the 2009-10 Budget year and over the forward estimates, departments consider in their business plans the need to deliver savings targets by, among other things:**

- (a) promoting a culture of efficiency throughout their organisations and in the way budgets are developed and managed;**
- (b) demonstrating a clear commitment to improving cost control and productivity; and**
- (c) examining the efficacy of establishing a dedicated committee to manage the implementation of the efficiency enhancing reforms.**

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<sup>599</sup> Department of Premier and Cabinet, response to the Committee's 2009-10 Budget Estimates questionnaire, received 11 May 2009, p.1

<sup>600</sup> Department of Treasury and Finance, Budget Paper No.4, *2009-10 Statement of Finances*, May 2009, p.270

<sup>601</sup> Department of Treasury and Finance, Budget Paper No. 3, *2009-10 Service Delivery*, May 2009, p.368

### 16.3.2 Breakdown of efficiencies to be achieved in 2009-10 by departments

#### (a) General efficiency targets announced in the 2009-10 Budget – breakdown of targeted savings per department

The 2009-10 Budget earmarks that \$86.5 million in general efficiencies is to be achieved by departments in 2009-10 (\$665 million over four years to 2012-13), which is a significant figure when compared to the Government's estimated operating surplus of \$165 million for 2009-10. Without the generation of these savings, the Committee observed that the estimated surplus would be considerably lower. The 2009-10 Budget Papers also show that drought savings targets totalling \$50 million were allocated to departments in 2008-09.<sup>602</sup> Table 16.2 provides a breakdown of new efficiency initiatives on a departmental basis for the 2009-10 Budget year and over the forward estimates to 2012-13. The Committee noted that the Government expects to achieve a large incremental increase in general efficiency savings in 2010-11 compared to 2009-10 (an increase of \$57.7 million or 66.7 per cent) and in 2011-12 over 2010-11 (an increase of \$72.4 million or 50.2 per cent) before steadying in 2012-13.

**Table 16.2: General efficiency targets announced in the 2009-10 Budget per department**

Department	2009-10 (\$ million)	2010-11 (\$ million)	2011-12 (\$ million)	2012-13 (\$ million)	Total (\$ million)
Education and Early Childhood Development	9.5	28.7	62.6	63.7	164.5
Human Services	23.0	34.5	46.0	46.0	149.5
Innovation, Industry and Regional Development	6.0	9.0	12.0	12.0	39.0
Justice	15.0	22.5	30.0	30.0	97.5
Planning and Community Development	3.0	4.5	6.0	6.0	19.5
Premier and Cabinet	3.0	4.5	6.0	6.0	19.5
Primary Industries	3.0	4.5	6.0	6.0	19.5
Sustainability and Environment	6.0	9.0	12.0	12.0	39.0
Transport	15.0	22.5	30.0	30.0	97.5
Treasury and Finance	3.0	4.5	6.0	6.0	19.5
<b>Total</b>	<b>86.5</b>	<b>144.2</b>	<b>216.6</b>	<b>217.7</b>	<b>665.0</b>

Source: Compiled by the Committee from information in Department of Treasury and Finance Budget, Paper No. 3, 2009-10 Service Delivery, pp.307-368

Only two departments, the Department of Education and Early Childhood Development and the Department of Human Services, provided the Committee with a breakdown of the planned efficiency savings identified in the 2009-10 Budget as 'general efficiencies'.

<sup>602</sup> *ibid.*,

The Committee was advised that in order to achieve the required general efficiencies:

- the Department of Education and Early Childhood Development has reduced the non-salary indexation provided to central office, regions and schools. The Committee was also informed by the Minister for Education that any efficiencies made by the Department will not impact the employment of teachers by schools;<sup>603</sup> and
- the following areas were reviewed by the Department of Human Services to deliver the efficiency savings:<sup>604</sup>
  - cessation of sustenance at meetings and training;
  - realisation of benefits from video conferencing;
  - non-replacement of natural attrition of non-direct care staffing;
  - reduced use of contractors; and
  - administrative and budget processes.

