

CHAPTER 2: GENERAL GOVERNMENT EXPENDITURE

- ◆ The Government's key expenditure priorities are:
 - Health
 - Transport
 - Disability Services
 - Education
 - Public Order and Safety
- ◆ There is a growing demand for services, and for improved services, driven by population and economic growth, changing demographics and the potential for new or enhanced services.
- ◆ The Government's strategy, including as set out in the February 2006 *Economic and Financial Statement*, in response to the *Audit of Expenditure and Assets*, to meet its priorities while staying within prudent fiscal limits, is based on:
 - managing the frontline public sector workforce and wage outcomes;
 - managing the long life infrastructure that is intrinsic to service delivery including setting the level of maintenance necessary to preserve its functionality;
 - capitalising on new technology to deliver productivity benefits as well as meet growing community expectations of improved standards of service and outcomes;
 - delivering on the savings outcomes arising from the Government's response to the Audit including a regular efficiency dividend, reform of the information and communications technology purchasing strategy, centralised procurement and property management and agency amalgamations;
 - continuing to clearly identify priority policy areas and ensuring the ultimately limited resources of the Government are focussed on those areas; and
 - implementing a new Performance Management and Budget System focussed on setting clear priorities, driving efficiency, strengthening accountability, and, most importantly, testing value for money by measuring the results delivered.

2.1 INTRODUCTION

The NSW Government is in the business of delivering high quality public services for the benefit of the whole community.

Some services, like water, electricity, waste services and ports can be provided on a commercial basis. Consumers meet the cost of service provision, and, importantly, the cost of new infrastructure necessary to meet demand, as well as the cost of maintaining existing infrastructure.

However, many public services – health, education, policing, transport and welfare – are significantly funded through the Budget. These services have a number of common features:

- ◆ They are generally labour intensive – teachers, nurses, police officers and train crew. The total state sector in New South Wales employs some 360,000 people, equivalent to about 290,000 full time employees.
- ◆ They use long-life physical infrastructure – schools, hospitals, rail systems and roads.
- ◆ While technology has lifted service quality and improved productivity – for example, advanced medical diagnostics, new generation trains, police communications and school intranets – the fundamental delivery models, which often rely on personal service, have not changed.
- ◆ Services are generally provided on a universal basis without discrimination (other than on the basis of need). Access is often free (public education or hospitals) or at a heavily subsidised price (public transport). Demand for services therefore normally exceeds the capacity to supply services.
- ◆ Service demand is growing, and at a rate greater than general population growth. A key driver is not only changing demographics, but also changing expectations linked to increases in real disposable income.

It is against this background the Government must frame an expenditure strategy which:

- ◆ makes provision for growing demand for services and changing priorities;
- ◆ provides for and manages the growing cost of labour;
- ◆ factors in ongoing and achievable productivity savings, both in support functions and in service delivery;

- ◆ promotes the efficient maintenance and utilisation of existing infrastructure and provides for its replacement;
- ◆ allows for the acquisition of new technology to improve service delivery; and
- ◆ allocates expenditures to meet key strategic priorities.

2.2 GENERAL GOVERNMENT EXPENSES

Total general government expenses for the 2006-07 Budget are \$42.9 billion. This is an increase in nominal terms of 5.7 per cent on the revised estimate for 2005-06.

Table 2.1: General Government Total Expenses, 2002-03 to 2009-10

		<i>Actual</i>			<i>Revised</i>	<i>Budget</i>	<i>Forward Estimates</i>		
		<i>2002-03</i>	<i>2003-04</i>	<i>2004-05</i>	<i>2005-06</i>	<i>2006-07</i>	<i>2007-08</i>	<i>2008-09</i>	<i>2009-10</i>
Total Expenses	(\$m)	34,281	36,511	38,506	40,576	42,892	43,690	45,424	47,043
Year on Year Change	%	6.3	6.5	5.5	5.4	5.7	1.9	4.0	3.6
4 year average growth	%				5.9				3.8

Year on year growth rates can be volatile reflecting the timing of new initiatives, the winding down of some programs, the inflow of Commonwealth funding, lumpiness in capital grants and the timing of wage increases. The particular factors which depress the forecast growth rate for 2007-08 are set out in Chapter 1.

Generally, the growth in expenditure over the past four years has been driven by several related factors:

- ◆ a significant increase in funding for priority areas;
- ◆ real wage growth, particularly for front line employees in areas of skill shortages, as well as increased frontline positions; and
- ◆ higher reported superannuation costs under recently introduced international accounting standards (see Table 2.2 and Chapter 4).

