



2009-10 Budget Management Strategy Progress Report

October 2009

Department of Treasury and Finance

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1. Introduction

The purpose of this Report is to provide an update of agency progress towards the implementation of the Government's Budget Management Strategies announced in the 2009-10 Budget.

The Report shows that agencies are taking action and implementing plans that will achieve the 2009-10 Budget Management Strategy saving targets. Further, agencies are ensuring that the actions taken will provide structural Budget changes that will deliver ongoing savings over the Forward Estimates. These actions will ensure that the Government continues to manage the State's Budget on a sustainable basis and in accordance with the principles of the Interim Fiscal Strategy.

The 2009-10 Budget Management Strategy Progress Report includes:

- Section 2 – details of the Budget Management Strategy savings targets and the monitoring process;
- Section 3 - overview of the progress made to 30 September 2009 for each of the Budget Management Strategies; and
- Section 4 – details of the actions taken by agencies to achieve the Budget Management Strategy savings targets.

An update of the Government's financial position, including actual results to 31 December 2009, will be presented in the 2009-10 Mid-Year Financial Report.

2. Budget Management Strategy Targets and Monitoring

This section of the Report provides an overview of the whole-of-government Budget Management Strategy saving targets and the process implemented by the Government to monitor agency progress.

2.1 Budget Management Strategy Savings Targets

As part of the 2009-10 Budget, and in response to the impact of the global financial crisis, the Government requires agencies to implement a range of Budget Management Strategies to ensure the State's Budget is managed on a sustainable basis. These strategies impact the 2009-10 Budget and Forward Estimates.

The Budget Management Strategy saving targets are listed in Table 2.1.

Table 2.1: Budget Management Strategy Saving Targets

	2009-10	2010-11	2011-12	2012-13
	Budget	Forward Estimate	Forward Estimate	Forward Estimate
	\$'000	\$'000	\$'000	\$'000
Employment Management Strategies				
Agency Cost Reduction Requirement	16 500	39 600	39 600	39 600
Middle Management Review	13 161	17 544	17 544	17 544
Senior Executive Service (SES) Reduction	5 000	5 000	5 000	5 000
Amalgamation Efficiencies	2 150	4 300	4 300	4 300
Boards and Committees Saving	500	1 000	1 000	1 000
Efficiency Dividends	61 362	76 201	85 429	85 429
Non-Salary Indexation	7 818	15 822	23 937	31 495
Public Sector Wage Restraint	15 924	31 892	51 274
Whole-of-Government Non-Salary Savings Targets				
Advertising	2 680	2 256	1 877	1 682
Members of Parliament Resource Allowance	100	100	100	100
Mobile Phones	871	818	807	795
Travel and Vehicle Fleet	6 400	5 703	5 237	4 769
TOTAL	116 542	184 268	216 723	242 988

2.2 Expenditure Review Committee

To monitor the implementation of the Budget Management Strategies by agencies, Cabinet established the Expenditure Review Committee (ERC) in January 2009.

The role of the Committee is to:

- consider and monitor the implementation of the Budget Management Strategies announced in the 2009-10 Budget;
- provide advice to agencies, where necessary, in regard to actions proposed to achieve the Budget Management Strategies; and
- provide reports to Cabinet on the progress of agencies in implementing the Budget Management Strategies.

The ERC is comprised of the Honourable Michael Aird MLC, Treasurer (Chair) and the Honourable Doug Parkinson MLC, Leader of Government Business in the Legislative Council and is supported by officers of the Department of Treasury and Finance.

All major agencies are required to report to ERC on their progress in implementing the Budget Management Strategies.

Since January 2009, the ERC has met on nine occasions. A further two meetings are scheduled before the end of 2009. All major agencies have met with ERC at least twice to discuss progress since the 2009-10 Budget. Table 2.2 lists the scheduled meetings of ERC for 2009.

Table 2.2: Expenditure Review Committee 2009 Meeting Schedule

	Meeting Date
Meetings Held to Date	4 February 2009
	16 February 2009
	24 February 2009
	20 March 2009
	3 April 2009
	15 July 2009
	28 August 2009
	4 September 2009
	9 October 2009
Scheduled Meetings	24 November 2009
	15 December 2009

3. Budget Management Strategies – Assessment of Progress

Table 3.1 provides a summary assessment of agency progress towards the achievement of the Budget Management Strategy savings targets for 2009-10.

A description of the Budget Management Strategy savings targets and the actions taken to date by agencies to achieve the savings targets follows the table.