At the Budget Estimates hearing with the Premier, the Committee was interested in ascertaining from the Premier whether, in relation to the general efficiencies of \$86.5 million to be achieved in 2009-10, there is an expectation that the savings need to be productivity driven across departments. In this regard, the Premier advised the Committee that productivity savings are in the category of ‘good housekeeping’ and the following factors translated to a lower growth in expenditure going forward:<sup>605</sup>

- the Government has reduced ongoing EBA wage costs and after the first week in May 2009, a new wages model would be based on restricting increases to 2.5 per cent rather than 3.25 per cent, thereby resulting in a reduction in wage outcomes; and
- the indexation of non-wage costs going forward has been reduced, reflecting a reduction in inflation across the economy

To obtain specific details of where general efficiencies amounting to \$34.5 million (\$25 million from last year’s budget and \$9.5 million from the current budget) were to be found by the Department of Education and Early Childhood Development, the Committee asked the Minister for Education at the Budget Estimates hearing to explain where the targeted general efficiency savings were going to come from during 2009-10. The Minister, in indicating that there were no specific areas being targeted other than general efficiencies, stated that:<sup>606</sup>

*...we are confident that the general efficiencies that we are asking people to find can be dealt with within a department of this size and scope. We are a huge department. We have a high expenditure level because of the breadth of our responsibilities in the education system...When it comes to actually finding these departmental efficiencies, they will be at the departmental and regional level and they will not be within our schools...we will just continue to make sure that our department is functioning as efficiently as we can. We will be working with people in the various areas of the department to help them to achieve those savings...*

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<sup>603</sup> Department of Education and Early Childhood Development, response to the Committee’s 2009-10 Budget Estimates questionnaire Clarification questions, received 31 August 2009, p.20

<sup>604</sup> Hon. D Andrews MP, Minister for Health, response to additional follow up question, received 16 September 2009

<sup>605</sup> Hon. J Brumby MP, Premier, 2009-10 Budget Estimates hearing, transcript of evidence, 11 May 2009, p.29

<sup>606</sup> Hon. B Pike MP, Minister for Education, 2009-10 Budget Estimates hearing, transcript of evidence, 13 May 2009, p.9



- under the *Efficient Government* policy with targets totalling \$104.7 million for 2009-10 (29.3 per cent of total departmental efficiency savings), the efficiency measures that attracted the highest efficiency saving targets were:
  - *Buying Smarter, Buying Less*: \$65.8 million (62.8 per cent of the total *Efficient Government* policy savings initiatives); and
  - *Shared Services*: \$19.6 million (18.7 per cent of total);
- with regard to the *Buying Smarter, Buying Less* efficiency measure, the majority of the savings are to be generated by the following departments during 2009-10:
  - Department of Education and Early Childhood Development: \$11.5 million;
  - Department of Human Services: \$11.5 million;
  - Department of Justice: \$8.8 million;
  - Department of Sustainability and Environment: \$8.8 million; and
  - Department of Transport: \$8.8 million.
- the largest component of the savings to be achieved from the *Shared Services* efficiency measure is to be derived by the Department of Human Services (\$8.5 million);
- in terms of other efficiencies contained in the 2007-08 budget that relate to 2009-10, the Department of Innovation, Industry and Regional Development is required to achieve the largest component (\$15.2 million or 28.1 per cent); and
- with regard to general efficiencies contained in the 2008-09 and 2009-10 Budgets, the Department of Education and Early Childhood Development (\$34.5 million or 17.4 per cent) and the Department of Human Services (\$48.0 million or 24.1 per cent) are required to make the largest contributions.



**Table 16.3: Breakdown of efficiency measures per department for 2009-10 <sup>(a)</sup>**

Department	Buying Smarter, Buying Less (\$ million)	Shared Services (\$ million)	Grants Admin. (\$ million)	Fleet Management (\$ million)	Advertising and Consultancies (\$ million)	Integrated ICT (\$ million)	LFS – Efficient Government Policy Subtotal (\$ million)	Other Efficiencies 2007-08 Budget/ additional ERC initiatives (\$ million)	General Efficiencies 2008-09 and 2009-10 Budgets (\$ million)	Total Efficiency Target (\$ million)
Education and Early Childhood Development	11.5	2.1	0.1	0.1	0.2	-	14.0	3.9	34.5	52.4
Human Services	11.5	8.5	0.4	0.9	1.1	-	22.4	7.9	48.0	78.3
Innovation, Industry and Regional Development	4.0	0.4	3.2	0.03	0.8	2.1	10.5	15.2	14.3	40.0
Justice	8.8	4.2	0.2	1.6	0.4	-	15.2	8.4	27.5	51.1
Planning and Community Development	0.3	0.2	-	-	-	-	0.5	0.6	11.3	12.4
Premier and Cabinet	2.0	-	-	-	-	-	2.0	1.6	11.3	14.9
Primary Industries	6.1	1.4	0.02	0.5	0.3	-	8.3	2.1	11.3	21.7
Sustainability and Environment	8.8	1.7	2.4	0.5	0.8	-	14.2	9.1	14.3	37.6
Transport	8.8	0.6	0.7	0.05	0.4	-	10.5	2.9	15.0	28.4
Treasury and Finance	4.0	0.5	-	0.007	0.2	2.4	7.1	2.4	11.3	20.8
<b>Total</b>	<b>65.8</b>	<b>19.6</b>	<b>7.02</b>	<b>3.69</b>	<b>4.2</b>	<b>4.5</b>	<b>104.7</b>	<b>54.1</b>	<b>198.8</b>	<b>357.6</b>