Health, education and transport account for a significant portion of total expenditure increases, both because of the size of these portfolios relative to the general government sector and because of the absolute rates of growth which reflect the policy priorities of the Government.

Overall, expenditure growth over the next four years will be influenced by a number of factors:

- ◆ moderation in the growth of the public sector wage bill and employment costs, including a significant forecast reduction in reported superannuation expense of \$140 million in 2006-07 and \$257 million in 2007-08;
- ◆ the ongoing implementation of efficiency savings and productivity reforms (with savings of approximately \$1.1 billion per annum by 2009-10);
- ◆ a rigorous approach to asset maintenance and procurement which minimises the long-term real cost of infrastructure and hence service provision;
- ◆ a prudent approach to procuring new technology;
- ◆ higher financing costs associated with partly funding infrastructure spending through debt;
- ◆ a renewed focus on agency performance through further strengthening of the Budget system; and
- ◆ moderation in the rate of growth in expenditure in several areas, including grants for transport, given the significant step ups in the base level of funding in recent years and the pending completion of major projects funded by recurrent Budget grants (including the Epping to Chatswood Rail Link).

EMPLOYEE COSTS

Employee expenses grew from 48.2 per cent to 49.6 per cent of total expenses over the four year period to 2005-06. Future growth will be tempered by a combination of a reduction in the reported superannuation expense and a moderation in the rate of wages growth.

Table 2.2: General Government Employee Expense Growth, 2002-03 to 2009-10

	<i>Actual</i>			<i>Revised</i>	<i>Budget</i>	<i>Forward Estimates</i>		
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Employee Superannuation	2,132	2,307	2,443	2,740	2,600	2,343	2,375	2,384
Employee – other	14,384	15,509	16,527	17,384	18,202	18,936	19,969	20,871
Total Employee Expenses (\$m)	16,516	17,816	18,970	20,124	20,802	21,279	22,344	23,255
Year on Year Change %	10.9	7.9	6.5	6.1	3.4	2.3	5.0	4.1

The Government, in the *Economic and Financial Statement* of 23 February 2006, in response to the *Audit of Expenditure and Assets*, confirmed a range of initiatives to manage employee costs. These include:

- ◆ maintaining wage rates in real terms following the expiry of existing agreements;
- ◆ managing displaced employees. Displaced staff may, as a last and unavoidable resort where an alternative position is not found within 12 months, be made redundant. Senior Executive staff are only able to be on the unattached list for a period of four weeks. This is estimated to save in excess of \$12 million per annum after redundancy payments;
- ◆ reducing workers compensation costs by implementing WorkCover's strategy for improving public sector occupational health and safety and injury management. Benchmark targets for savings are in the order of \$66 million per annum from 2008-09;
- ◆ reducing sick leave and overtime payments. The target is reducing average sick leave taken from eight days per annum to seven days per annum, and overtime payments by 5 per cent, by 2008-09. This is estimated to save around \$65 million per annum, principally from frontline agencies that are required to cover absentees; and
- ◆ better managing of leave – including considering a two week closure over the Christmas period for non-frontline services.

Most importantly, the Government announced its intention to reduce the overall size of the public sector. Up to 5,000 positions will become redundant over the next two to three years.

EFFICIENCY REFORMS

An efficiency dividend equal to 1 per cent of discretionary expenditure will be returned by agencies in 2006-07. Discretionary expenditure covers most spending excluding items an agency cannot directly control like depreciation, the pass through of Commonwealth grants and interest. Further efficiency dividends will apply in 2007-08 (of 1 per cent) and 2008-09 (of \$200 million). Including the 1 per cent efficiency dividend imposed in 2005-06, which has already been achieved, the benefit to the Budget will be approximately \$1.1 billion per annum by 2009-10.

The efficiency dividends have been set at a level which agencies can absorb through the iterative reform of their processes while not impacting service delivery. The 2005-06 dividend (of \$270 million) was successfully implemented through the 2005-06 Budget process and involved a direct reduction in individual agency allocations.