Table 3.1: Budget Management Strategy Assessment as at 30 September 2009

	2009-10 Budget	Assessment of Progress
	\$'000	
Employment Management Strategies		
Agency Cost Reduction Requirement	16 500	☯
Middle Management Review	13 161	☯
Senior Executive Service (SES) Reduction	5 000	✓
Amalgamation Efficiencies	2 150	✓
Boards and Committees Saving	500	na
Efficiency Dividends	61 362	☯
Non-Salary Indexation	7 818	✓
Public Sector Wage Restraint	☯
Whole-of-Government Non-Salary Savings Targets		
Advertising	2 680	✓
Members of Parliament Resource Allowance	100	✓
Mobile Phones	871	✓
Travel and Vehicle Fleet	6 400	✓
TOTAL	116 542	

- Key:
- ✓ Strategies have been implemented to achieve the savings target.
 - ☯ Strategies have commenced and will be progressed to achieve the savings target.
 - X Strategies yet to be identified or implemented.
 - na data not available

3.1 Employment Management Strategies

The Government's Employment Management Strategies include an agency cost reduction requirement; a review of middle management; and a reduction in the Senior Executive Service.

Agency Cost Reduction Requirement

The Agency Cost Reduction Requirement (ACCR) will achieve a Budget saving of \$16.5 million in 2009-10, increasing to \$39.6 million in 2010-11 and thereafter.

The ACCR savings target will be achieved through the implementation of a range of employment management strategies including vacancy control, early or phased-in retirement, leave without pay and targeted voluntary redundancies.

Middle Management Review

A review of agency middle management will be undertaken by all agencies. A middle management savings target has been allocated to each agency based on the total number of FTEs employed by it under the provisions of the *State Service Act 2000*, excluding police officers. It is anticipated the review of middle management will achieve whole-of-government savings of \$13.2 million in 2009-10, increasing to \$17.5 million in 2010-11 and thereafter.

Senior Executive Service Reduction

Tasmania's Senior Executive Service will be reduced by 25 positions. Each agency has been set an SES reduction target and their Budget and Forward Estimates reduced by the level of savings expected to be achieved. It is anticipated the Reductions in Senior Executive Service will achieve whole-of-government savings of \$5.0 million per annum.

Progress to Date

To date agencies have made significant progress in the achievement of the Employment Management Strategies savings targets.

The savings arising from Agency Cost Reduction Requirement and the Middle Management Review will be achieved through a number of measures aimed at reducing employee costs. To achieve these savings, agencies have reviewed their staffing requirements, including their middle management arrangements, to identify opportunities to streamline organisational structures.

As at 30 September 2009, agencies have reduced staffing numbers by 296 FTEs.

To achieve the staffing reduction, agencies have implemented a number of strategies aimed at reducing costs, including:

- reducing the number of middle management positions by 41 FTEs;
- reducing the number of fixed term appointments by 78 FTEs;
- abolishing 21 SES positions with an expectation that up to 35 positions will be abolished by 30 June 2010; and
- providing 127 employees (FTEs) with targeted voluntary redundancy packages.

In addition, the Government has provided increased opportunities for employees to access flexible employment arrangements including Leave Without Pay, approval for staff to take up positions on secondments, reduced hours and phased in retirement. The increased provision of flexible working arrangements provides agencies with short-term savings whilst longer term, sustainable savings are being implemented.

As at 30 September 2009:

- 374.4 employees have been approved to take Leave Without Pay;
- 35 employees have been provided with approval to take up fixed term appointments on secondment;
- reassigning staff from lower priority areas to higher priority services. To date, 57 employees (FTEs) have been reassigned new duties
- 1 094 employees have reduced their hours of work; and
- five employees have been approved to under take Phased in Retirement.

The reduction of 296 FTEs excludes any changes to numbers in the Department of Health and Human Services and schools in the Department of Education.

The Government specifically excluded frontline hospital services and schools from the Employment Management Strategies. Further, both Departments received additional resourcing in the 2009-10 Budget for initiatives such as Raising the Bar Closing the Gap, Reducing Class

Sizes from Years 2 to 7 and Reviews and Reforms in Health and Human Services. The employment impacts in front line services arising from the additional funding provided by Australian Government for a range of National Partnership and Specific Purpose agreements has also offset reductions in non-service delivery areas of these Departments.

3.2 Amalgamation Efficiencies

A departmental restructure was announced by the Premier, David Bartlett MP, on 14 May 2009. The Premier announced with effect from 1 July 2009, that the Department of Environment, Parks, Heritage and the Arts will be amalgamated with the Department of Primary Industries and Water, and the Department of Economic Development and Tourism. Responsibility for the Arts will be transferred to the Department of Economic Development and Tourism.

The amalgamation efficiencies will achieve savings of \$2.15 million in 2009-10, increasing to \$4.3 million in 2010-11 and thereafter.

Progress to Date

The Department of Primary Industries and Water, and the Department of Environment, Parks, Heritage and the Arts were amalgamated on the 1 July 2009 to form the Department of Primary Industries, Parks, Water and Environment. While responsibility for the Arts was transferred to the Department of Economic Development and Tourism to form the Department of Economic Development, Tourism and the Arts.

