Queensland Commission of Audit

Final Report - February 2013

Volume 1 - Executive Summary and Recommendations

Queensland Commission of Audit

Final Report - February 2013

Volume 1

Executive Summary and Recommendations

28 February 2013

The Honourable Campbell Newman MP
Premier

The Honourable Tim Nicholls MP
Treasurer and Minister for Trade

Dear Premier and Treasurer

We are pleased to present to you the Final Report of the Independent Commission of Audit into Queensland's Financial Position, Public Sector Service Delivery and Infrastructure Program.

In our Interim Report, we outlined the fiscal repair task facing the Government. This Report focuses on the need for renewal in the public sector, to provide better front-line services for Queenslanders.

We have completed a comprehensive review of all matters outlined in our Terms of Reference, and have developed a strategic blueprint to guide the changes needed for Queensland once again to be a high-performing State, in both financial and economic terms.

Apart from the deterioration in its financial position in recent years, Queensland's economic and productivity performance has also declined markedly, more sharply than the rest of Australia. Queensland's productivity is now below the level recorded a decade earlier.

Over the longer term, Queensland faces significant economic and fiscal challenges due to demographic and social factors, such as the ageing of the population and rising demand for government services.

Taking into account these factors, key elements of the Commission's blueprint are:

- For Queensland to lift its productivity performance to sustain the economic growth which will improve living standards for its citizens.

- For the Government to make better use of its balance sheet, by releasing capital locked up in mature assets to pay down debt, lower interest costs and free up funds for investment in new infrastructure (for example, flood prevention).

- To restore the highest standards of financial management to public administration – with an enhanced long-term financial planning framework, improved budget, cash and asset management and greater transparency and accountability.

- To get better value for money in delivering front-line services. 'Business as usual' is not a sustainable option.

- For the Government to ensure services are delivered, not necessarily to be the agency that actually does the delivery. It needs to be the 'enabler', not necessarily the 'doer'.

- For the public sector to set its goal to achieve the highest standard of excellence and to make Queensland the best administered state in Australia.

The Commission notes the initial steps made by the Queensland Government in the 2012-13 Budget to repair the State's financial position. However, the magnitude of the task that still remains is enormous.

The reduction in debt required to recover a AAA credit rating cannot be achieved without releasing capital currently tied up in Government Owned Corporation businesses.

We have made 155 recommendations in this Report, as part of a coordinated systemic reform to lift productivity in the public sector and enhance the performance of the Queensland economy to meet the challenges which lie ahead.

The Commission commends its Report to you. It has been a privilege to make this important contribution to the future development and prosperity of Queensland.

Yours sincerely

The Honourable Peter Costello AC
Chairman

Professor Sandra Harding

Dr Doug McTaggart

ACKNOWLEDGEMENTS

The Commission would like to acknowledge the sterling contribution of the Secretariat in the preparation of this Report. The Secretariat was led by Chief Executive Mark Gray, with support from Deputy Chief Executive Nigel Bailey and Executive Assistant Jenny Kindt.

Other Secretariat staff who worked on this Report were: Rose Di Carlo, Laurie Ehrenberg, Ryan Faulkner, Alison Rayner, Greg Watts, Debra White and Neville Worland (Queensland Treasury and Trade); Donna Andrews, Sandra Lerch, and Patty Renfrow (Public Service Commission); Catherine Black, Sam Ingram, Elise Williams and Clinton Woodhouse (Queensland Treasury Corporation); and Gavin Leckenby (Skills Queensland). In addition, Chris Pearce undertook the meticulous task of editing the Report.

The Commission would like to thank agencies who seconded staff to work with the Secretariat for varying periods of time. In addition, the Commission acknowledges the extensive support provided by the Under Treasurer, Helen Gluer, in making available office accommodation, other administrative resources and technical expertise, as required.

Economic modelling to develop long-term economic and financial projections for the Commission was undertaken by a team headed by Matthew Clark, from the former Office of Economic and Statistical Research (now fully integrated into Queensland Treasury and Trade). The Commission also was assisted by specialist input from external consultants on a limited number of issues – Deloitte in relation to the health sector and carbon tax impacts, and Synergies Economic Consulting in relation to the public transport, ports and regional bulk water sectors.

The Commission would like to thank other Queensland Government agencies for their support. Twenty departments provided written submissions, and departmental officers provided an extensive amount of information, analysis and comment to assist the Commission in its deliberations. The Commission also received submissions from the twelve Government Owned Corporations (GOCs), as well as several external parties. The Commission held meetings with each of the GOCs, mainly in Brisbane, but also during visits to Cairns and Townsville in August 2012.

The three volumes of this Report present a large amount of detailed material. Within the time available, every effort has been made to ensure the accuracy and currency of this material. However, it is possible that some administrative or clerical errors may have occurred. Any such errors should not detract from the overall conclusions and recommendations of the Report.

EXPLANATORY NOTES

1. This Report is based on statistics, reports and other information available as at 31 January 2013, including the *Report on Government Services 2013*, published by the Productivity Commission for the Steering Committee for the Review of Government Service Provision.

2. References to the 'states' collectively include the territories. In general, comparisons to other states are limited to New South Wales, Victoria, Western Australia and South Australia, as they are most relevant to Queensland in terms of government services. References to Tasmania, the Australian Capital Territory and the Northern Territory are limited to specific examples of relevance, for example, Tasmania's participation in the national electricity market. References to Australian averages include all states and territories.

3. The term 'non-government sector' is used to refer collectively to 'for profit' and 'not-for-profit' entities, for example, in relation to contestability of government service delivery. The term 'private sector' is used in referring to the 'for profit' sector, for example in relation to Public Private Partnerships or private provision of public infrastructure. The term 'non-government organisations' (NGOs) is used to refer to 'not-for-profit' organisations that provide community services in their own right, or on behalf of government.

4. Where possible, 2005-06 has been used as the common base year for time series trends. In some cases, it has been necessary to use a more recent base year, as 2005-06 data have been unavailable, due to changes in scope, definition or other statistical discrepancies and inconsistencies. Earlier base years also have been used where necessary to show longer-term trends (for example, in relation to economic performance).

5. Figures in text, tables and charts have been rounded. Sometimes this leads to discrepancies in tables between total and sums of components.

Terms of Reference

Independent Commission of Audit into Queensland's Financial Position, Public Sector Service Delivery and Infrastructure Program

BACKGROUND

The new Queensland Government seeks independent advice on the Queensland government's current and forecast financial position, and recommendations on strategies to strengthen the Queensland economy, restore the State's financial position (including its AAA credit rating) and to ensure value for money in the delivery of front line services.

TERMS OF REFERENCE

The Independent Commission of Audit is asked to review and report on:

1. Financial Position

   a) the State's balance sheet, including net debt position and associated debt servicing charges;
   b) the forecast trend in the balance sheet position over the forward estimates period;
   c) the trends and long-term projections in growth of own-state revenue, including the various state taxes and charges as well as resources royalties;
   d) the trends and long-term projections of GST Revenue under current arrangements as well as potential future arrangements as a result of the Greiner-Brumby-Carter report, which will be released before the Commission of Audit is due to report;
   e) the trends and long-term projections of growth in expenditure across the various classes;
   f) whether there are any events, such as the 2018 commonwealth games funding obligation and the Carbon Tax, not adequately provided for in the Mid-Year fiscal and Economic Review or forward estimates; and
   g) any contingent liabilities that should be brought to the Government's attention.

2. Improving the State's Financial Position

   a) policy settings and strategies to address any structural factors affecting the State's finances, and to restore its AAA credit rating;
   b) strategies to improve the State's balance sheet management; and
   c) strategies to improve the sustainability of the State's capital program beyond the forward estimates period to 2030.

3. Service Delivery

   a) benchmarking public sector management and service delivery issues, including procurement, corporate services, and asset management, against other States;
   b) identify any potential improvements to productivity, service quality, and value for money in service delivery across the public sector;

c) effectiveness of existing performance metrics and options for greater transparency and accountability through improved public reporting;
d) the adequacy, affordability and deliverability of the capital program over the forward estimates period;
e) strategies to encourage greater private sector involvement in the funding and/or direct provision of public infrastructure and services;
f) the efficiency of current pricing arrangements for regulated infrastructure, including electricity, water, rail and ports.

4. Government Commercial Enterprises

a) the financial performance of Government Owned Corporations and commercial agencies;
b) the level of indebtedness of GOCs and commercial agencies, how such indebtedness compares with private sector peers and whether it is a prudent level; and
c) measures to improve the operational performance and financial returns to the State from Government Owned Corporations and commercial agencies.

5. The Economy

a) Whether any government policies, taxes, regulatory arrangements ownership structures or action or inaction represent a constraint on Queensland's economic growth; and
b) Recommendations to generate long term systemic reform to grow and strengthen the Queensland economy.

GOVERNANCE ARRANGEMENTS AND REPORTING TIMETABLE

The Independent Commission of Audit consists of three independent Commissioners appointed by the Premier and the Treasurer as follows: The Honourable Peter Costello AC (Chairman), Dr Doug McTaggart and Professor Sandra Harding.

The Commission will be supported by a secretariat consisting of a small group of public service officials. The secretariat will work under the direction of the Commission. The Commission may also seek external advice and support where required.

The Commission is authorised to access such personnel, documents, information and financial records in respect of the government departments and agencies as it deems appropriate to complete the audit. The Commission may request those bodies to prepare reports. The Commission may also seek and accept submissions from interested parties outside of the public service.

Unless otherwise agreed, the Commission will report to the Premier and Treasurer in accordance with the following timetable:

15 June 2012	Interim Report covering the state of the Government's financial position
30 November 2012	Interim recommendations
End February 2013	Final Report

REPORT LINKAGES TO TERMS OF REFERENCE

Terms of Reference	Relevant Part of Final Report
1. Financial position	
a) the State's balance sheet, including net debt position and associated debt servicing charges b) the forecast trend in the balance sheet position over the forward estimates period c) the trends and long-term projections in growth of own-state revenue, including the various state taxes and charges as well as resources royalties d) the trends and long-term projections of GST Revenue under current arrangements as well as potential future arrangements as a result of the Greiner-Brumby-Carter report, which will be released before the Commission of Audit is due to report e) the trends and long-term projections of growth in expenditure across the various classes f) whether there are any events, such as the 2018 Commonwealth Games funding obligation and the Carbon tax, not adequately provided for in the Mid-Year Fiscal and Economic Review or forward estimates g) any contingent liabilities that should be brought to the Government's attention.	Addressed in Commission's Interim Report of June 2012
2. Improving the State's financial position	
a) policy settings and strategies to address any structural factors affecting the State's finances, and to restore its AAA credit rating b) strategies to improve the State's balance sheet management c) strategies to improve the sustainability of the State's capital program beyond the forward estimates period to 2030.	Parts B & C Also addressed in Commission's Interim Report of June 2012
3. Service delivery	
a) benchmarking public sector management and service delivery issues, including procurement, corporate services, and asset management, against other states b) identify any potential improvements to productivity, service quality, and value for money in service delivery across the public sector c) effectiveness of existing performance metrics and options for greater transparency and accountability through improved public reporting d) the adequacy, affordability and deliverability of the capital program over the forward estimates period e) strategies to encourage greater private sector involvement in the funding and/or direct provision of public infrastructure and services f) the efficiency of current pricing arrangements for regulated infrastructure, including electricity, water, rail and ports.	Parts D & E

4. Government commercial enterprises	
a) the financial performance of Government Owned Corporations (GOCs) and commercial agencies b) the level of indebtedness of GOCs and commercial agencies, how such indebtedness compares with private sector peers and whether it is a prudent level c) measures to improve the operational performance and financial returns to the State from GOCs and commercial agencies.	Part B
5. The economy	
a) whether any government policies, taxes, regulatory arrangements, ownership structures or actions or inactions represent a constraint on Queensland's economic growth b) recommendations to generate long-term systemic reform to grow and strengthen the Queensland economy.	Parts A & C

TABLE OF CONTENTS
FINAL REPORT

VOLUME 1

VOLUME 2

PART B: GOVERNMENT COMMERCIAL ENTERPRISES

PART C: FINANCIAL MANAGEMENT

VOLUME 3

PART E: THE PUBLIC SECTOR

EXECUTIVE SUMMARY

AND RECOMMENDATIONS

EXECUTIVE SUMMARY

FISCAL REPAIR STRATEGY

The Commission's June 2012 Interim Report recommended a two-stage strategy of fiscal repair to restore Queensland to financial strength:

- first, to arrest the deterioration in the State's financial position and stabilise the position
- second, to pay down debt to restore Queensland's financial strength and regain its AAA credit rating.

Stage 1 of the task of fiscal repair has been addressed by the Queensland Government in its 2012-13 Budget, which outlined a plan to achieve $5.5 billion in savings over the next three years. It is budgeting for a fiscal surplus in 2014-15, consistent with the Commission's recommendations.

Stage 2 of the strategy is designed to provide the State with the strength to withstand adverse events such as further natural disasters or external shocks. The Commission has recommended that debt be reduced by $25-30 billion.

This would restore Queensland's AAA credit rating.

This reduction in debt cannot be done by adjustments to the State operating statement. To illustrate, if the Government were to achieve a consistent fiscal surplus of 1% of revenue year after year, it would take 50 years to reduce debt by $25 billion (ignoring growth in the base and inflation impacts for simplicity).

The State will have to manage its balance sheet quite differently. If it is to substantially reduce debt, it will have to review its assets. It will have to decide whether it wants to tie up large capital sums in businesses it currently owns and operates. It will need to decide whether that capital can be put to better uses – reducing debt and debt servicing costs or new investment to produce returns which are a higher priority for the community.

Without a rapid reduction in debt, the State will not retrieve its AAA credit rating.

To achieve this debt reduction target and enable the Government to concentrate its limited financial resources on the delivery of core services, the Commission recommends that the Government dispose of certain businesses, especially in the energy sector. These businesses are primarily commercial in nature. In other states, the private sector supplies these services. Whilst the Government continues to own these businesses, it continues to carry commercial risks which represent a serious financial exposure for the Government.

To ensure the future sustainability of both the State's balance sheet and operating statement in the face of a growing and ageing population, the Commission recommends the State review all current service delivery with a view to adopting higher productivity mechanisms, almost certainly with a greater reliance on private sector delivery.