The Government is also implementing a range of further reforms, as set out in the *Economic and Financial Statement*, to reduce costs. These include:

- ◆ reforming procurement practices to capitalise on the expertise of the State Contracts Control Board and the buying power of the State. The target is a 5 per cent reduction on total procurement costs, in excess of \$250 million on Government expenditure on goods and services over the next 4 years;
- ◆ reducing rental costs through more efficiently managing space, especially in high rent precincts;
- ◆ reducing the cost, and improving the effectiveness, of information and communications technology (ICT). A State-wide ICT plan will be fully implemented within four years. The approach will yield \$125 million a year in capital savings and a further \$80 million in recurrent savings;
- ◆ better managing government property by the establishment of a new authority from 1 July 2006 with the task of managing the State's \$80 billion property portfolio as well as around \$1 billion per annum spent on new property assets. A five year target in savings in excess of \$300 million per annum, including recurrent savings of \$80 million per annum;

- ◆ reducing the cost of corporate services through benchmarking performance. All agencies will be required to meet benchmarks set by the Council for the Cost and Quality of Government. Those agencies performing below benchmarks will be required to produce plans for achieving the benchmarks over two years. The potential savings are in the order of \$170 million per annum; and
- ◆ agency amalgamations to achieve efficiencies and better coordination. The Government has already announced a revamped Department of State and Regional Development and a new Department of the Arts, Sport and Recreation. The Government supports in principle reducing the number of Budget dependent agencies with benefits including an improvement in overall resource allocation decisions as well as operational cost savings.

ASSET MANAGEMENT & MAINTENANCE

The Government has adopted a series of reforms designed to better manage its asset portfolio, including more effective maintenance. The objective is to both minimise the whole-of-life cost of assets (including depreciation and maintenance expense) and to reduce dependency on asset intensive solutions and hence the overall cost of service delivery. These include:

- ◆ linking Total Asset Management (TAM) to the Budget process. TAM is designed to align agencies' asset planning and management with service delivery priorities;
- ◆ a reformed procurement policy which requires a far more rigorous assessment of the business case for an asset acquisition and of the procurement process;
- ◆ development of an asset maintenance strategy which is a key component of an agency's TAM plan. This requires all agencies to plan maintenance so as to minimise the whole of life costs of its assets, considering the risks of asset ownership and their impact on services; and
- ◆ a change in the reporting of asset maintenance expenditures. New Treasury guidelines require a more comprehensive reporting of the cost of asset maintenance including the cost of internal labour.

STRENGTHENING THE BUDGET PROCESS

The Government has committed to developing a new Performance Management and Budgeting System, with implementation for the 2008-09 Budget. This and other recent developments in Budget process reform are discussed in Section 2.4 of this Chapter.

2.3 MAJOR POLICY AREAS

Table 2.3 shows the relative share of the Budget and overall expenditure growth in major policy areas over the last four years. Note the Table provides program level expenses according to GFS classifications which does not necessarily align with individual agency level expenditure.

Table 2.3: General Government Expenses by Major Policy Area (GFS Classifications), 2002-03 to 2006-07

	Share of Total Expenses		Growth in Expenses (per cent)
	2002-03 (per cent)	2006-07 (per cent)	
Health	25.8	27.5	33.2
Education	24.8	23.4 ^(a)	17.8 ^(a)
- Government schools	15.7	15.3	21.4
Transport	10.5	12.0	43.4
Public Order and Safety	10.7	10.7	25.4
Social Security and Welfare	7.7	7.9	29.0
Environmental Protection	2.3	2.2	15.2
Other	18.2	16.3	12.9
TOTAL EXPENSES	100.0	100.0	25.1

(a) New bus contracts have resulted in the reclassification of funding provided to bus operators including for the School Student Transport Scheme. The result is a reduction of 2006-07 Education expenses by approximately \$120 million compared to prior years. Without this factor the growth in Education expenses would have been 19.2 per cent and the share of total expenses 23.7 per cent.

Following is a more detailed commentary on the major priority areas for the Government which generally, but not precisely, match the GFS classification.

HEALTH

The NSW health system aims to keep people healthy by delivering high quality health care and providing the health care that people need. A wide range of health services such as inpatient hospital care, emergency care, community health and mental health are delivered through eight Area Health Services and State-wide services such as the Ambulance Service of NSW.

Health outcome indicators point to a NSW health system that is world class. Life expectancy at birth in New South Wales is 78.6 years for males and 83.4 years for females. Outside Australia, only males and females born in Japan, males born in Sweden, and females born in France can expect to live longer.

Public access to quality health care is an ongoing priority of the Government. To meet this commitment, total expenditure by the Department of Health will reach \$11.7 billion in 2006-07, with health expenditure representing 27.5 per cent of total general government expenditure.

Increases in wages where there were skills shortages (principally nurses and other medical professionals) account for a large portion of the additional expenditure and funding provided in recent years. Health has also been provided with substantial real funding increases for priorities such as mental health and increases in hospital bed capacity.

Funding provided in the 2005-06 Budget and service improvements introduced by NSW Health have enabled the health system to improve performance during 2005-06 despite a significant increase in demand and activity. For example, Emergency Department attendances for the nine months to March 2006 were up by 97,457 patients or 8.5 per cent compared to the same period last year. Over the same period total hospital admissions were up by 77,477 or 7.5 per cent.