The Department of Primary Industries, Parks, Water and Environment has established a number of transitional working groups to implement the structural changes to corporate service functions to achieve the amalgamation efficiencies. The savings will be achieved through the centralisation of administrative functions, including corporate support, human resources, finance and information technology.

3.3 Boards and Committees Saving

A review of boards and committees will be undertaken during 2009-10 to identify efficiencies which could be achieved through changes to the size and composition of boards, the amalgamation of some activities into single boards or the abolition of boards whose activities could be managed through other means. It is anticipated this Budget Management Strategy will realise savings of \$500 000 in 2009-10, increasing to \$1 million a year from 2010-11.

Progress to Date

A review of Boards and Committees is currently being undertaken by the Department of Premier and Cabinet and the Department of Treasury and Finance. It is expected that the review will be completed prior to the release of the 2009-10 Mid-Year Financial Report.

The review is considering a range of measures including a freeze on Board fees, reducing the size of some boards and reducing the operating costs of boards and committees.

On 14 October 2009, the Treasurer announced a freeze on remuneration for board members of State-owned companies and Government businesses until the end of the current financial year. It is estimated that that strategy this will deliver savings in excess of \$200 000.

3.4 Efficiency Dividends

An efficiency dividend has been applied to agency allocations for the 2009-10 Budget and Forward Estimates. The application of an efficiency dividend was previously announced in the *2008-09 Mid-Year Financial Report (Preliminary)* on 15 December 2008.

The efficiency dividend applies to all departments. However, the front line services of schools, hospitals, and policing have been quarantined from the impact of the efficiency dividend. The House of Assembly, the Legislative Council, Legislature-General, the Office of the Ombudsman and the Tasmanian Audit Office are also exempt from the application of the efficiency dividend.

The efficiency dividends will achieve savings of \$61.4 million in 2009-10, increasing to \$85.4 million by 2012-13.

Progress to Date

The application of an Efficiency Dividend to agency allocations was initially implemented in 2008-09 following the release of the 2008-09 Mid-Year Financial Report. The total level of savings to be achieved in 2009-10 of \$61.4 million includes the savings of \$32.6 million previously implemented by agencies in 2008-09.

Front line services in schools, hospitals and police have been quarantined from the impact of the efficiency dividend in the 2009-10 Budget and the Forward Estimates.

Agencies are implementing a range of savings measures to achieve the savings target, that focus on reducing the costs of delivering the Government's services including reviewing the costs of consultancies, reconfiguring administrative arrangements to reduce overhead costs and developing more effective procurement practices.

To date, agencies have made significant progress in the implementation of measures to achieve the Efficiency Dividend targets.

3.5 Non-Salary Indexation

No indexation for general operating expenses has been provided in 2009-10 and over the Forward Estimates. Funding provided to the Department of Health and Human Services for medical and pharmaceutical supplies and grants will continue to be indexed at a rate of 4.0 per cent per annum.

Progress to Date

Completed. No additional funding for general operating expenses was provided for agencies in the 2009-10 Budget and Forward Estimates.

Funding for medical and pharmaceutical supplies and grants in the Department of Health and Human Services continues to be indexed at a rate of 4.0 per cent per annum.

3.6 Public Sector Wage Restraint

The Government will implement a Wage Restraint policy that reflects the current economic and financial environment, whilst also ensuring the Budget is managed on a sustainable basis. The Government's Wage Restraint policy is based on the following principles:

- the Government will honour all current wage agreements;
- there will be no nexus arrangements beyond the term of current agreements;
- wage increases agreed in future agreements will commence from 1 December in each year; and
- as agreements expire, new wage and salary agreements will be negotiated on the basis that funding, no greater than 1 per cent per annum in 2009-10 and 2010-11; and 2.5 per cent in 2011-12 and 2012-13, is provided to agencies.

It is estimated that the Government's Wage Restraint policy will achieve savings of \$15.9 million in 2010-11, increasing to \$51.3 million in 2012-13.

Progress to Date

Agencies have been advised of, and funded consistently with, the Government's Wage Restraint policy. This policy will be implemented as new agreements are renegotiated.

On 17 October 2009, the Deputy Premier, Hon Lara Giddings MP, announced the first agreement renegotiated under the Government's Wage Restraint Policy. A new three-year agreement for Salaried Medical Practitioners will provide public sector doctors with base wage increases of 1 per cent in December 2009, 1 per cent in December 2010 and 2.5 per cent in December 2011.

The Agreement also provides for a number of increases in allowances intended to improve productivity. These include a new attraction and retention package for Specialists and a significant improvement in professional development support.