THE ECONOMIC AND FISCAL CHALLENGE

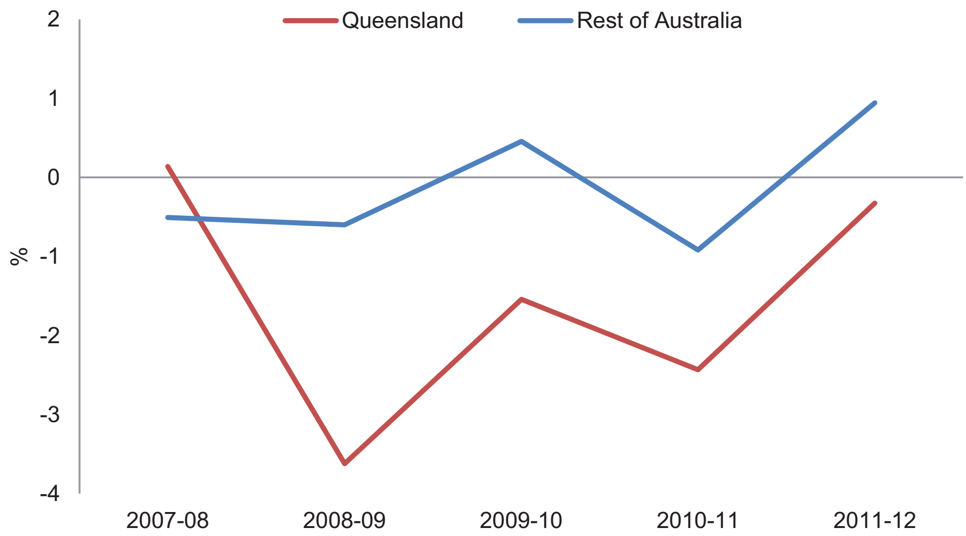
> The challenge for Queensland is to lift its productivity performance to sustain the economic growth which will improve living standards for its citizens.

The Queensland economy has been driven over the last 25 years largely by population growth, increased workforce participation and the development of the State's vast mineral resources.

Queensland cannot rely on these factors alone to drive its economic growth over the next 25 years and beyond.

A disturbing feature of Queensland's and Australia's recent economic performance has been the decline in productivity. Over the last four years, although Australia's productivity has fallen, Queensland's productivity has fallen further (Chart 1), and is now lower than the level recorded a decade ago.

Chart 1
Multifactor productivity growth, original

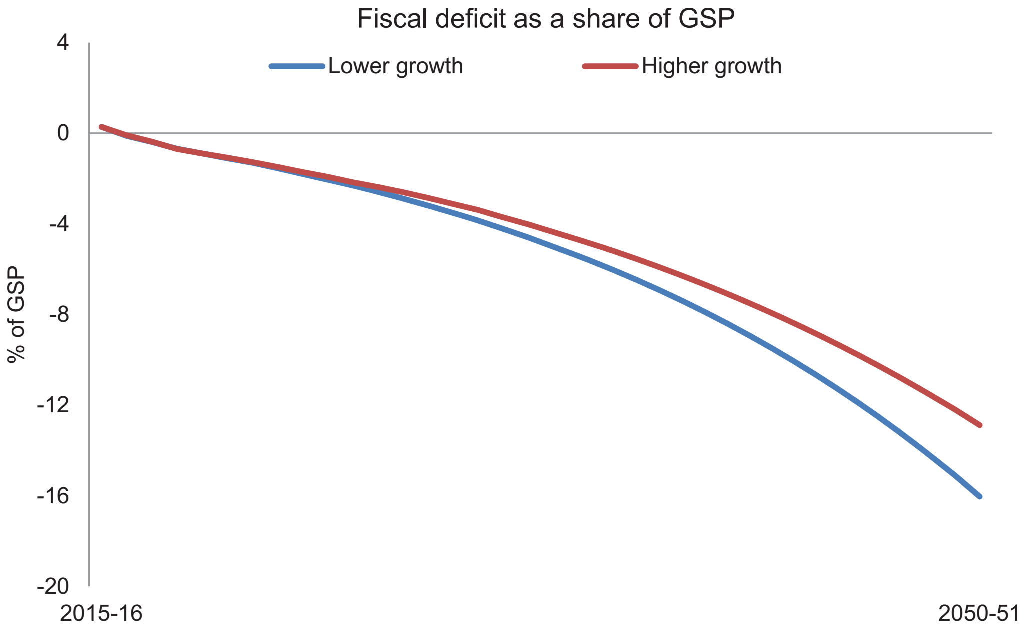


Source: Queensland Treasury and Trade

Based on various scenarios developed by the Commission, long term economic projections show that Queensland's per capita economic growth rate over the next 40 years is likely to be significantly lower than that of the last 25 years. The projected threefold increase in the over 65 age group between 2010 and 2050 is likely to provide a significant fiscal challenge as the ratio of people over 65 to those of working age climbs dramatically. Queensland must lift its productivity performance to cushion against these changes which are now locked-in and unavoidable.

The extent of this fiscal challenge is illustrated graphically in Chart 2, which shows that beyond the forward estimates period (that is, from 2015-16), on a 'business as usual' basis, without further sustained policy action, a substantial fiscal deficit is likely to re-emerge over the longer-term period through to 2050-51.

Chart 2
'Business as usual' – Projected fiscal deficit



Source: Commission of Audit

If the Government does not engage in long-term planning in an ordered and coherent way, it will be forced by crisis to respond to emerging pressures in an ad hoc and sub-optimal manner. This will lead to harsher adjustments and poorer outcomes for the State of Queensland.

The Commission's analysis indicates that productivity improvements in government service delivery of around 0.8-1.1% each year will be required to maintain a stable fiscal position. This is equivalent to reducing the unit cost of service delivery by around one-third of what it would be on a 'no policy change' basis by 2050-51.

Productivity improvements of this magnitude would lift average growth in gross state product (GSP) by around 0.5% per annum, equivalent to an extra $8,320 per capita per annum in today's dollars by 2050-51.

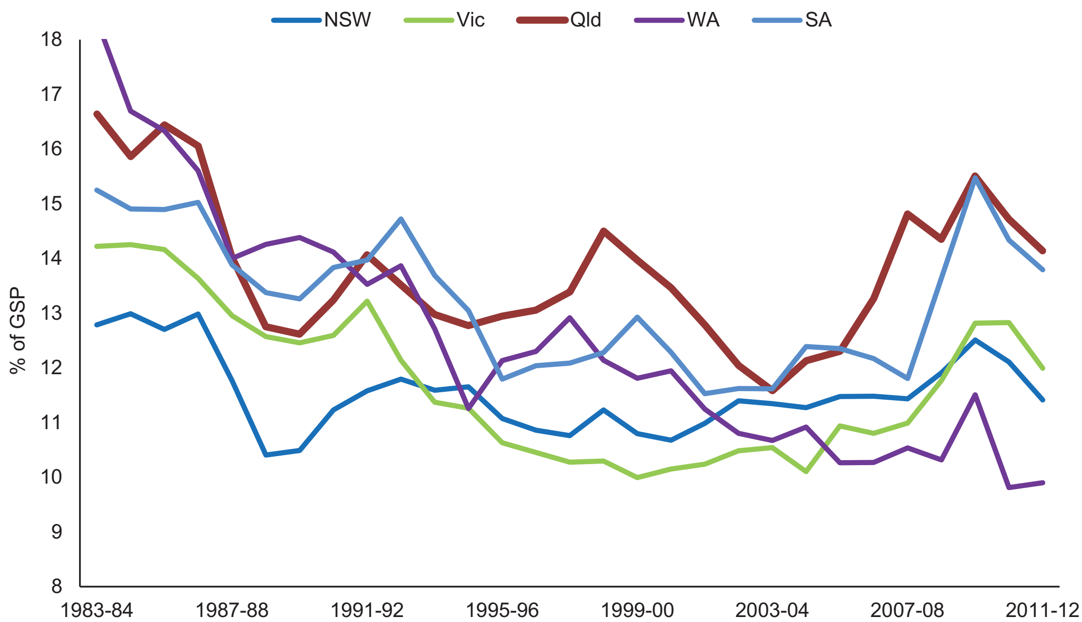
The Commission's recommendations in this Report are primarily directed towards improving the productivity of the public sector. But in turn, this will have profound benefits for the private sector and the broader economy.

THE SIZE OF GOVERNMENT

The Queensland Government is the largest employer and the largest single purchaser of goods and services in the State of Queensland. It therefore has a dominant position in the State economy. How government operates has a significant influence on the economic performance of the State.

Traditionally, the size of the public sector in Queensland has been larger than other states (some, but not all, of this is the result of the dispersion of population through regional and remote areas). From a low in 2003-04, State government expenditure as a share of GSP has increased considerably, and the gap over New South Wales, Victoria and Western Australia has widened (Chart 3).

Chart 3
State Government expenditure as share of GSP



Source: ABS 5242.0, 5206.0, and Queensland Treasury and Trade

There is constant pressure on state governments to improve services and take on new responsibilities. If government wants to deepen and widen its engagement in some areas, it will need to pull back or withdraw from others, unless the community is prepared to pay ever higher levels of taxation. The Commission has previously noted the states have a very limited tax base. Any substantial increase in tax revenue would require action from the Australian Government to raise and then allocate the additional revenue to the states. The Commission thinks it is unlikely this will happen.

THE ROLE OF GOVERNMENT

The Queensland Government is heavily involved in a range of commercial activities which in some other states are delivered efficiently by commercial entities. Some of these activities carry significant commercial risks which need not be borne by government and which represent serious threats to the State's balance sheet. They also compete for resources against core services such as health, education and other social services.

There is no universal rule on what should be publicly or privately owned or managed. Governments have in the past owned and operated businesses which today are run by the private sector, including banks and insurance companies, airlines, airports, ports, transport companies, electricity utilities and gas producers. In many cases, governments took a lead role in establishing these entities, because the start-up risks or capital requirements were too large for private enterprise.

However, once businesses are established and mature, and appropriate regulatory structures are in place, the rationale for public ownership becomes less compelling. Not only does the case for public ownership become weaker, but sometimes the commercial risks of the business make the case for divesting to the private sector stronger. Moreover, given improvements in contracting out and regulation, and deepening of private sector capital markets, many of the original reasons for government provision have lost force.

There are commercial risks to a government owned corporation (GOC) competing with private sector operators. Generally, the history and culture of the public sector is less flexible and it does not promote entrepreneurial and commercial skills in the way that the private sector competitors promote and value it. This means private sector operators can move faster and with more agility to deal with emerging risks and exploit opportunities. Private investors who understand the risk of an enterprise can assess the risk/reward ratio and trade it for personal gain. Public sector investors (taxpayers) are not in a position to make those decisions.

The challenge for any government is to establish an environment where services are provided efficiently, at lowest cost and least financial risk to the state. There is substantial international evidence that privatised government enterprises operate more cost effectively when they are allowed to operate without government interference in the commercial decision-making processes.

Identification of a service as being the responsibility of government does not necessarily imply that government should directly deliver that service.

There is a continuum in how services can be provided, from pure public provision to complete private provision. The way in which a particular service is delivered can vary over time, for example due to developments in market maturity and technology.

This is illustrated in Figure 1, which shows that the private sector is now increasingly involved in delivering services which were once the domain of the public sector.

Figure 1
Private provision of public services

Public provision → Private provision	Aspects of private sector provision
Legislation Policy advice	These services do not lend themselves readily to private provision.[1]
Defence	Private operators are now contracted to undertake activities such as border surveillance.
Courts	Various court reporting services are undertaken by private providers.
Police	Private contractors can install and maintain traffic cameras, while Public Private Partnerships have been used to build police stations, and provide utilities and facilities management services.
Prisons	There are various private providers contracted to operate and/or maintain prisons, and more limited examples of private ownership of prisons.
Health Education	There are a range of health and education services delivered by private providers, including hospital services, clinical services and allied health services, as well as an extensive non-government schools sector.
Transport infrastructure	There are numerous examples of private ownership and operation of transport infrastructure in Australia and overseas.
Utilities	Most services are now provided by the private sector.
Banking and insurance	The functions are now undertaken by the private sector.

1 However, it is possible to obtain policy advice from sources other than the public sector.

Source: Commission of Audit

As shown in Figure 1, some services, such as legislative services, are provided by the public sector, as they involve the application of law and relate wholly to the delivery of public goods rather than private benefit.

Other functions with a strong public good element include defence, courts and front-line policing services. However, recent experience has shown that even elements of these functions can be delivered effectively by the private sector (for example, border security surveillance and private operation of roadside speed cameras).

While functions such as education and health have traditionally been provided by the public sector, increasingly there are private sector and not-for-profit bodies providing these services. There is also an increasing involvement of the private sector in the management and operation of prisons, both in Queensland and elsewhere.

Further towards the 'private' end of the spectrum are services which governments have an interest in ensuring are provided, but no longer need to provide directly. These include:

- commercial infrastructure, such as roads (now often built and operated by private operators), ports and airports
- banking and insurance services
- utilities, such as electricity transmission and distribution, and water and sewerage services.

In Australia, government direct provision of ‘public’ services has declined, partly in recognition that socially desirable outcomes can be achieved efficiently through regulated or purchased private provision. In recent years, this has become increasingly the case in services such as health, education, prisons and public transport, including through public private partnerships and franchising or other contracting arrangements.

The Commission has developed principles as a guide to manage and deliver services. These are outlined in Box 1.

Box 1
Key principles to manage and deliver services

Focus on core services

Government should not perform commercial functions which other parties are better placed to deliver at equal or lower cost. It should focus on those activities which others cannot or will not undertake.

Facilitate contestability in service delivery

Better value for money in the delivery of front-line services can be achieved through contestability, as this will encourage more efficient and more innovative service delivery, whether by the public sector or the private sector (public sector service providers should not be immune from competitive pressures)

Better demand management

Demand pressures need to be managed to ensure that services are directed to or targeted at those most in need.

Greater workforce flexibility

There is a need for greater workforce flexibility and mobility, so that resources can be readily redirected to areas of highest priority – by removing restrictive workplace practices which add unnecessary costs without delivering improved output. Industrial relations and enterprise bargaining arrangements should not fetter the ability of managers to manage.