Even with this increase in demand and activity, considerable improvements have been realised in health service performance and productivity. For example, the number of patients waiting longer than 12 months for elective surgery has declined in the past year from 10,364 in March 2005 to 2,525 in March 2006. Access block measured by the proportion of patients not being admitted within eight hours of attendance at emergency departments has improved and for Greater Sydney Metropolitan hospitals was 25 per cent in March 2006 compared with 30 per cent for the same period last year.

As part of its objective of *Healthier People – Now and in the Future*, the Government is providing additional resources in the 2006-07 Budget to establish new services and ensure growing demand is effectively addressed through increased funding for hospital beds, mental health services and additional health professionals.

The public health system continues to face increasing demand pressures driven by an ageing and growing population, worldwide workforce shortages, rising consumer expectations and technological change. These pressures require a government policy response that manages expenditure growth, ensures best value for money and directs resources to areas of the highest clinical need.

To address these demographic and technological challenges, NSW Health is undertaking a futures planning process and recently released an issues paper called *Fit for the Future*. NSW Health is seeking community response about future directions for the health system that include making prevention everybody's business, strengthening primary health and continuing care in the community, making smart choices about the costs and benefits of health services and redesigning and reinvigorating the health workforce.

Many elements of this agenda are already being pursued and have been reinforced by funding allocations made in the 2006-07 Budget. For example:

- ◆ Reform of traditional work practices and patient management is occurring through the Clinical Services Redesign Program. New models of care are being implemented that provide faster and safer patient flows.
- ◆ The Government will contribute to the five year, \$1.1 billion reform package announced at the Council of Australian Governments' (COAG) meeting in February 2006 to achieve better health for all Australians, particularly through programs that place a greater emphasis on promotion, prevention and early intervention.
- ◆ Integrated Primary Health and Community Care Services will be established to integrate general practitioners, community health workers, allied health and other medical professionals to provide multidisciplinary care and focus on early intervention and prevention programs.
- ◆ Workforce reforms will be implemented, which include: expanding the Nurse Practitioner program to provide opportunities for experienced nurses to practice at an advanced level; enhancing recruitment and retention strategies for key health professional such as nurses and dental officers; and working through COAG to reform the training, accreditation and registration of clinicians.
- ◆ Investment in mental health services will be increased with a focus on community based care and early intervention to manage people with mental illness more effectively.

EDUCATION

The Government is committed to a quality public education system that provides equitable opportunities for all students to develop and contribute to a productive and cohesive society.

Education expenditure in 2006-07 will be over \$10 billion. This is an increase of 17.8 per cent or over \$1.5 billion since 2002-03. The growth has varied from year to year, predominantly due to the timing of teachers wage increases. Additional expenditure has also targeted a broad range of educational improvements including literacy and numeracy programs, teaching quality, reduced class sizes in Kindergarten, Year 1 and Year 2, supporting students with special needs, and a range of technology initiatives including computers in schools and faster access to the internet. An additional 1,500 teacher positions are being created to reduce class sizes in K-2 to State-wide averages of 20, 22 and 24 children, respectively.

NSW school students have achieved very high levels of reading, mathematical and scientific literacy, with only Finland achieving a better result in reading literacy. Retention rates in Government schools have also increased by 4.8 per cent since 2000.

The overall growth in education expenditure has been partly offset by a significant reclassification of expenditure to transport from more accurate usage information under the new bus contracts for the school student transport scheme. In addition, the growth in education expenditure has been tempered slightly by reducing student numbers in Government schools. Overall, the increase in expenditure in government schools since 2002-03 is around 21 per cent.

The 2006-07 total expenses for the Department of Education and Training will be over \$9.9 billion. This is an increase of \$423 million, or 4.4 per cent on the 2005-06 Budget. The main factors include a 4 per cent salary increase for teaching and administrative staff, further implementation of the class size reduction program and an additional \$30 million for school maintenance works.

In the longer term a more modest outlook is anticipated for education expenditure mainly due to:

- ◆ declining student numbers over the total primary and secondary education system; and
- ◆ a moderation in the rates of wage increases following recent significant increases in salaries.

TRANSPORT

The transport policy area has two components: the management of the road system and users – undertaken by the Roads and Traffic Authority (RTA); and the provision of public transport which is funded through the Ministry of Transport.

An efficient transport system is intrinsic to a productive State economy as well as connecting individuals to the community and maintaining their well-being.