3.7 Whole-of-Government Non-Salary Savings Targets

On 22 April 2008, the Premier, David Bartlett MP, and the Treasurer, Hon Michael Aird MLC, announced the implementation of a number of whole-of-government non-salary savings targets. The targets are:

- a 30 per cent cut in the Government's travel costs;
- a 30 per cent cut in advertising;
- a 10 per cent cut to the Government's car fleet;
- a 20 per cent reduction in mobile phones costs; and
- a 25 per cent saving in the Members of Parliament Resource Allowance.

It is estimated the whole-of-government non-salary targets will achieve savings of approximately \$34.3 million over the 2009-10 Budget and Forward Estimates period.

Progress to Date

To date, agencies have made significant progress in achieving the whole-of-government non-salary savings targets. Most agencies have either completed these strategies or have made significant progress towards achieving them.

In respect of the 30 per cent reduction in travel costs, agencies have reduced or ceased non-essential travel. Where possible, the use of teleconference and video-conference facilities has been increased to reduce the need for public servants to travel to attend meetings.

Agencies have reviewed advertising budgets to ensure that the 30 per cent reduction in costs is balanced against the need for the Government to provide information to the community. Savings are expected to be achieved through reviewing the need for, and scope of, advertisements and public notices. It is also expected that as a consequence of the impact Employment Management Strategies, a reduction in the number of employment vacancies advertised will also assist in reducing advertising costs.

The 10 per cent reduction the cost of the Government's fleet is being achieved through a combination of a reduction in the number of vehicles and a reduction in the cost of maintaining vehicles. As at the end of September 2009, the Government's vehicle fleet had reduced by 93 vehicles or 3.1 per cent from the 2 958 vehicles held by the Government prior to the 2009-10 Budget. The Department of Treasury and Finance and the Government fleet manager have been assisting agencies to reduce costs through a number of strategies including extended lease

terms, better utilisation of vehicles and reductions in home garaging.

Agencies are achieving the 25 per cent reduction in mobile phone costs through a reduction in the number of phones and a number of measures aimed at reducing the cost of existing phones. The reduction in the number of phones is being achieved through reviews of the need for officers to be provided with mobile phones to undertake their core duties. Reductions in costs are being achieved through greater scrutiny of usage levels by employees, limiting the availability of more expensive phones and better selection of mobile phone usage plans to reduce call costs.

The allocations for Ministerial and Parliamentary Support and the Legislative Council were adjusted as part of the 2009-10 Budget to achieve a 25 per cent reduction in the Members of Parliament Resources Allowance.

4. Additional Budget Management Strategy Actions

4.1 Executive Vehicles

The Government has reviewed its policy in relation to the provision of vehicles for senior public service executives. Following the review, only a range of non-prestige vehicles will be available as part of the overall remuneration package provided to executives. However, some executives will have the option of paying an additional cost if they choose to opt for a higher priced or prestige model.

Progress to Date

Completed. The detailed policy was developed by the Departments of Premier and Cabinet and Treasury and Finance and issued to agencies on 17 July 2009, together with a template amendment to the standard SES Instrument of Appointment.

The Department of Treasury reports quarterly to the Secretary, Department of Premier and Cabinet, on all vehicles supplied from the Head of Agency and SES 3-4 lists. Heads of Agency are required to certify annually that the officers concerned have complied with the requirement to meet the cost difference over the SES 2 list maximum.

4.2 MP Salary and Parliamentary Allowances Freeze

A freeze will be applied to all Parliamentarian salaries and allowances in 2009-10. It is estimated this freeze will achieve savings of approximately \$200 000 per annum. Legislative change will be required to implement this Budget Management Strategy. Given the need to change legislation, the savings are not reflected in the 2009-10 Budget and Forward Estimates at this time. The saving will be recognised following the change to the relevant legislation.

Progress to Date

As a consequence of the pay freeze applied to the salaries of Commonwealth members of parliament in 2008, Tasmanian MPs did not receive a pay increase in 2009.

On 24 September 2009, the Premier announced that he would be taking the necessary steps to ensure that the three per cent increase granted to Commonwealth MPs in September 2009 would not flow on to Tasmanian MPs.

4.3 Premier's Entertainment Allowance

The Premier's Entertainment Allowance will be abolished. This action will achieve savings of approximately \$13 000 per annum.

Progress to Date

Completed. The Department of Premier and Cabinet has removed the Premier's Entertainment from its Budget and Forward Estimate allocations.

4.4 SES Salary Freeze

The salaries of Senior Executive Service (SES) officers and Heads of Agency will be frozen for one year from 1 July 2009. It is estimated this action will achieve total savings of \$1.3 million over the financial years 2009-10 and 2010-11.

Progress to Date

Completed. Departments have been advised that SES officers will not be provided with the salary increase previously scheduled for December 2009.