Capacity building

A dynamic and responsive public sector needs to build new skills and capacity, particularly in relation to contract management and engagement of private sector providers.

Lower overhead costs

The overhead administrative and corporate costs of supporting front-line service delivery need to be reduced, through renewal of public service practices, and the contestable provision of functions such as corporate services and ICT services. Highly centralised, ‘one size fits all’ administrative support services have led to excessive costs which represent very poor value for money.

Strengthen financial management

Public administration requires the highest standards of financial management, based on principles of transparency and accountability, to ensure limited financial resources can be directed to meeting government priorities on a sustainable basis.

Build productive capacity

Queensland’s future economic prosperity will depend on strengthening the productive capacity of both the public and private sectors.

From these principles, the Commission recommends that in service delivery the Queensland Government:

- provide core services such as policing, public safety, emergency and justice services, which have a strong public good element

- work more closely with non-government providers to find the most cost-effective ways of delivering a range of other social services, including public education, public transport, health, housing and community support services, primarily for those most in need in society

- ensure other public services with a strong commercial element are provided by private or other non-government providers where they are capable of doing so in a competitive market environment.

The Commission endorses the Queensland Government strategy of keeping taxes competitive, and as low as possible which is designed to provide a conducive environment for businesses to invest and to boost economic growth.

As the Commission noted in its Interim Report, Queensland cannot be a high spending and low taxing state. If revenue remains relatively low (as expected), it follows that expenditure must be correspondingly constrained to achieve a fiscal balance.

With this in mind, the Commission has undertaken a fundamental review of the way in which the services of government in Queensland are structured and managed.

Accordingly, the Report addresses:

- orderly exits from functions which the Commission considers should no longer be performed by Government, including exiting from commercial activities currently performed by Government Owned Corporations, in a way which maximises value for the community

- ways in which better value for money can be achieved in the delivery of front-line services, including models that better leverage the productive capacity and innovation of the non-government sector, including both private ‘for profit’ and ‘not for profit’ (NFP) entities

- the way in which the public service is structured, organised and managed to be more flexible, responsive and cost-effective in supporting front-line service delivery.

GOVERNMENT COMMERCIAL ENTERPRISES

> The Government must make better use of its balance sheet, by releasing capital locked up in mature assets to pay down debt, lower interest costs and free up funds for investment in new infrastructure (for example, flood prevention).

The Queensland Government undertakes a range of commercial activities which in some other states are provided by the private sector. These are provided by government commercial enterprises and tie up a significant amount of capital.

Taking into account the key principles outlined in Box 1, the Commission has assessed the case for continuing involvement in these enterprises according to the commercial tests outlined in Box 2.

Box 2
Commercial assessment tests for government commercial enterprises

1. There is no necessity for government to own assets that compete with other private services in workably contestable markets. Where governments own such assets (which is usually as a result of legacy arrangements), they should continually monitor the value proposition for those assets to evaluate whether the continued investment generates the optimum value outcome for the state taking into account other uses to which that capital could be put.

2. There is no need for government to own commercially sustainable businesses which have monopoly characteristics, provided that there is an effective regulatory oversight governing the behaviour of private providers of these services. Any case to retain government ownership of these assets should be driven by value reasons and other whole-of-Government considerations.

3. Even where government is responsible for delivering services, it can do so through its own agency or through non-government providers, and delivery should be subject to contestability to the greatest extent possible.

Based on these tests, the Commission recommends the Government dispose of those businesses which operate in commercial markets in the energy and ports sectors and in funds management (the Queensland Investment Corporation):

- These are mature businesses capable of being owned and managed efficiently by the private sector, and there is no need for the Government to lock up scarce capital in such mature assets.

- The Government is not well placed to manage the commercial risks involved, or to fund the significant injections of capital which may be required to support the ongoing viability of the businesses.

- Sale of the energy sector assets would fulfil the long-standing obligation of Queensland Governments to the operation of a fully commercial and competitive national energy market.

- Sale of these assets would release funds for investment in new areas to enhance the productive capacity of the economy (once debt has been paid down to reasonable levels).

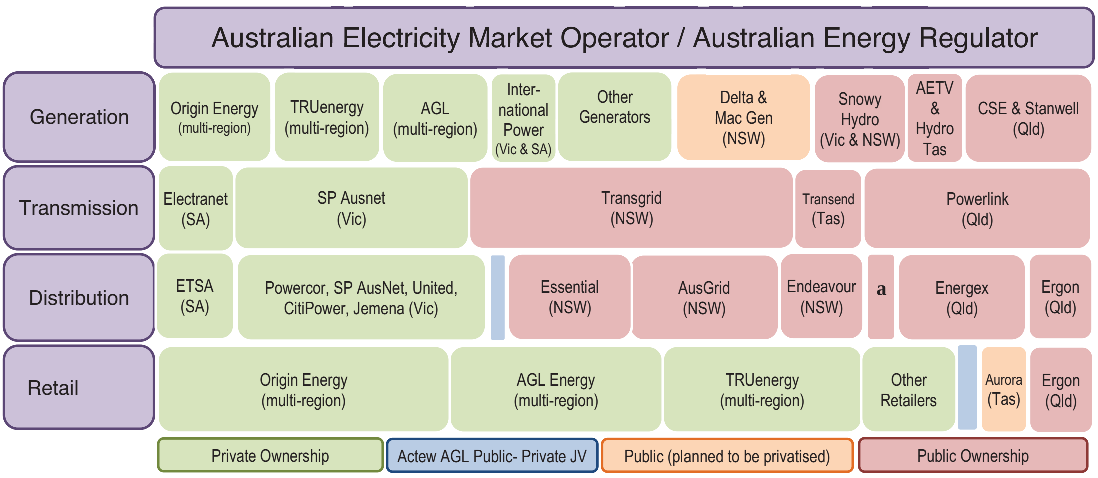
While the Government keeps its capital tied up in its GOC businesses, it is forced to borrow more money at higher interest rates to undertake new capital investment elsewhere. By releasing capital to retire debt, the Government would be able to access finance for new investment at cheaper rates and, as the Commission has previously recommended, pay for more investment from cash flows that are no longer tied up by debt servicing.

Electricity assets

The State's energy assets are sufficiently attractive to the private sector that the Government could reasonably be expected to raise the amount of money required to achieve the recommended debt reduction target. Moreover, the assets are not managed as efficiently as they would be if they were under private sector ownership, and it is unlikely that they ever could be under government ownership.

As shown in the following chart, a significant proportion of assets in the national energy market is in private ownership, a public-private mix, or in the process of being privatised (see Figure 2). By market share, Queensland accounts for around 30% of those transmission and distribution assets remaining in public ownership.

Figure 2
Ownership patterns in the National Electricity Market – by indicative market share



a Aurora Energy distribution

Source: Compiled from AER 2012 State of the Energy Market report. See Figure B2.2 for full list of notes.

The Commission notes that the 1996 Queensland Commission of Audit recommended the privatisation of a number of GOCs, especially in the energy sector. The Commission has estimated that the loss of value to the Government for not taking up that recommendation is in the order of $7.2 billion (in 2011-12 dollars).

The Productivity Commission's Draft Report on 'Electricity Network Regulatory Frameworks' (October 2012) strongly recommended that state governments privatise their state-owned network businesses in the following terms:

> *"The rationale for state ownership of network businesses no longer holds. State-owned status is ill-suited to the current incentive regulatory regime. State-owned network businesses appear to be less efficient than their private sector peers. This is not surprising given their multiple objectives, political intervention and the imposition of non-commercial restrictions…*
>
> *There are compelling grounds for privatisation of all electricity network businesses in the National Electricity Market."*

The Australian Government's Energy White Paper drew attention to the costs that government ownership can impose on consumers:

> *"The behaviour of energy businesses can have significant implications for consumers, particularly for their energy bills. Government or private ownership of these businesses can be an important determinant of their business costs. In particular, different cultural practices or approaches to managing risk may result in an overemphasis on engineering objectives at the expense of business efficiency or optimal commercial outcomes."*
>
> *"Government ownership has the potential for conflicts of interest in operational or investment decisions, dividends and equity margins. Capital markets can provide an important discipline for private businesses, but are not always able to do so for state-owned business."*

In the absence of realising the value of the Government Owned Corporations as recommended by the Commission, the Government is likely to be heavily constrained in its capacity to fund new investment in the essential new infrastructure required for a growing economy.

If asset sales are not pursued, significant capital to pay down debt could still be derived from these businesses through other measures, such as long-term leases, securitisation of income streams, joint ventures, partial sales and contracting out of various operations.

It is sometimes argued that the disposal of assets denies governments the benefits of the future income stream that the assets would otherwise generate. If the assets are properly valued, the net present value of the future income stream will be reflected in the disposal price. In any event, holding an asset is also subject to a risk that commercial market factors may erode the value of that future income stream.

There is also an opportunity cost to be considered in locking up scarce capital to the detriment of higher priority uses to meet core government service delivery priorities. The combined book value of the generators and the transmission and distribution companies owned by the Queensland Government is around $25 billion.

Under the National Electricity Market which covers Queensland, New South Wales, Victoria, South Australia and Tasmania, generators supply wholesale electricity to the national grid at prices which are determined wholly by supply and demand factors. More often than not, the wholesale price in Queensland is set by market factors outside the State.

The charges for transmission and distribution of electricity are set under a national regulatory framework where charges largely reflect the economic cost of providing infrastructure needed to meet demand at prescribed reliability standards.

As a result, who owns the asset – whether generator, transmission, or network – does not determine the cost of supply. In particular, whether these assets are owned by government or the private sector is not the determinant of the electricity charges that consumers pay. It is also clear that government ownership has not prevented substantial increases in retail prices of electricity, despite market-driven declines in wholesale prices.

Transport services

The Government faces an increasing cost burden in the subsidies that it pays to provide public rail and bus transport services. To ensure the strongest incentives to improve efficiency, the Commission considers that these services should be restructured to be delivered through contestable contracts under franchise and lease arrangements.

Reform of GOCs

Irrespective of any future decision to divest government commercial enterprises, there is a need to improve their efficiency in the interim, so that they deliver greater value to taxpayers whilst they continue in government ownership.

Essential measures to improve efficiency include:

- reform restrictive workplace practices which limit the capacity of management to keep costs competitive
- remove unnecessary policy restrictions on the capacity of GOCs to operate on a fully commercial basis
- make transparent the full cost of any Government policy requirements, and explicitly compensate GOCs for these costs, separate from commercial operations.

The GOC legislation was introduced during the early 1990s, and most GOCs have now been operating under it for some 15 years. There have been a number of structural changes to these entities, including consolidations and asset sales. However, over this period, there has been no fundamental review of whether the GOC model has met expectations and whether it delivers value for taxpayers.

The Commission's analysis indicates that the original objectives of the GOC model have been heavily compromised by previous government decisions, especially the imposition of a wide range of policy requirements which have interfered in the commercial operations of the GOCs. These requirements have added additional cost burdens on GOCs and in many cases have placed them at a competitive disadvantage with private sector competitors who do not face the same deadweight cost impositions.

The true costs of these policy requirements have been hidden from scrutiny. They are manifested in the under-performance of GOCs, primarily in terms of reduced profitability, and hence the level of dividends and tax equivalent payments they have been able to make to the Government.

While the Government as the shareholder has the legitimate right to impose these policy requirements on its businesses, this should be undertaken in a transparent and accountable way so that the full costs of these policies can be clearly identified and evaluated, not the least by the public.

Government's decisions in respect of GOC operations have had the effect of destroying value in the businesses and increasing their dependence on equity injections from the Government to support their operations. In addition, the taxpayer has borne the loss in value occasioned by the decisions of other levels of government. The value of the assets in the Government's two electricity generator GOCs was impaired by $1.7 billion in 2010-11, largely due to the introduction of the Australian Government's carbon tax.

To the extent that GOCs remain in place into the future, the Commission considers there is a pressing need to update and modernise the GOC governance model to reflect contemporary commercial standards, and to take account of changes in markets, regulation and technology. In particular, the residual non-commercial aspects of the GOC framework need to be removed, in favour of greater separation between the Government's roles as owner, regulator and policy maker.

The Commission recommends the adoption of a revised GOC model, featuring a single shareholding Minister. This would allow the Minister as representative of the public or ultimate shareholders to focus exclusively on the shareholder interest in protecting and enhancing the value of the Government's investments in these businesses.

FINANCIAL MANAGEMENT

> There is an urgent need to restore the highest standards of financial management to public administration – with an enhanced long term financial planning framework, improved budget, cash and asset management, and greater transparency and accountability.

The deterioration in Queensland's fiscal position in recent years has been in large part due to an erosion of fiscal discipline, along with an accompanying decline in standards of financial management.

In the past, Government failed to meet, on a consistent basis, the fiscal principles articulated in its own Charter of Fiscal Responsibility. And it failed to apply sufficient rigour and discipline to the evaluation and project management of major infrastructure investments in recent years.

As a result, some projects suffered significant cost escalation, putting unnecessary additional pressure on the budget. These included major hospital projects and major water-related infrastructure projects. For both the Queensland Children's Hospital and the Sunshine Coast University Hospital, latest cost estimates are more than double the original published estimates.

In the case of the shared services initiative and major ICT projects, such as the Information and Communication Technology Consolidation program and the Identity, Directory and Email Services program, actual capital and operating costs far exceeded initial projections, and overly optimistic projected benefits failed to be achieved.

Accordingly, there is an urgent need to set and enforce the highest standards of financial management. Project management practices also need to be strengthened to ensure that projects are delivered within approved budgets and achieve value for money outcomes.

Many of the decisions made by government have long-term consequences or involve the development of long-term assets. Yet decisions are often made with a short-term focus.

The Commission considers this needs to be redressed through a better long-term financial planning framework to provide a more disciplined, rigorous and informed framework within which the Government makes its decisions. This should start with an Intergenerational Report for the State with a 40 year perspective, which outlines longer-term social, demographic, economic and financial trends, and likely implications for the State.

This should be supported by a 10 year State Infrastructure Plan, incorporating an assessment of indicative financial capacity. While there have been previous attempts at longer-term government strategic plans and infrastructure plans, their usefulness has been significantly diminished by the lack of any serious assessment of available financial capacity.

