

## **STANDING COMMITTEE ON ESTIMATES AND FINANCIAL OPERATIONS**

### **INQUIRY INTO PUBLIC SECTOR EXPENDITURE**

The Labor Government introduced an efficiency dividend in the 2001-02 Budget in order to return State finances to a net operating surplus and halt an unsustainable acceleration in net debt. At the time of the election of the Gallop Government nearly 3% of Government revenue was required to service the interest on the Government's debt. This had prompted serious concerns being raised in respect of the State's credit rating (by way of comparison in 2008 the percentage of State revenue that was servicing State debt was 0.6%).

The dividend was implemented across the public sector and set at 1.5% of an agency's total operating expenses in 2001-02.

Core services within Health, Education and Police were quarantined from the dividend, although every effort was made to reduce excessive overhead costs in other areas of these departments.

Through the Expenditure Review Committee process it was decided to extend the quarantine on core services to the Disability Services Commission and, in large measure, to the Department for Community Development.

The dividend was successful, achieving savings to Government of \$850 million, without compromising key services.

Basic measures taken early in the term to address Government spending included cuts to:

- the Ministerial vehicle fleet;
- unnecessary spending on the production of annual reports, opting instead for these to be made available on-line rather than printing multiple, glossy hard copies;
- the employment of consultants;
- advertising and promotion expenditure;
- interstate and overseas travel; and
- reduction in the number of Cabinet Ministers and senior public servants.

Government vehicle reform introduced by Eric Ripper as Treasurer had a real impact. The move from 6 cylinder to 4 cylinder vehicles as the standard purchase not only contained expense growth but actually reduced spending on government vehicles and the recurrent costs associated with them.

Other savings were achieved following the Machinery of Government Review which recommended a range of cost cutting measures including the reduction of the number of Government Departments. Again these savings were achieved without adversely impacting on service delivery.

The Gallop and Carpenter Governments also achieved more efficient procurement practices by introducing a series of bulk buying contracts to improve Government operations. The procurement reform program achieved recognition, winning the overall 2007 Premier's Award for Excellence in Public Sector Management.

Supply policies were also modernised. The general conditions of contract and tender request documents were updated, annual procurement forward planning was introduced as standard practice and the use of purchasing cards to streamline low-value buying was expanded. Common-use contracts were also embedded into e-procurement systems.

Regional buying services were strengthened with the establishment of Centres of Procurement Expertise in Bunbury, Kalgoorlie and Geraldton. This enabled agencies in the regions to combine their large volume purchasing and make savings while at the same time supporting local businesses.

During the first 18 months of operation of the initial three centres—Bunbury, Kalgoorlie and Geraldton—112 contracts valued at \$32 million were awarded. Those contracts were won by 171 individual suppliers, 125 of which were based in the region.

Major savings were also made by reforming property services and building maintenance arrangements with the Department of Housing and Works. These savings totalled \$10.5 million by the middle of 2007.

In the lead up to the 2008 September state election, the Labor Government indicated that it would implement a further 3% efficiency dividend.

As was done in 2001-02, it was intended that the efficiency dividend would be achieved through a detailed, focussed and forensic examination of cost centres – not crude, untargeted cuts. It should be noted that as in previous commitments to deliver service efficiency, the dividend would not necessarily have been uniformly applied across all agencies.

It was further envisioned that procurement practices would be the subject of additional reform – particularly in the areas of agency specific contracting, the implementation of new procurement systems, and the wider adoption of more efficient processes (eg. purchasing cards). Capital works and maintenance procurement have ongoing scope for additional savings as the heat goes out of the marketplace and tendering becomes more competitive.

A returned Labor Government would also have:

- revisited the savings measures introduced in 2001, in areas such as travel, consultancies and advertising;
- rejected inefficient proposals that offer no service enhancement, such as proposed in the minority Liberal government's RPH legislation. (The reforms introduced by Labor after the Reid Review enhance Health Services while containing cost growth); and
- rejected fragmenting existing departments into smaller units with consequent increases in administration and executive personnel.

The targeted implementation of these reforms would have been achieved without any adverse impact on the efficient delivery of core services across the State.

As indicated previously, rapid increase in State debt can have a dramatic impact on the ability of the State Government to deliver core services to Western Australians as more and more State revenue is re-directed to paying increased amounts of interest. The Labor

Government from 2001-2008 successfully reduced the amount of interest from nearly 3% of State revenue to 0.6% of State revenue.

The impact of this is highlighted at page 37 of Budget Paper No.3 of the 2008-09 Budget which estimates that the annual interest saving due to the previous Labor Government to be \$248million per year. This is a real saving and allows this money to be re-directed into core service delivery.

An 'efficiency dividend' is meant to be exactly that, focussed on efficiency and not simply the delay of expenditure to a future year. The process that the Labor Government went through in 2001-02 allowed the Government to identify long term, sustainable cost savings by focussing on 'efficiencies'. However, this process can only be successful if the political leadership of the State Government is committed to key strong financial parameters that can guide the public sector in the implementation of the dividend. Without such leadership or direction, the public sector will largely look to delay expenditure to future years so that the people of Western Australia are not receiving a 'dividend' at all, nor are they seeing a more focussed and streamlined public sector which is the ultimate desired result of such a dividend.