Note: (a) Information presented in this table on a departmental basis, and the totals for the specific efficiency initiatives, differ from the aggregate information shown in the Budget Papers for efficiency initiatives because the figures in aggregate in the Budget Papers (see Budget Paper No. 3, 2007-08 Service Delivery, Table A.25, note a) include revenue to be received from outer Budget agencies, and exclude implementation costs

Sources: Compiled by the Committee from information in contained in departmental responses to the 2009-10 Estimates Questionnaire, Budget Paper No. 3, 2008-09 Service Delivery and Budget Paper No. 3, 2009-10 Service Delivery

### 16.3.3 Ratio of estimated efficiencies for 2009-10 to the total output cost for each department

Table 16.4 sets out a comparison of all planned efficiency savings for 2009-10 according to the *Efficient Government* policy and other targeted savings initiatives to the total output cost target for each department.

**Table 16.4: Efficiency targets compared to output costs**  
Ratio analysis per department  
2009-10

Department	Total Efficiency target (\$ million)	Total Output cost target (\$ million)	Efficiency target/Total Output cost target Ratio
Education and Early Childhood Development	52.4	8,374.1	0.006:1
Human Services	78.3	14,723.1	0.005:1
Innovation, Industry and Regional Development	40.0	2,506.0	0.016:1
Justice	51.1	3,906.7	0.013:1
Planning and Community Development	12.4	455.7	0.027:1
Premier and Cabinet	14.9	597.3	0.025:1
Primary Industries	21.7	523.9	0.041:1
Sustainability and Environment	37.6	1,387.6	0.027:1
Transport	28.4	4,768.7	0.006:1
Treasury and Finance	20.8	296.1	0.07:1
<b>Total</b>	<b>357.6</b>	<b>37,539.2</b>	<b>0.009:1</b>

Sources: Compiled by the Committee from information contained in departmental responses to the 2009-10 Budget Estimates Questionnaire, Budget Paper No. 3, 2008-09 Service Delivery and Budget Paper No. 3, 2009-10, Service Delivery

### 16.3.4 Scope for improved presentation of planned efficiency savings in the Budget Papers

As part of the Committee's previous Budget Estimates Inquiry for 2008-09, the Committee recommended that in terms of achieving general efficiencies of an administrative nature that are expected to be derived (or any other specific efficiency initiatives announced in future budgets), the Budget Papers should disclose a breakdown by department and various components that make up such efficiencies.<sup>610</sup>

<sup>610</sup> Public Accounts and Estimates Committee, *Report on the 2008-09 Budget Estimates Part Three*, October 2008, p.62

In rejecting this recommendation, the Government stated that:<sup>611</sup>

*The State Government's financial framework focuses on the delivery of outputs and outcomes rather than the day-to-day management of departmental inputs. This framework is in line with practice across the Australian public sector and based on international experience. Under this framework, departments are not required to report to the Government how agreed efficiency targets are achieved as this is an internal management concern.*

The Committee, while taking into account the above position expressed by the Government, has reached the view that departments should be requested to outline during the budget development process their respective plans of where they see potential exists for efficiency savings to be achieved over the ensuing four year period. Information might be presented in broad terms in the Budget Papers to further explain general efficiencies. A more structured approach to the presentation of planned efficiencies in the annual Budget Papers continues to be advocated by the Committee.

**Recommendation 53:**

**The Department of Treasury and Finance expand the disclosure of planned output efficiencies in the Budget Papers by:**

- (a) identifying the broad range of areas where savings in the nature of general efficiencies are expected to be achieved across departments over the four year period; and**
- (b) providing a total of each department's expected contribution to savings targets over the four year period.**

<sup>611</sup> Victorian Government, response to the *Recommendations of the Public Accounts and Estimates Committee's 80<sup>th</sup> Report on the 2008-09 Budget Estimates*, tabled out of session on 15 April 2009 and on 5 May 2009, p.4