The provision of essential infrastructure is one of the main ways in which government can make a difference to economic development. Given the State's constraints in raising new funds, it will need to make greater use of the private sector to fund new investment in public infrastructure.

There are a number of reasons why private sector involvement can drive greater value for money, including the scope for innovation, cost effectiveness in construction and operations, and better project management, especially for larger and more complex projects. The existing Value for Money Framework needs to be revised to place greater weight on such factors.

The approach to asset management also needs to be improved. There has been an over-emphasis on investment in new capital, to the neglect of maintenance and other whole-of-life costs. This has resulted in significant maintenance backlogs across key departments, especially Health, Education, and Transport and Main Roads.

Beyond this, as an input into a proposed State Infrastructure Plan, the Commission considers that all agencies should be required to develop fully integrated total asset management plans – encompassing new and replacement assets, maintenance and other whole-of-life costs, as well as asset rationalisation and disposal plans.

Asset planning is being undertaken to varying degrees by agencies, but often on a piecemeal, fragmented and uncoordinated basis both within agencies and at a consolidated whole-of-government level, and with little regard to available financial capacity, especially over the longer term.

This is a significant shortcoming, especially where decisions, such as the commitment to stage the Commonwealth Games, have long-term financial implications beyond the formal forward estimates period. In such cases, the funding strategy appears to have been to fund such projects as the obligation crystallises, without proper consideration of other competing priorities or projected funding capacity at the time.

The Commission considers there is a need for a new Charter of Budget Accountability to formalise the Government's commitment to strong fiscal management, accountability and transparency. As part of the Charter, the Commission has recommended a number of enhancements to strengthen the budget and appropriation processes. Improved cash management practices are also recommended.

Improved financial management will ensure better value for money for Government, and contribute to greater efficiency in the use of resources in the broader economy. Government can also encourage greater economic efficiency by minimising the costs and disincentives to productive activity.

The Government has introduced various initiatives to address the regulatory burden on business, and to establish an Office of Best Practice Regulation in the Queensland Competition Authority. These measures are a step in the right direction. However, there is a need to go further.

One of the most significant measures to assist business growth would be to reduce the time taken in dealing with government, as this imposes significant costs. The Commission recommends that the timeframes for all major government approval processes (such as Environmental Impact Statements and Development Approvals) be significantly reduced (without requiring additional resourcing).

The Commission recommends the establishment of a Queensland Productivity Commission as an independent source of high quality advice on measures to improve productivity and efficiency within the public sector and the broader economy. It would absorb the current functions of the Public Sector Renewal Board and the Office of Best Practice Regulation. The Queensland Productivity Commission would also undertake regular reviews of departmental budgets, with a view to streamlining existing operations, and developing innovative models of service delivery.

Longer-term systemic reforms to grow and strengthen the Queensland economy will require reforms to federal financial arrangements. In the absence of broader changes to these arrangements (which are beyond the scope of this Report), the Commission recommends that the Government pursue an agreed and clear protocol that sets out:

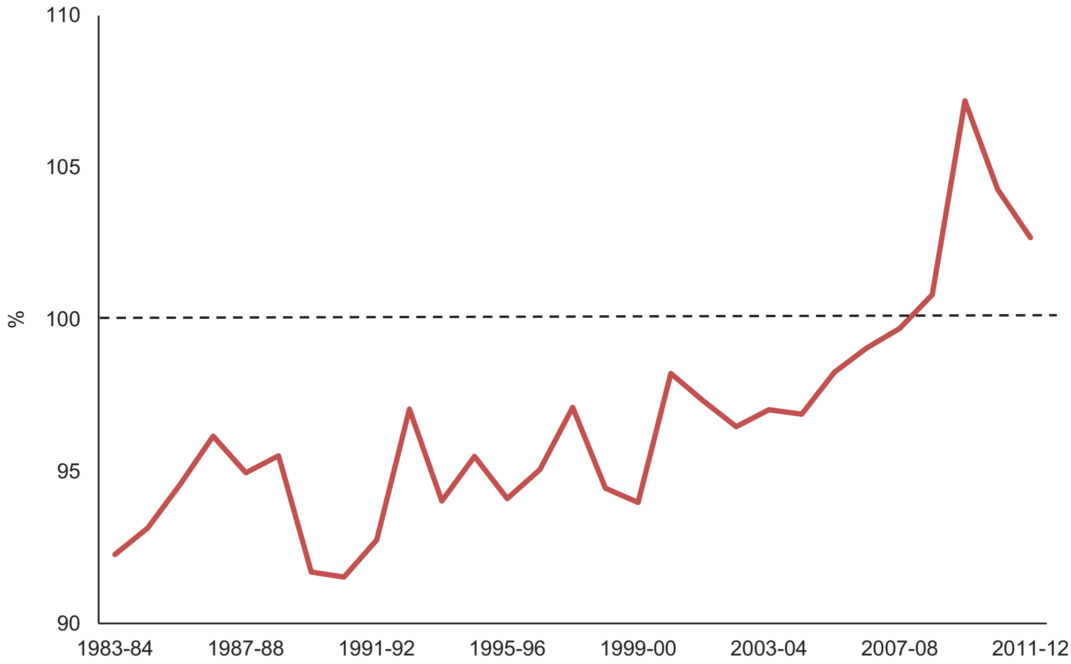
- functions to be performed by states, and those which should be performed by the Australian Government
- where shared responsibilities remain, the common performance and compliance arrangements which will reduce the cost of confusing, overlapping and inconsistent requirements of different levels of government.

FRONT-LINE SERVICE DELIVERY

> The Government must achieve better value for money in service delivery. 'Business as usual' is not a sustainable option.
>
> The primary responsibility of the Government is to ensure services are delivered, not necessarily to be the agency that actually does the delivery. It needs to be the 'enabler', not necessarily the 'doer'.

The Commission's Interim Report noted that Queensland has become a high cost provider of services over the last five years. Input costs, particularly employee costs, have increased dramatically. Over the last decade, average public sector wages in Queensland have climbed from 97% to a peak of 107% of the all-states average in 2009-10, and remain the highest of the mainland states (Chart 4).

Chart 4
State public sector wages: Queensland relative to all-states average

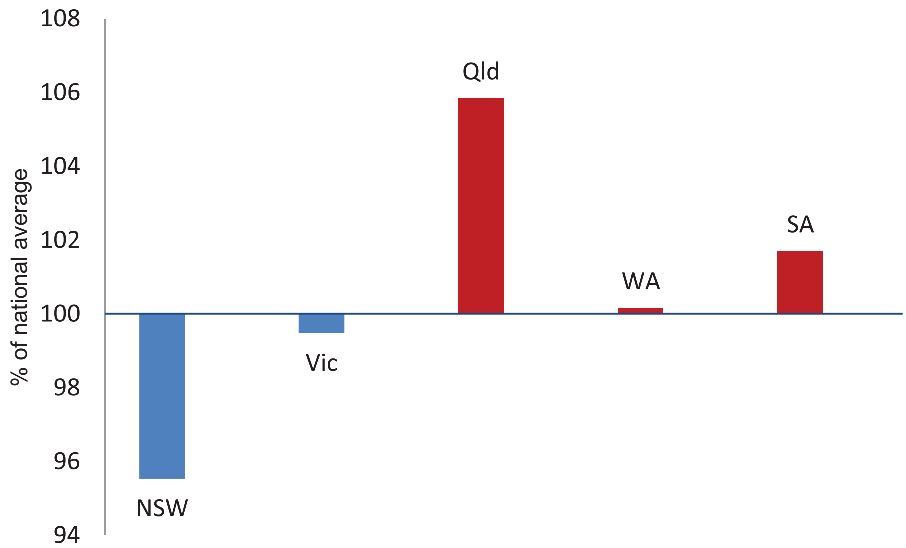


Source: ABS 6248.0, 5206.0, and Commission of Audit

This has not been matched by a commensurate increase in output. In aggregate terms, productivity of service delivery has declined.

From a position where Queensland spent less than the per capita average in most areas of expenditure, since 2007-08, its level of service spending has been around 6% higher than the Australian average. As measured by the Commonwealth Grants Commission, Queensland had the highest cost of service provision of any mainland state in 2010-11 (Chart 5).

Chart 5
Cost of service provision by state, 2010-11



Source: Commonwealth Grants Commission

Given the State's weakened financial position, the current cost of service provision is unaffordable. Queensland cannot continue to be a high cost provider. It must:

- find more efficient ways of delivering services, by reducing costs while maintaining the level of outputs/outcomes, that is by improving productivity

- determine whether to partner with private or other non-government providers in some services areas.

In addition, there are a range of demographic, social and other factors (such as population growth, ageing, increasing community demand and expansion of some regional communities) which are likely to place increasing pressure on service delivery capacity and hence the State's operating statement into the future.

Against this background, all areas of government activity need to be subject to rigorous and continuous scrutiny to ensure services are affordable and are delivered in a way which gives maximum value for money for the use of limited taxpayers' funds.

In accordance with its Terms of Reference and as foreshadowed in its Interim Report, the Commission has undertaken a wide-ranging examination of the functions of the Queensland Government directed to:

- determining the range of services which should be provided by government

- examining the efficiency and effectiveness of the government in delivering core services

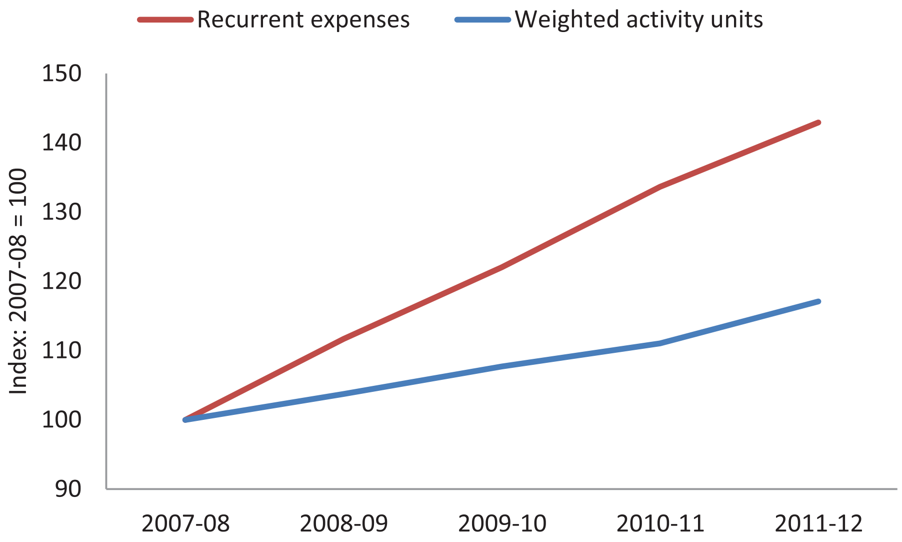
- evaluating whether there may be better ways to deliver some services.

In many respects, current service delivery mechanisms and structures fall short of best practice. Transforming the way government works is essential so that more and better front-line services can be provided within the Government's available funding envelope. A key focus of this Report therefore is public service renewal and rejuvenation to achieve greater productivity and better value for money, through more innovative and better ways of delivering the services most needed by the community.

Definitive assessments of outcomes, and benchmarking comparisons of performance in the delivery of public services, are confounded by data difficulties. Despite the data limitations, the available evidence suggests that, for major functions such as health, which comprises 26% of the state budget, increases in expenditure on inputs have not translated into commensurate increases in output.

Public hospital expenditure increased 43% between 2007-08 and 2011-12, yet activity increased by less than half, at 17% (Chart 6).

Chart 6
Queensland public hospital expenditure and activity trends

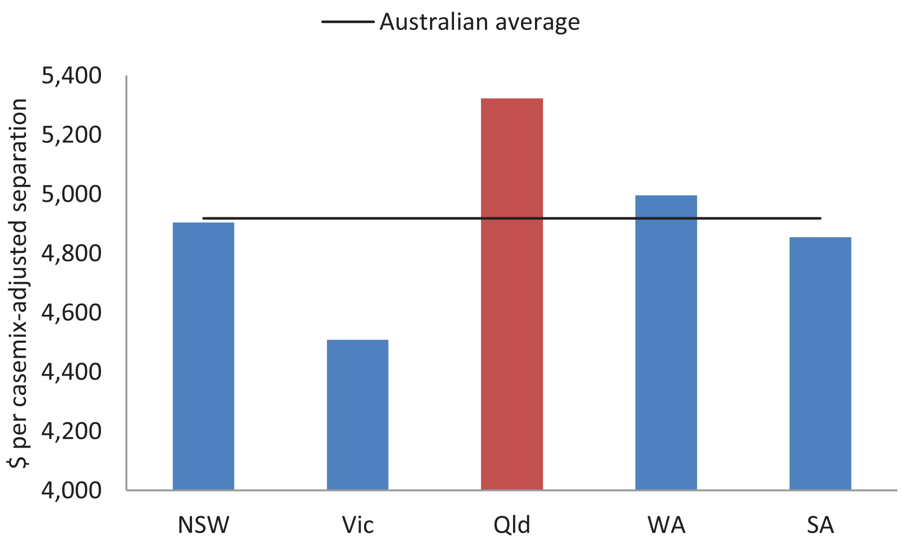


Source: Queensland Health

The efficiency of Queensland's public hospital services can be compared with the National Efficient Price (NEP) – the price on which the Australian Government's contribution to public hospital services will be based under the forthcoming new activity based funding arrangements. On 2009-10 data, Queensland was 11% less efficient than the NEP.

On a narrower measure of admitted patients, available casemix data for hospitals confirms that Queensland is inefficient compared with other mainland states. Chart 7 shows that Queensland's cost of service in 2010-11 was 8.2% above the Australian average, and higher than all other mainland states.

Chart 7
Cost per casemix-adjusted separation, 2010-11



Source: Australian Institute of Health and Welfare, Australian Hospital Statistics 2010-11

The Commission recommends a range of measures, including greater application of casemix funding, to improve the efficiency of public hospitals to meet the National Efficient Price by 2014-15. Unless Queensland is able to improve its efficiency to this level, it will incur a greater cost burden than is necessary under the new health funding arrangements with the Australian Government.

Across a range of functions, productivity could be enhanced by introducing contestability into the delivery of services. Many services are currently delivered under monopoly or non-contested conditions, which are not conducive to encouraging the most efficient and cost-effective solutions.

The development of a contestable market for the provision of government services will encourage more innovative solutions at more competitive prices – whether by government providers or non-government providers. In relation to health, services which should be opened to contestability include a range of clinical, clinical support, non-clinical services in public hospitals, as well as mental health and community health services.

Greater use of existing outsourcing models is also likely to drive more innovative and cost-effective outcomes for other functions, such as disabilities, child safety, corrective services, social inclusion and public housing services. This will require some investment in building capacity and strengthening governance structures of non-government providers, especially smaller ones with limited resources.

Contestability should be introduced progressively on a phased basis, concentrating initially in South East Queensland where competitive market conditions are most likely to be found.

Health policy, funding and service delivery are subject to complex and confusing arrangements within the Australian federal system. Responsibility for particular functions is often blurred, with a lack of transparency and accountability. This gives rise to widespread overlap and duplication between the Australian Government and state governments, resulting in significant waste and loss of productivity.

There is an urgent need for greater clarity in these arrangements, so that funds are better used than they are at present. The Queensland Government and the Australian Government should carefully delineate the specific functions for which each level of government is responsible, with each government fully meeting its obligations and holding the other accountable. This should include transfer of functions to the Australian Government where this is practical.

In relation to health services such as primary health care and aged care, the Queensland Government should:

- vigorously resist any cost-shifting from the Australian Government to the State
- seek reimbursement for the cost of delivering services that are the responsibility of the Australian Government.

In relation to education, the Commission considers that greater priority needs to be given to improving student performance outcomes and, especially narrowing the achievement gap (by lifting low achievement) in all Queensland schools. Central to the success of this strategy is to ensure greater autonomy and accountability at the individual school level, so that Principals can better manage resources to meet local needs, improve teacher performance and lift student outcomes. It is also important to avoid restrictive provisions (such as limitations on student-teacher ratios) which impede workforce flexibility at the school level.

Current strategies to open the Vocational Education and Training (VET) sector to increased market-based competition should be continued. The Commission considers that an independent industry-led skills authority should drive the development of a more contestable skills market to ensure that funding and resourcing is prioritised in favour of those skills most needed to enhance the productive capacity of the economy.

To reduce duplication with the Australian Government in the provision of VET services, the Queensland Government should focus State investment on certificate level training. Greater priority needs to be given to those qualifications and pathways that are critical to industry and the economy. The future role of TAFE as a public provider of VET services should be shaped by its ability to compete effectively in a contestable market, by trimming costs and concentrating on areas where it has traditionally held a competitive advantage, such as trade training.

Asset ownership should be separated from TAFE and transferred to a commercial entity, with a view to rationalising the asset base, facilitating third party access and improving asset utilisation. This would also enable TAFE to concentrate on its core function of service delivery.

In the face of increasing demand pressures in functions such as policing, ambulance, fire and rescue and other emergency services, the Government needs to develop more sophisticated models for allocating scarce resources based on a comprehensive assessment of need and risk factors. Greater co-location of facilities would also provide better integrated emergency responses, and ensure better utilisation of assets.

Across the entire range of its functions, the Government needs to adopt innovative and improved ways to ensure that more and better front-line services are delivered at a more affordable cost – by better leveraging the capacity of the non-government sector to deliver contestable services in a competitive market.

THE PUBLIC SECTOR

> The goal for the public sector must be to achieve the highest standard of excellence and ensure that Queensland is the best administered state in Australia.

The way in which the Queensland public service has been structured, organised and managed is out of date. It has changed little over the last 20 years, and has failed to respond to rapid changes in its operating environment.

Many of the principles and practices of public sector management have their origins in the work of the Public Sector Management Commission (PSMC) in the early 1990s. The processes of commercialisation and corporatisation adopted as part of micro-economic reforms of the mid to late 1990s have stalled.

As a result, the public service needs to be streamlined and modernised, to adopt contemporary governance standards and become more flexible and responsive to the changing environment.

An organisation as large and complex as the Queensland Government requires a highly skilled and professional workforce which is committed to achieving the highest standards of administration. The Commission makes recommendations to lay the foundation for reform and put in place the building blocks to creating a dynamic and accountable public sector.

A number of key reforms to the public service to encourage greater flexibility, capacity and mobility of the workforce in responding to changing priorities are:

- rationalisation of employment legislation to consolidate all core public service employment conditions under the one Act (the Public Service Act)
- consolidation of the number of awards and certified agreements to simplify the industrial relations environment
- establishment of a new broad-banded classification system for public servants to replace the current inflexible system characterised by multiple levels and pay points
- appointment of employees to a broad-banded level within the public service rather than a specific position within an agency
- adoption of flatter organisational structures to encourage more streamlined and effective decision-making processes
- a more effective performance management system.

To support these reforms, the role of the Public Service Commission needs to be re-focussed on setting and coordinating service-wide strategies for human resources and industrial relations, and supporting agencies in the implementation of these strategies.

Government also needs to reduce the overhead administrative and corporate costs of supporting front-line service delivery. Many internal services such as corporate services and ICT are provided to captive clients by government-mandated monopolies (for example, CITEC and Queensland Shared Services). Ostensibly, they operate on a commercial basis, but in reality they are shielded from any competitive pressures to drive the efficiency of their operations. In the absence of such competitive pressures, there is limited, if any, effective scrutiny of costs and hence prices charged to internal clients.

As a result, taxpayers are funding unnecessarily high costs for government to transact business with itself.

There is a contestable market for the delivery of corporate services, ICT and other back-office administrative support functions which should be utilised more extensively to minimise these costs. The Government should be a purchaser of such services. It should not be an owner and manager of the significant assets and systems required to deliver these services.

As with other assets, this would unlock scarce capital, and free up a higher share of the Government's limited resources for front-line service delivery.

CONCLUSION

The Commission has made 155 recommendations, which will require careful planning and management to implement effectively. The Commission suggests that a small taskforce of specialist resources drawn primarily from key public sector agencies be established to coordinate the implementation task in accordance with decisions made by the Government.

These recommendations will not cost money. In important areas, they will produce expenditure savings. They are directed to the objective of improving the performance and the productivity of the public sector, which will be conducive to growing prosperity to be shared in the State of Queensland.

In focussing on critical core services and delivering them well, the Government will improve the overall well-being of all Queenslanders.

LIST OF RECOMMENDATIONS

PART B: GOVERNMENT COMMERCIAL ENTERPRISES

B1 GOVERNMENT OWNED CORPORATIONS – GOVERNANCE MODEL

The Commission recommends that:

1 A single shareholding Minister be appointed for all Government Owned Corporations (GOCs). The responsibility of the shareholding Minister would be to act in the interests of the Queensland public, as ultimate owners of the GOC assets, to protect and enhance shareholder value of GOC assets.

2 An Office of the shareholding Minister be established to support the Minister discharging shareholder responsibility on behalf of the Queensland public.

3 The *Government Owned Corporations Act 1993* be amended to provide for a maximum term for the Chair and members of a Government Owned Corporation board of no more than 10 years.

4 The shareholding Minister prepare a report to be included in annual budget documentation showing all Community Service Obligations (CSOs) and other non-commercial policy objectives that Government Owned Corporations are required to perform at the direction of Government. The report would present the estimated cost of the CSO and non-commercial policy directives and their impact on:

- the budget
- the financial performance of the GOCs (especially dividend and tax equivalent payments).

5 The shareholding Minister identify Community Service Obligations or non-commercial policy objectives currently delivered through Government Owned Corporations, such as concessional prices, that could be converted to assistance payments paid directly from the budget to target customers.

6 Governance arrangements for Government Owned Corporations (GOCs) be further reviewed to assess their continuing relevance and applicability once any Government decisions relating to the Commission's other recommendations on GOCs have been implemented.

B2 ENERGY

(i) In the longer term:

7 When market conditions are favourable, the Government divest its electricity generation assets. Factors which will impact the timing of divestment include the carbon tax, other carbon abatement measures and generation capacity in the National Electricity Market.

8 Electricity distribution and transmission assets be divested at a time set to align with regulatory re-set periods and favourable market conditions.

9 Either separately or in conjunction with other electricity assets, residual retail electricity functions be divested in order to maximise the value of the business for taxpayers.

(ii) In the interim:

Generation

10 For the period that they remain in government ownership, the generation businesses be required to achieve higher rates of return through increased efficiencies, better capital management and operational cost savings.

11 The generation businesses divest themselves of non-core business (such as the coal export revenues of Stanwell), where there are significant bring-forward benefits for the State from doing so.

Distribution and Transmission

12 For the period that they remain in government ownership, electricity distribution and transmission businesses be required to achieve higher rates of return through increased efficiencies, better capital management and operational cost savings.

13 The electricity transmission and distribution businesses divest themselves of non-core business (as with Powerlink's recent disposal of Electranet), where there are significant bring-forward benefits for the State from doing so.

Uniform Tariff Policy and supporting Community Service Obligation

14 The uniform tariff policy and supporting Community Service Obligation arrangements be refined over time to target the most needy consumers, reduce costs and volatility, and support wider retail competition in Queensland, for example, by the introduction of a tariff band.

B3 PUBLIC TRANSPORT

15 City passenger rail services and network infrastructure be opened up to contestability, like bus services, to allow different providers, including private providers, to bid to operate services and maintain below-rail assets in a particular franchised area under franchise and lease arrangements.

16 Competitive tendering be introduced for long distance and tourist passenger rail service contracts, including:

- evaluating the number of routes serviced and frequencies, franchisees and franchise areas before initiating the tender
- owning the rollingstock required to provide the services in a State Government entity, and leasing this to the franchisee for the term of the contract.

17 Competitive tendering be introduced for bus service contracts throughout Queensland, including evaluating the number of routes serviced and frequencies, franchisees and franchise areas before initiating the tender.

18 Mount Isa rail freight line be transferred to Port of Townsville to be managed as an integrated supply chain, with a view to divestment of the integrated business.

19 Queensland Rail remain the owner and operator of the regional rail network, but with the maintenance task to be outsourced through a competitive tendering process.

B4 PORTS

20 The commercial operations of Gladstone Ports Corporation and Port of Townsville Limited be offered for long-term lease to private operators.

21 As part of long-term leases, the Government pursue opportunities to increase value through aggregation of assets, as follows:

- aggregation of the Mount Isa rail freight line with the Port of Townsville, as per Recommendation 18
- aggregation of pilotage services with port facilities, to increase the scope of services that the leased ports are able to manage.

22 The Government reserve the right to take action to prevent delays in port development, to enable increased capacity to be developed by Government or other users in the event that a leased port does not wish to invest to meet such capacity.

23 The Government retain North Queensland Bulk Ports as a Government Owned Corporation responsible for the management and future development of strategic port facilities, and expand its role to include supply chain coordination.

24 Ports North be retained as a Government Owned Corporation in its current form in view of its limited commercial freight operations and important regional economic role.

25 The ownership and control of remaining government-owned, low volume regional ports be offered to local authorities, in view of the significant role they play in their local communities.

B5 REGIONAL BULK WATER

26 SunWater finalise the transfer of its irrigation channels to private irrigators and withdraw fully from this activity.

27 SunWater's dedicated water supply infrastructure servicing commercial and industrial clients be offered for private ownership and/or private operation, depending on which solution provides the best value for money outcome for the Government.

28 SunWater remain as a Government Owned Corporation with a residual function to retain ownership and management of existing bulk water assets in regional Queensland.

29 Any future bulk water storage facilities be developed by the private sector, unless there are compelling public good or market failure reasons not to do so.

B6 FINANCIAL SERVICES

30 Whilst the Government retain responsibility for long-tail liabilities, it outsource provision of transactional, registry and claim management services relating to its liabilities.

31 The Government divest Queensland Investment Corporation with both its private and public sector client book.

32 The Government amend the Statutory Bodies Financial Arrangements Act and regulations to allow statutory bodies to invest with a private sector funds manager on the same basis as is currently permitted under the Act and its regulations for Queensland Investment Corporation.

B7 COMMERCIAL BUSINESS UNITS

33 The Government seek expressions of interest for remaining Commercial Business Unit services for QBuild, Project Services and RoadTek provided in regional areas. Following market testing, government provision of services in these areas should continue only where there is an identified gap in private provision.

34 The functions of the Property Services Group be limited to the development of major industrial sites of State significance where there are strategic considerations for government, and that surplus land holdings be rationalised.

35 The Government contract out all of the services of QFleet to the private sector.

36 Services provided by remaining Commercial Business Units (CBUs) be subject to full cost pricing and government departments and agencies be allowed to source private sector providers as an alternative to CBUs, where these are cost competitive and represent better value for money.

B8 PRICING REGULATION

37 A stable, predictable and consistent pricing framework be established for regulated infrastructure, by adopting a policy that all pricing reviews are conducted by the Queensland Competition Authority under its enabling legislation, rather than through separate legislative or administrative processes.

38 The *Queensland Competition Authority Act 1997* be amended to:

- provide for a price determination power similar to that which applies with the New South Wales Independent Pricing and Regulatory Tribunal

- update and modernise access and price regulation provisions to reflect the commercial environment for regulated assets.

PART C: FINANCIAL MANAGEMENT

C1 FINANCIAL PLANNING FRAMEWORK

39 The Government produce an Intergenerational Report covering a 40 year horizon, to be produced every five years to outline long-term demographic, economic and financial trends, and likely implications for Queensland.

40 The Government strengthen its asset management processes by developing and updating each year a 10 year State Infrastructure Plan which prioritises likely service delivery, capital and maintenance requirements in the context of indicative funding capacity.

41 Public sector agencies be required to produce annual 10 year Total Asset Management Plans, as input to the State Infrastructure Plan, which incorporate:

- whole-of-life assessments of investment in new and replacement assets
- asset maintenance plans
- asset rationalisation and disposal plans

in accordance with the Government's service delivery priorities.

42 Common financial planning requirements should be applied across the General Government, Government Owned Corporation and local government sectors.

43 Management of the State Borrowing Program be strengthened to support the Government's debt reduction strategies, with approval of funding to be conditional upon enhanced credit lending assessments and other terms and conditions based on recommendations of Queensland Treasury and Trade.

44 The Project Assurance and Value for Money Frameworks be revised and the process streamlined to allow:

- reduced timeframes for preliminary evaluation and business cases
- revised tender process with less onerous and less costly bidding requirements
- greater acknowledgement of skills which will add value through innovation, efficiency and more effective management of risks, especially for large and complex projects.

45 The Strategic Project Program Board:

- develop processes and structures to ensure that the necessary planning and specification work precedes major project decisions
- work with agencies to build project management skills and capacity at an operational level to ensure projects are delivered within approved budgets and achieve value for money outcomes.

C2 Asset Management

46 The Government rationalise its asset base with a view to:

- achieving better value from existing assets (including better sharing of assets across departments)
- reducing asset costs by disposing of, or consolidating use of, under-utilised assets
- where efficiencies can be achieved, moving public sector office accommodation to private sector benchmarks
- examining and comparing ownership and leasing arrangements with a view to utilising the most cost effective solution for office accommodation
- utilising the private rental market for the provision of employee housing where feasible and cost effective
- achieving more effective maintenance of current and future assets.

47 The tenancy and property maintenance management functions of Government be outsourced to expert private sector providers to ensure maximum efficiencies are achieved.

48 The Government adopt a consistent rental rate policy with a uniform set of criteria to be applied across all government residential properties.

49 The operation and management of the remaining five major stadiums currently undertaken by Stadiums Queensland be outsourced to the non-government sector where it is cost effective to do so.

C3 BUDGET MANAGEMENT FRAMEWORK

50 A Charter of Budget Accountability (along similar lines to the Australian Government's Charter of Budget Honesty) be legislated to formalise the Government's commitment to strong fiscal management, accountability and transparency, with the Charter to include:

- the Government's fiscal objectives
- a new budget planning and review framework
- minimum content requirements for improved financial reporting in budget and related documents
- a requirement for the publication of a pre-election budget update.

51 The *Financial Accountability Act 2009* be amended to provide for:

- all government revenues to be paid into the Consolidated Fund, to be appropriated by Parliament to fund operational and capital expenses of departments

- a revised appropriation process by which Parliament approves a total expense limit for agencies, including a limit for employee expenses

- a new Supplementary Appropriation Bill to require government to seek Parliamentary approval for additional expenses in the year in which they are to be incurred

- a revised capital funding process under which cash funding for depreciation expense is held centrally and agencies receive an explicit appropriation for capital.

52 The annual budget process be strengthened by:

- improving the quality of budget submissions and supporting information

- managing funding pressures within a rigorous and disciplined assessment of fiscal capacity

- re-establishing a Treasurer's Advance for any urgent and unavoidable cost pressures

- periodic review of progress in the implementation of new spending and savings measures, including review of outcomes achieved

- reviewing base budgets of departments at least once every three years.

53 The Government enhance the cash funding process for agencies so that payments are made on an 'as needs' basis, in accordance with cash flow projections.

54 The Queensland financial and performance reporting regime be strengthened to promote transparency and accountability, including by:

- extending the range and accessibility of analytical information on budget aggregates
- creating a single dedicated electronic access point for government financial information
- consulting with interested parties with a view to improving the relevance and usefulness of published information
- providing for departments to report separately on administered items only where warranted on the grounds of materiality.

C4 Grant Administration

55 The Government publish a list of all grant programs on an annual basis.

56 Grant programs across Government be rationalised and consolidated, with a view to:

- reducing the piecemeal and fragmented nature of current programs
- adopting a consistent definition and treatment of grants across Government, separate from subsidies, service level agreements and other forms of payment for services rendered
- ensuring the efficiency and effectiveness of grant programs in achieving stated objectives
- providing a more informed basis for future decisions on the nature, range and scope of grants proposed to be made, and the organisations receiving these grants
- achieving better value for money for the large expenditure made on grants.

57 The administration of grant programs be managed by specialist grant administration systems based on best practice, to minimise the administrative and overhead costs involved.

C5 LONG-TERM SYSTEMIC REFORM

58 A Queensland Productivity Commission be established as a separate, independent body to advise the Government on measures to improve productivity and efficiency within the economy, with arrangements as follows:

Functions

- absorb the role of the Public Sector Renewal Board
- absorb the role of the Office of Best Practice Regulation
- undertake regular reviews of the base budgets of departments, and other reviews of service delivery issues
- undertake audits of business cases for all infrastructure projects with a capital cost in excess of $500 million and other strategic infrastructure projects as appropriate
- as requested by the Treasurer, undertake other reviews and report on measures to improve productivity and efficiency across Queensland.

Governance

- the Commission to comprise Commissioners, appointed for a period of five years, with grounds for removal limited to serious misbehaviour
- the Commission to report to the Treasurer
- funding to be provided through an appropriation from the Consolidated Fund
- the Commission to be supported by a small secretariat comprising officers employed under arrangements independent of the public service.

59 The regulatory burden on industry be reduced by significantly shortening timeframes for all major government approval processes (such as Environmental Impact Statement approvals and planning development approvals), without requiring additional government resourcing, including by:

- reducing the number of steps in the approval process
- reducing maximum allowable times for particular steps in the process
- streamlining consultation processes with government agencies and other stakeholders
- standardising, codifying or otherwise simplifying approval requirements.

60 Where the Treasurer decides to exempt a regulation from the requirement to prepare a Regulatory Assessment Statement, the Treasurer should immediately publish the rationale for granting the exemption, including all relevant information to support that decision.

61 The Government rationalise and consolidate industry development and assistance programs to achieve better value for money and to ensure that such programs contribute to greater productivity in the economy.

62 The Queensland Government negotiate with the Australian Government and other state governments on measures to reduce the states' reliance on narrowly based and inefficient taxes.

63 In the absence of broader changes to federal arrangements (which are beyond the scope of this Report), the Government pursue an agreed and clear protocol that sets out:

- functions to be performed by the states, and those which should be performed by the Australian Government
- where shared responsibilities remain, the common performance and compliance arrangements which will reduce the cost of confusing, overlapping and inconsistent requirements of different levels of government.

PART D: FRONT-LINE SERVICE DELIVERY

D1 HEALTH OVERVIEW

64 The Queensland Government and the Australian Government delineate the specific health functions for which each level of government is responsible, with each government fully meeting its obligations.

In relation to services such as primary health care, aged care and certain mental health services, the Queensland Government should:

- vigorously resist any cost-shifting from the Australian Government to the State
- seek reimbursement for the cost of delivering services that are the responsibility of the Australian Government.

D2 PUBLIC HOSPITALS

65 The Government set a target to improve the efficiency of public hospitals, to meet the National Efficient Price by 2014-15, through the expanded application of casemix (activity-based) funding and through improvements in productivity outlined in the Commission's further recommendations on public hospitals.

66 To achieve improved efficiency of public hospital services, the Government should progressively expand contestable markets, initially in metropolitan areas, for the private provision of:

- clinical services – which happens already with some elective surgery, but in greenfield hospital developments could go far wider
- clinical support services such as pathology, radiology and pharmacy

- non-clinical support services such as catering, cleaning, laundry and ward support.

67 The Government concentrate emergency departments on delivering appropriate emergency care by:

- developing strategies in consultation with Medicare Locals to reduce GP-type presentations to emergency departments – including improvements in after-hours GP services and expansion of privately operated, co-located primary care clinics
- adopting the Extended Care Paramedic model to allow paramedics a greater scope of practice, reducing unnecessary transfers to emergency departments.

68 To realign the scope of Queensland's public outpatient services to accord with best practice interstate, the Government:

- adopt new delivery models, including increased non-government sector delivery of outpatient services
- implement improved management models for outpatient departments that leverage best practice administrative and business processes
- develop and implement referral criteria with general practitioners, to improve the appropriateness and consistency of referrals to outpatient services
- reduce pressure on inpatient services by implementing clinical and cost effective models of care in outpatient services.

69 The Government continue to improve incentives for cost recovery and revenue generation through devolution of revenue to the local Hospital and Health Services, and ongoing improvements to third-party or non-public patient identification.

D3 PRIMARY AND COMMUNITY CARE

70 In relation to primary health care services, the Queensland Government:

- work in partnership with the Australian Government to ensure Queensland Health is appropriately reimbursed where it must remain a provider of last resort for primary health care services
- limit the role of the State as a provider of primary health care services in negotiations with the Australian Government on the development of the National Primary Health Care Strategic Framework and bilateral Primary Health Care Plan.

71 The Government:

- refocus community health services to reducing demand on public hospitals and expanding hospital substitution programs (such as Hospital in the Home)
- introduce contestability to the provision of community health services.

72 The Government review eligibility criteria for subsidy schemes, such as the patient transport subsidy scheme, to align with practice interstate and with the need to focus limited government resources on areas of greatest need.

73 In relation to public oral health services, the Government:

- align service delivery with best practice interstate, through the introduction of co-payments and contestability in service provision
- leverage reform opportunities presented by the Australian Government's Dental Reform package, while resisting any cost-shifting to the State.

74 The Government transition telephone support services from 13HEALTH to the National Health Call Centre Network, healthdirect.

75 To achieve improved efficiency of public hospital services, the Government develop opportunities for the non-government sector to provide rural and remote health services for which the State is responsible.

D4 MENTAL HEALTH

76 To achieve improved efficiency and productivity of mental health services, the Government:

- introduce outcome and output-based funding models for mental health services, through the agreed Independent Hospital Pricing Authority process
- develop contestable market arrangements for the provision of mental health services, in particular for sub-acute services and community care units.

77 The Queensland Government strongly influence the development of the mental health activity based funding model being developed by the Independent Hospital Pricing Authority, which will contribute to a clearer delineation of responsibilities between the State and the Australian Government.

D5 RESIDENTIAL AGED CARE

78 As provision of residential aged care is the responsibility of the Australian Government:

- the Queensland Government advocate with the Australian Government to ensure an adequate supply of federally funded aged care places in Queensland
- the Queensland Government negotiate the progressive transfer of ownership and operations of its existing facilities to the non-government sector, with suitable safeguards to ensure continuity of care for residents.

D6 HEALTH SECTOR ENABLERS

79 Queensland Health's workforce flexibility and productivity be improved, through:

- workforce redesign to make more cost effective use of medical, nursing and allied health professionals in providing safe, quality health care
- rationalising and simplifying industrial relations arrangements, and ensuring management flexibility is not compromised by restrictive work practices
- accountable and transparent performance incentive arrangements for senior clinical staff.

80 The Department of Health work with Hospital and Health Services to make better use of their asset bases in accordance with the Commission's broader Recommendation 46 regarding asset management.

81 The Government implement performance and accountability arrangements to ensure the efficiency and effectiveness of the new organisational structure, through:

- enhancing the skills and capacity of the Department of Health and the Hospital and Health Services, particularly in relation to procurement and contract management expertise
- actively promoting clinical engagement in achieving financial and performance targets
- ensuring the Department of Health implements casemix and other activity-based funding arrangements to promote efficiency and effective clinical outcomes in Hospital and Health Services.

82 ICT services and other technologies (such as telehealth) be leveraged to support new and innovative forms of service delivery.

D7 EDUCATION

83 The Government adopt a strategic direction for education in Queensland that focuses on high achievement and increasing student performance in every school.

84 The Government devolve resourcing and financial management responsibility to the school level and increase school autonomy to generate innovative school-based solutions to achieve the recommended strategic direction.

85 The Government ensure school autonomy is balanced by an accountability framework that places emphasis on improved student outcomes and promotes a culture of performance evaluation.

86 The framework for performance management applied by the Department of Education, Training and Employment include mandatory consideration of student outcomes and teacher performance in the assessment process.

87 The Government minimise impediments to further devolution of workforce management responsibilities to schools by removing restrictive provisions (for example, specification of student–teacher ratios) from future certified agreements.

88 The Government develop an evaluation capability in the Department of Education, Training and Employment with explicit responsibility for:

- evaluating system-wide reform initiatives (including initiatives under National Partnership Agreements)

- creating an evaluation culture that promotes and supports the identification and dissemination of innovative teaching strategies at the school level.

89 The Government improve the management of school assets by:

- ensuring that high priority is given to reconfiguring the current schools asset base over the medium to long term to increase utilisation rates and reduce ongoing maintenance costs, particularly for metropolitan schools

- adopting innovative options with the non-government sector to improve cost effectiveness in building and maintaining schools.

D8 VOCATIONAL EDUCATION AND TRAINING

90 The Government reduce duplication between State and Australian Government resource allocation for vocational educational training by focussing State investment on certificate level training, particularly for those individuals without a post-school qualification – with priority for those qualifications and pathways that are critical to industry and the economy.

91 An independent industry-led skills statutory authority be established, with leadership responsibility for developing a competitive skills market through a clearly defined purchaser role in the Vocational Education and Training system.

92 There be a clear separation between the VET purchaser function performed by the independent skills authority and the VET provider function (comprising TAFE and private registered training organisations).

93 Competition be adopted as the preferred VET purchasing model, with a target to be established for the proportion of government funding allocated through contestable processes of 80% by 2015.

94 The skills authority be responsible for improving alignment between the skills produced by the VET system and the needs of the economy, through strategies such as:

- supporting open and contestable arrangements for allocating government investment for those markets considered competitive
- improving labour demand analysis to influence future investment priorities
- improving skills demand and supply information available to consumers
- a deregulated pricing mechanism that reflects the shared benefits of skills
- variable government subsidies for courses to reflect skill priority needs of the economy
- optimisation of investment from both individuals and industry, for example through greater use of HECS-type schemes
- improving quality assurance through industry-led purchasing and market oversight.

95 Asset ownership be separated from TAFE and transferred to a specialist commercial entity with skills and expertise in owning and managing such assets, with a view to rationalising the asset base, facilitating third party access and improving asset utilisation.

96 Reforms be implemented to redefine the role of TAFE as a public training provider operating in a competitive skills market, with particular emphasis on:

- refocussing the capabilities of its workforce to respond more effectively to the skills training needs of the economy
- revised and competitive industrial relations arrangements for the TAFE workforce, to address cost pressures in areas such as restrictive attendance time and normal hours, loadings and overtime, and additional leave entitlements.

D9 Disability Services

97 As recommended by the Productivity Commission, the Queensland Government require the Australian Government to provide full funding of the National Disability Insurance Scheme.

98 In the next three years and prior to the full commencement of the National Disability Insurance Scheme, the Queensland Government transition all services currently provided by the Accommodation Support and Respite Services to the non-government sector through a formal and transparent re-commissioning process that allows for a progressive movement towards client choice and control.

99 The Government continue to support and monitor the development of the non-government sector's governance capability as part of the move to market contestability in specialist disability services.

D10 Child Safety Services

100 In view of the Carmody Inquiry, with its comprehensive terms of reference, the Commission makes no specific recommendations on changes to the delivery of child safety services in Queensland. However, the Commission encourages the Carmody Inquiry to consider, in addition to service quality, the cost effectiveness of various policy options for the delivery of child safety services in Queensland.

D11 Police Services

101 Resourcing decisions for the Queensland Police Service:

- be based on a comprehensive analysis of risk factors, rather than simple police-to-population ratios
- support the application of police service models that are flexible and efficient in managing demand, and make use of modern ICT tools
- achieve better integration of workforce and infrastructure needs.

102 The Queensland Police Service adopt alternative models for service delivery, including civilianisation and/or competitive market tendering processes for roles which need not be done by sworn officers, including:

- traffic control services, including wide-load escorts
- mobile traffic camera services
- court support, technical support, watch house and client service roles.

103 The Queensland Police Service modernise its workforce management arrangements by:

- creating greater flexibility in district-level rostering
- removing barriers to the lateral appointment of ex-members and interstate police officers
- reforming sick leave bank entitlements to promote timely rehabilitation
- revising operational shift allowance arrangements to ensure they reflect actual work patterns.

104 The Queensland Police Service rationalise and consolidate its existing capital stock, particularly in relation to under-utilised assets, and possible co-location with emergency service assets, as part of a broader infrastructure strategy that is more responsive to modern police service delivery needs.

D12 CORRECTIVE SERVICES

105 The Government evaluate international and interstate experience with a view to adopting successful models and innovative ways of reducing recidivism.

106 The management of all correctional facilities in Queensland be progressively opened to competitive tendering processes, where there is a contestable market, to ensure that the best value for money outcomes are achieved.

107 Where the operation of correctional facilities remains in public hands, market capacity be assessed at a state-wide and regional level to determine the feasibility of contracting out the provision of ancillary services to alternative cost effective suppliers, including:

- psychological and counselling services
- business development services for prison industries
- 24 hour electronic monitoring of offenders
- rehabilitation programs to offenders addressing the causes of criminal behaviour
- offender drug and alcohol testing services
- prison catering services
- court services (for example, escorting prisoners within a court complex).

108 Where the operation of correctional facilities remains in public hands, maintenance arrangements for each corrective services facility in Queensland be subject to competitive tender processes as current contracts expire, with a view to contracting alternative cost effective suppliers offering a better value for money solution.

109 Subject to the expansion of videoconferencing, competitive market tendering processes be adopted for the delivery of residual prisoner transport services, especially in south-east Queensland.

D13 Emergency Management

110 The Government make greater use of risk-based approaches to managing demand in the delivery of ambulance, fire and rescue and other emergency management services.

111 The Government pursue further opportunities for co-location of police, ambulance, fire and rescue, and other emergency management infrastructure to improve utilisation, increase efficiency and provide better integrated emergency responses.

112 In the longer term, the Government further integrate ambulance services with Queensland Health, including through co-location of facilities.

113 The Government outsource the provision of medically authorised transports, especially in south-east Queensland, through a contestable market process.

114 The Department of Community Safety adjust its commercial operations to support:

- developing strategic partnerships with the private sector for the delivery of commercial training programs
- consolidating internal registered training organisation resources where efficiencies can be reasonably achieved
- implementing a managed withdrawal from commercial activities that are delivered in competitive markets, are not providing a clear public good, and are not essential to maintaining core service delivery capability.

D14 Housing Services

115 The Government progressively transition the ownership and management of existing and new public housing stock to the non-government sector, with the scope and timeframe for transition to be determined by the sector's performance and governance capability.

D15 Social Inclusion

116 Social inclusion services funded by the Department of Communities, Child Safety and Disability Services be rationalised and consolidated, to reduce fragmentation and create a more integrated and strategic framework for the delivery of services.

117 As part of the rationalisation of social inclusion services, the Department of Communities, Child Safety and Disability Services work with the non-government sector to help it establish broader and more viable service solutions.

118 The Department of Communities, Child Safety and Disability Services continue to implement client-centred services including through integrated service delivery and case management to deliver better outcomes to clients, especially those with complex needs such as entrenched disadvantage and social exclusion.

119 The Department of Communities, Child Safety and Disability Services over time shift its investment focus to early intervention and prevention services targeting those most at risk of entrenched disadvantage and social exclusion to reduce the investment in crisis services.

D16 JUSTICE AND COURT SERVICES

120 The Government reprioritise judicial resources within the court system to address the length of delays in criminal proceedings occurring in the Magistrates' Court and Children's Court.

121 The Government make greater use of ICT to drive cost savings and efficiencies in court operations by:

- significantly expanding the use of video conferencing between correctional centres and courts for all bail, procedural and committal matters
- reviewing, updating and implementing the recommendations from the Future Courts Program and Capable Courts in a staged approach, based on a cost-benefit analysis. The goal should be to move to electronic delivery of court and registry services within 10 years.

122 The Government seek greater cost recovery in two key areas:

- lodgement fees for civil court matters for the District and Supreme courts should be increased from the current 74% (Supreme Court) and 79% (District Court) to a target of 90% of the all-states average
- costs associated with dealing with people-smuggling offences under the *Migration Act 1958* should be recovered from the Australian Government.

123 The Government expand and continue the reform process commenced with the Moynihan Review by:

- extending the types of ticketable offences as well as the range of mandatory ticketable offences
- expanding the range of summary offences
- introducing an electronic guilty plea for simple and minor indictable offences
- streamlining any multiple review or appeal mechanisms for administrative decisions.

PART E: THE PUBLIC SECTOR

E1 WORKFORCE

124 The goal for the public sector must be to achieve the highest standards of excellence and ensure that Queensland is the best administered state in Australia.

125 All public sector agencies develop and publish a five-year strategic workforce plan. The plan should include the following issues:

- workforce size, composition and capability
- identification of demand and supply pressures, including recruitment challenges and critical skill gaps, that may affect or impede business outcomes
- initiatives or strategies to attract, develop and retain an efficient and effective workforce aligned with business outcomes
- identification of workforce metrics, including employee surveys, to monitor and assess human resource performance, aligned with and to support business outcomes.

126 From the recommended agency workforce plans, the Public Service Commission develop and implement a whole-of-government strategic workforce plan which addresses future workforce capabilities, needs and performance.

127 The role of the Public Service Commission be focussed on setting and coordinating service-wide human resource and industrial relations strategies, and providing support, guidance and capability development to agencies in the implementation of these strategies, rather than seeking to direct and control agency practices.

E2 EMPLOYMENT FRAMEWORK

128 The *Public Service Act 2008* be amended to incorporate the following:

- core employment conditions for all persons employed in the Queensland public service
- streamlining of employment engagements to three categories:
  - ongoing employment (full time or part time)
  - non-ongoing employment (full time or part time)
  - casual employment.

129 All other employing legislation for specific groups or categories of public service employees be amended to remove core employment conditions which are to be covered in the proposed amendments to the *Public Service Act 2008*, with only specific qualification and occupation issues to remain.

130 The *Industrial Relations Act 1999* be administered by the Public Service Commission and updated to ensure it is modern, flexible and relevant to the public sector environment.

131 Awards continue to provide the basis for public sector wages and conditions; however, only matters not covered by legislation or public service directives should be included. The number of awards that apply in the public sector should be significantly reduced.

132 Certified agreements only contain wages and conditions for specific groups of employees which are outside award conditions and which are linked to improvements in productivity and performance. All certified agreements are to be approved by the Public Service Commission.

E3 Classification Framework

133 The Public Service Commission:

- review the existing work level standards (or generic level statements, work level descriptions or other similar title) with a view to developing revised whole-of-government work level standards that are modern and meet the needs of agencies
- develop guidelines to assist agencies with the assessment of work value and determination of appropriate levels.

134 The *Public Service Act 2008* be amended to provide for:

- employees to be appointed to a generic broadbanded level in the public service, rather than a specific position in a public service agency, thereby promoting greater flexibility and mobility in resource utilisation to address the service delivery priorities of the Government
- the new broadbanded classification system in accordance with the Commission's preferred Option A
- the proposed new broadbanded classification system be supported by a revised job evaluation methodology based on work level descriptors and core competencies, to be developed by the Public Service Commission, together with guidelines for job evaluations.

135 Temporary Attraction and Retention Incentives (ARIs), not forming part of base salary, be applied as necessary to meet specific labour market recruiting pressures. The Attraction and Retention Incentives should be approved by the Public Service Commission Chief Executive and should be subject to stringent requirements and performance assessment. The Public Service Commission should ensure annual public reporting on the number and value of ARIs approved.

E4 MOBILITY AND FLEXIBILITY

136 Agencies be required to adopt flatter organisational structures to encourage more streamlined and effective decision-making processes within Government, thereby reducing regulatory and administrative delays for business and the community.

137 The *Public Service Act 2008* be amended to remove the 'reasonable grounds' test for transfers and to provide for employees to be transferred on the basis that the terms and conditions of their employment are comparable and that their substantive level of remuneration is maintained.

138 All Senior Executive Service (SES) officers be employed on standardised contracts. The Chief Executive of the Public Service Commission promote easier transfer and greater mobility of SES officers between departments, in accordance with changing priorities. Department Chief Executives retain responsibility for employment of SES officers, and co-operate with the Public Service Commission to allocate resources across the public service to areas where the Government's needs are greatest.

E5 PERFORMANCE MANAGEMENT

139 The Public Service Commission coordinate and oversee the implementation of more effective performance management arrangements within the public service agencies, including by:

- building and supporting the capacity of managers to apply effective performance management practices
- developing both financial and non-financial incentives that encourage public service employees to improve performance
- streamlining public sector disciplinary processes to deal effectively and expeditiously with under-performing employees.

140 Public service agencies ensure that:

- performance management practices are applied regularly and consistently at all levels of their organisations
- performance management is embedded as a performance expectation for all managers
- clear linkages are established between performance management and service delivery outcomes.

141 The responsibility and accountability for the management of minor misconduct matters be returned to public service agencies and managers, with oversight to be provided by way of post-action audit or review by the Public Service Commission.

E6 DEPARTMENTAL CORPORATE SERVICES

142 In the short term, the Government continue the transfer of corporate service functions for Queensland Health and the Department of Education, Training and Employment (DETE) back to the Queensland Health Shared Services Provider and DETE Corporate and Professional Services respectively, while at the same time investigating opportunities for immediate savings from contestability of all departmental corporate service functions.

143 The Government discontinue the mandated use of centralised corporate service functions through Queensland Shared Services.

144 The Government introduce an open, contestable market for the delivery of all corporate services by public or private providers, based on value for money considerations.

145 Queensland Shared Services be empowered to offer services to agencies on a contestable basis in a competitive market environment while it remains viable to do so.

146 The Public Service Commission work with agencies to strengthen their focus on strategic issues which ensure:

- senior corporate service staff have the skills and capacity to effectively manage corporate functions (by becoming ‘corporate services strategists’) in support of agency business and service delivery needs
- corporate service staff have the skills and capacity to commission, manage and realise the benefits of contestable transactional corporate services.

E7 INFORMATION AND COMMUNICATIONS TECHNOLOGY

147 The Government adopt an ‘ICT as a service’ strategy and source ICT services, especially commoditised services, from private providers in a contestable market where this is feasible and represents value for money.

148 The Government utilise as appropriate cloud-based computing and other emerging technologies as enablers to complement its ‘ICT as a service’ strategy.

149 The Government discontinue the role of CITEC as a centralised provider of ICT services within government, and initiate a process to divest the CITEC business within two years.

150 The Government:

- discontinue its role as an owner and manager of significant ICT assets and systems
- implement a program to divest ICT assets and systems, with required ICT services to be purchased under contractual arrangements with private providers.

151 The Government implement best practice governance arrangements for the recommended new ‘ICT as a service’ strategy to ensure that value for money is achieved from this strategy.

152 The Queensland Government Chief Information Office work with agencies to refocus their ICT resources on strategic issues which ensure:

- agency Chief Information Officers have the skills and capacity to effectively manage an ‘ICT as a service’ strategy from both whole-of-government and agency perspectives
- agency ICT staff have the skills and capacity to commission, manage and realise the benefits of contestable ICT services.

E8 Government Procurement

153 The Government adopt a procurement framework which:

- establishes consistent, standardised policies and practices across government
- derives maximum leverage from the State’s substantial purchasing power, in the acquisition of commoditised and standardised supplies
- provides agencies with the flexibility to pursue their own procurement options within the whole-of-government procurement framework to meet their specific needs and where there is demonstrable value for money
- ensures annual public reporting of the procurement activity occurring within the Queensland Government.

154 The Print Management Unit and Travel Management System be discontinued, with contestability to be introduced to the provision of these services.

155 The whole-of-government strategic sourcing review being undertaken by the Government specifically address the following issues:

- opportunities for greater cost savings from a more commercial approach to procurement policies, including greater use of contestability for standard supply arrangements
- administrative costs and burdens for agencies which may erode the benefit of whole-of-government procurement policies
- funding arrangements that provide appropriate incentives to the Queensland Government Chief Procurement Office and agencies to efficiently manage the costs and benefits of whole-of-government procurement arrangements.

GLOSSARY

GLOSSARY

ABF	Activity based funding
ABS	Australian Bureau of Statistics
ACARA	Australian Curriculum Assessment and Reporting Authority
ACCC	Australian Competition and Consumer Commission
ACE	Adult Community Education
ACER	Australian Council for Educational Research
ACFI	Aged Care Funding Instrument
ACT	Australian Capital Territory
AEIG	Australian Government Intergenerational Report
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
AFP	Australian Federal Police
AGA	Australian Government Actuary
AHIA	Australian Health Infrastructure Alliance
AICD	Australian Institute of Company Directors
AIHW	Australian Institute of Health and Welfare
AIRG	Australian Government's Intergenerational Report
ANA	Australian System of National Accounts
ANCOR	Australian National Child Offender Register
ANTA	Australian National Training Authority
ANZSIC	Australian and New Zealand Standard Industrial Classification
AO	Administrative Officer
APCC	Acute Primary Care Clinic
APG	Australian Property Group
APS	Australian Public Service
APSED	Australian Public Service Employment Database
ARC	At Risk Component
ARCT	Australian Rail and Track Corporation
ARG	Australian Railroad Group
ARI	Attraction and retention incentive
ARTC	Australian Rail and Track Corporation
AS&RS	Accommodation Support and Respite Services
ASCO	Australian Standard Classification of Occupations
ASIC	Australian Securities and Investment Commission
ASX	Australian Securities Exchange
AUL	Audio-visual link
AusHFG	Australasian Health Facility Guidelines
AVL	Automatic vehicle location
BCC	Brisbane City Council
BCEC	Brisbane Convention and Exhibition Centre
BER	Building the Education Revolution
BHC	Brisbane Housing Company Ltd
BOOT	Build, own, operate and transfer
BRC	Border Rivers Commission
BRCI	Benchmark Retail Cost Index
BT	Brisbane Transport
CAA	Corporate Administration Agency
CAC	Community Ambulance Cover

CAD	Computer-aided dispatch
CAGR	Compound annual growth rate
CAPS	Corporate and Professional Services
CBRC	Cabinet Budget Review Committee
CBU	Commercial Business Unit
CCC	Corruption and Crime Commission
CDBS	Child Dental Benefits Schedule
CEO	Chief Executive Officer
CGC	Commonwealth Grants Commission
CGE	Computable general equilibrium
CHART	Common homelessness assessment and referral tool
CIO	Chief Information Officer
CIRA	Competition and Infrastructure Reform Agreement
CM	Construction and Management
CMA	Crime and Misconduct Act
CMC	Crime and Misconduct Commission
CO	Construct only
COAG	Council of Australian Governments
COPE	Commonwealth Own Purpose Expenses
CPOR	Child Protection Offender Registry
CRA	Commonwealth Rent Assistance
CRC	COAG Reform Council
CSA	Corporate Services Agency
CSO	Community Service Obligation
CSP	Corporate Solutions Program
CSS	Child Safety Services
CTP	Compulsory Third Party
CUA	Common use arrangements
D&C	Design and Construct
DAE	Deloitte Access Economics
DAFF	Department of Agriculture, Fisheries and Forestry
DAMPP	Development Assessment Monitoring Performance Program
DATSIMA	Department of Aboriginal and Torres Strait Islander and Multicultural Affairs
DBCT	Dalrymple Bay Coal Terminal
DC&M	Design, construct and maintain
DCCSDS	Department of Communities, Child Safety and Disability Services
DCS	Department of Community Safety
DEEDI	Department of Employment, Economic Development and Industry
DEHP	Department of Environment and Heritage Protection
DETE	Department of Education, Training and Employment
DEWS	Department of Energy and Water Supply
DHA	Defence Housing Australia
DHPW	Department of Housing and Public Works
DJAG	Department of Justice and Attorney-General
DLG	Department of Local Government
DNPRSR	Department of National Parks, Recreation, Sport and Racing
DNR	Department of Natural Resources
DNRM	Department of Natural Resources and Mines
DNSP	Distribution network service provider
DoH	Department of Health
DPC	Department of the Premier and Cabinet
DPF	Developing Performance Framework

DPT	Director of Public Transport (Victoria)
DR	Distributor–retailer
DRG	Diagnosis related group
DRM	Documents and records management
DSDIP	Department of State Development, Infrastructure and Planning
DSITIA	Department of Science, Information Technology, Innovation and the Arts
DTF	Department of Treasury and Finance (South Australia)
DTFSSC	Department of Treasury and Finance Share Service Centre (Western Australia)
DTMESBCG	Department of Tourism, Major Events, Small Business and the Commonwealth Games
DTMR	Department of Transport and Main Roads
DVA	Department of Veterans' Affairs
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
ECI	Early Contractor Involvement
ECP	Extended Care Paramedic
EEQ	Ergon Energy Queensland Pty Ltd
EIS	Environmental impact statement
ELS	Empowering Local Schools
EMQ	Emergency Management Queensland
ENCAP	Energy Network Capital Program
ERA	Economic Regulation Authority
ERP	Estimated Resident Population
ESC	Essential Services Commission
ESCOSA	Essential Services Commission of South Australia
ESCS	Economic, social and cultural status
FaCS	Funding and Contracting Services
FCE	Final consumption expenditure
FPMS	Financial and Performance Management Standard
FTE	Full-time equivalent
FUM	Funds under management
GAWB	Gladstone Area Water Board
GDP	Gross Domestic Product
GEA	Government Enterprise Architecture
GEC	Gas Electricity Certificate
GENCO	Government owned generation companies
GFC	Global Financial Crisis
GFCF	Gross fixed capital formation
GFS	Government Finance Statistics
GOC	Government Owned Corporation
GOC Act	Government Owned Corporations Act
GP	General Practitioner
GP	Government Procurement
GPC	Gladstone Ports Corporation
GRP	Gateway Review Process
GRP	Gross Regional Product
GSC	Grid service charges
GSI	Gross State Income
GSP	Gross State Product
GST	Goods and Services Tax
GTEM	Global Trade and Environment Model

gtks	Gross tonne kilometres
GVA	Gross value added
HACC	Home and Community Care
HARP	Hospital Admission Risk Program
HCCB	Housing Construction Convertible Bonds
HFE	Horizontal fiscal equalisation
HHS	Hospital and Health Service
HITH	Hospital in the Home
HR	Human Resources
HUF	Headworks Utilisation Factor
IBAC	Independent Broad-based Anti-corruption Commission
ICC	In-car camera
ICL	Income contingent loan
ICT	Information and Communication Technology
ICTC	Information and Communication Technology Consolidation Program
IDAS	Integrated Development Assessment System
IDES	Identity, Directory and Email Services
IGR	Intergenerational Report
IHPA	Independent Hospital Pricing Authority
ILF	Integrated Leadership Framework
IPART	Independent Pricing and Regulatory Tribunal
IPS	Independent Public School
IPTAAS	Isolated Patient Travel and Accommodation Scheme
IR	Industrial Relations
IRP	Independent Review Panel (on network costs)
ISTC	Independent Sector Treatment Centre
JEMS	Job Evaluation Management System
KPI	Key Performance Indicator
LDC	Long Day Care
LGA	Local Government Authority
LGC	Large scale generation certificate
LHS	Left hand side
LNG	Liquefied Natural Gas
LTABB	Long Term Asset Advisory Board
MAIC	Motor Accident Insurance Commission
MASS	Medical Aids Subsidy Scheme
MBS	Medical Benefits Schedule
MC	Managing Contractor
MCE	Ministerial Council on Energy
MCF	Multi Cargo Facility
MDC	Major Diagnostic Category
MDN	Mobile data network
MEDAI	Metropolitan Emergency Department Access Initiative
MFP	Multifactor productivity
MIWB	Mount Isa Water Board
MMRF	Monash Multi-Regional Forecasting model
MoG	Machinery of Government
MOHRI	Minimum Obligatory Human Resource Information
MSQ	Maritime Safety Queensland
Mtpa	Million tonnes per annum
MW	Megawatt
MWh	Megawatt hour
NAHA	National Affordable Housing Agreement

NAHASPP	National Affordable Housing Agreement Specific Purpose Payment
NAIRU	Non-accelerating inflation rate of unemployment
NAPLAN	National Assessment Program – Literacy and Numeracy
NBN	National Broadband Network
NCP	National Competition Policy
NCVER	National Centre for Vocational Education Research
NDA	National Disability Agreement
NDIA	National Disability Insurance Agency
NDIS	National Disability Insurance Scheme
NDRRA	National Disaster Reconstruction Recovery Assistance
NEA	National Education Agreement
NEM	National Electricity Market
NEP	National Efficient Price
NEVAC	National Vocational Education and Training Equity Advisory Council
NGOs	Non-Government Organisations
NHCA	National Health Care Agreement
NHRA	National Health Reform Agreement
NHS	National Health Service
NHTP	Nursing Home Type Patient
NIIS	National Injury Insurance Scheme
NMHC	National Mental Health Commission
NOM	Net Overseas Migration
NPA	National Partnerships Agreement
NPAH	National Partnership Agreement on Homelessness
NPARIH	National Partnership Agreement on Remote Indigenous Housing
NPAT	Net profit after tax
NPSI	National Plan for School Improvement
NQBP	North Queensland Bulk Ports
NRAS	National Rental Affordability Scheme
NRS	National Regulatory System
NVEAC	National VET Equity Advisory Council
NWAU	National Weighted Activity Unit
NWI	National Water Initiative
NWMP	North West Minerals Province
OBPR	Office of Best Practice Regulation
OCG	Office of the Coordinator General
OECD	Organisation for Economic Co-operation and Development
OGOC	Office of Government Owned Corporations
OHFSS	Oral Health Fee for Service Scheme
OOS	Occasions of service
OPR	Operational Performance Review
OPSC	Office of the Public Service Commission
OPSR	Office of Public Sector Renewal
OSA	Operational Shift Allowance
OSHS	One Social Housing System
OSS	Office of Shared Services (Western Australia)
PAF	Project Assurance Framework
PBS	Pharmaceutical Benefits Scheme
PCMC	Parliamentary Crime and Misconduct Commission
PIA	Preliminary Impact Assessment
PISA	Program for International Student Assessment
PMRN	Police Metropolitan Radio Network
PMU	Print Management Unit

PN	Pacific National
PNFC	Public Non-financial Corporation
POTL	Port of Townsville Limited
PPP	Public Private Partnership
PSC	Public Sector Comparator
PSC	Public Service Commission
PSG	Property Services Group
PSI	Property Standard Index
PSMC	Public Sector Management Commission
PSRB	Public Sector Renewal Board
PTSS	Patient Transport Subsidy Scheme
PV	Photovoltaic
PwC	PricewaterhouseCoopers
QACIR	Queensland Ambulance Case Information Report
QAO	Queensland Audit Office
QAS	Queensland Ambulance Service
QCA	Queensland Competition Authority
QCAT	Queensland Civil Administrative Tribunal
QCS	Queensland Corrective Services
QCS on-line	Queensland Court Service on-line
QFCOI	Queensland Floods Commission of Inquiry
QFRS	Queensland Fire and Rescue Service
QGAP	Queensland Government Agent Program
QGCIO	Queensland Government Chief Information Office
QGCPO	Queensland Government Chief Procurement Office
QGCTO	Queensland Government Chief Technology Office
QGEA	Queensland Government Enterprise Architecture
QGEMF	Queensland General Equilibrium Model for Forecasting
QH	Queensland Health
QHAT	Queensland Health Authorised Transport
QHSSP	Queensland Health Shared Service Provider
QIC	Queensland Investment Corporation
QIP	Queensland Infrastructure Plan
QIRC	Queensland Industrial Relations Commission
QPC	Queensland Productivity Commission
QPRIME	Queensland Police Records and Information Management Exchange
QPS	Queensland Police Service
QR	Queensland Rail
QRAA	Queensland Rural Adjustment Authority
QSPC	Queensland Schools Planning Commission
QSS	Queensland Shared Services
QTC	Queensland Treasury Corporation
QTT	Queensland Treasury and Trade
QWC	Queensland Water Commission
RAB	Regulated asset base
RACF	Residential Aged Care Facility
RAS	Regulatory Assessment Statement
RCO	Residential Care Officers
RET	Renewable Energy Target
RHS	Right hand side
RIS	Regulatory Impact Statement
ROA	Return on assets
RoA	Rest of Australia

ROA Act	Railways (Operations and Access) Act
RoG	Rest of Government
RoGS	Report on Government Services
ROP	Resource Operations Plan
RTO	Registered Training Organisation
SBBs	Social Benefits Bonds
SBFA Act	Statutory Bodies Financial Arrangements Act
SBP	State Borrowing Program
SCER	Standing Council on Energy and Resources
SCI	Statement of Corporate Intent
SCRN	State Controlled Road Network
SDPC	Service Delivery and Performance Commission
SDS	Sales and Distribution Services
SDS	Service Delivery Statement
SEQ	South East Queensland
SEQIP	South East Queensland Infrastructure Plan
SEQIPP	South East Queensland Infrastructure Plan and Program
SES	Senior Executive Service
SES	Socio-economic status
SIP	State Infrastructure Plan
SLA	Service level agreement
SME	Small and medium enterprise
SO	Senior Officer
SOA	Standing Offer Arrangements
SOMIH	State Owned and Managed Indigenous Housing
SOSR	State of the Service Report
SPA	Sustainable Planning Act
SPP	Specific Purpose Payment
SPP	State Procurement Policy
SPPB	Strategic Project Program Board
SPV	Special purpose vehicle
SRES	Small-scale renewable energy scheme
SSA	Shared Services Agency
SSI	Shared Service Initiative
SSNP	Smarter Schools National Partnerships
SSP	Shared Service Provider
SSQ	Smart Service Queensland
SSSA	Share Services SA (South Australia)
STAR	Secondary triage and referral program
TAFE	Technical and Further Education
TAMP	Total Asset Management Plan
TICS	Transport Infrastructure Capability Scheme
TMS	Travel Management System
TSC	Transport Service Contracts
TW	Terawatt
TWh	Terawatt hour
TWPP	Time-weighted pool price
UFL	Urban Fire Levy
UGS	United Group Services
UK	United Kingdom
UPF	Uniform Presentation Framework
UTP	Uniform tariff policy
VCEC	Victorian Competition and Efficiency Commission

VCMS	Vacancy Capacity Management System
VET	Vocational Education and Training
VfM	Value for Money
VFMC	Victoria Funds Management Corporation
VICTAC	Victorian Information and Communications Technology Advisory Committee
VMO	Visiting Medical Officer
VPTAS	Victorian Patient Transport Assistance Scheme
VSP	Voluntary Separation Program
WACA	Workforce analysis and collection application
WACC	Weighted average cost of capital
WAU	Weighted activity unit
WGM	Water Grid Manager
WICET	Wiggins Island Coal Export Terminal