Public transport enables some 275 million annual rail journeys and 300 million bus journeys, or around 11 per cent of total journeys in the Greater Sydney Region. The rail system comprises around 1,360 kilometres of electrified track supporting around 2,400 services per week day to 304 train stations. Metropolitan buses travel over 100 million kilometres annually.

The road network supports an estimated 65 billion kilometres of motor vehicle travel annually. This includes an estimated 11 million car trips each working day in the Sydney region. Across the State the RTA is directly responsible for around 17,500 kilometres of State roads and for 3,000 kilometres of regional and local roads (in unincorporated areas). It also supports around 18,500 kilometres of local arterial routes managed by local Councils. The RTA also regulates the 4.4 million licensed motor vehicle drivers and 4.8 million registered vehicles.

The total forecast Budget expenditure on transport in 2006-07 is \$5.1 billion. This is a 4.5 per cent increase on the forecast for 2005-06 and follows an average increase of 10.2 per cent per annum over the period from 2002-03 to 2005-06.

Growth in expenses over the four years up to 2006-07 predominantly reflects a series of steps up in the level of support for public transport, which comprises approximately 55 per cent of total transport expenses. The major component of the increase in public transport is additional funding to improve the performance of rail services. There has also been significant additional funding for bus reform, which will lead to improved services where they are needed.

RTA's expenses are budgeted to grow by around 4.1 per cent next year (to around \$2.4 billion), after having grown by 5.8 per cent per annum over the last four years. This reflects the more stable nature of its hypothecated revenues (vehicle taxes and Federal grants) and other Budget funding (which is linked to the Consumer Price Index and vehicle registrations).

Grants for passenger rail services (including grants to RailCorp and to the Transport Infrastructure Development Corporation) have grown by an average of 15 per cent per annum over the last four years. They are budgeted to grow by 17.5 per cent next year compared to the 2005-06 Budget to around \$2.2 billion. The FreightCorp sale in February 2002 and the lease in September 2004 of the interstate and Hunter Valley rail networks to the Australian Rail Track Corporation has reduced spending in freight services.

This growth in funding for passenger services reflects several related factors including:

- ◆ the growth in Budget grants for capital spending for rail, almost doubling from \$331 million in 2000-01 to \$605 million in 2005-06 which reflects major acquisitions (new Millennium and outer suburban rolling stock and the Epping Chatswood Rail Link).
- ◆ the steep increase in funding for City Rail maintenance commencing in 2000-01;

- ◆ the stagnation of City Rail revenue. Over the period from 2000-01, regulated fare revenue only increased by around 1 per cent per annum on average despite expenses increasing by an average of around 10.4 per cent per annum;
- ◆ major service initiatives including recruiting and training 600 transit officers and recruiting new drivers and guards (around 350 since January 2004); and
- ◆ maintaining total passenger rail workforce numbers (now around 14,000) and continued real wage increases.

The focus of the additional funding is not merely to maintain current performance, but to lay a foundation to secure the improved performance of City Rail into the next decade. Early trends suggest there is already an impact on performance. There are an additional 90,000 passengers a week this year compared to two years ago. This has coincided with improved reliability engendered by a new timetable.

Funding for Government and private bus services and other private transport, including the School Student Transport Scheme, will be up 7.6 per cent to \$822 million in 2006-07. This compares to \$764 million in 2005-06 which in turn was up 11.6 per cent from \$684 million in 2004-05 prior to the commencement of bus reform. The new contractual funding arrangements for bus services have improved transparency, particularly for the cost of school student transport. (Note, this has resulted in the reclassification of around \$120 million in expenditure from education to transport expenditure as reported on a GFS basis and shown in Table 2.3).

The future rate of growth of funding for transport will be impacted by several factors:

- ◆ the lumpy nature of rail and road capital spending which in turn may result in changed recurrent grants (in the case of rail) or a switch between recurrent and capital expenditure (in the case of the RTA);
- ◆ the completion of Budget funding for the Epping Chatswood Rail Link, including the delivery of the new Parramatta Interchange (\$193 million in 2005-06, \$157 million in 2006-07 and \$19 million in 2007-08 including contributions from the Parking Space Levy);
- ◆ the delivery strategy for major new rail initiatives, including 600 new passenger carriages and the Clearways program, which will be financed by a Private Public Partnership and from RailCorp's borrowings respectively; and

- ◆ in the longer term, a more stable operating environment for the rail system as the major components of the rail improvement plan are rolled out including timetable changes, progressive delivery of the first of the rail clearway projects and new generation rolling stock.

The rate of expenditure growth on roads will be tempered as it is directly linked to the level of hypothecated funding (vehicle taxes and charges), with the portion of Budget funding also tied to growth in the Consumer Price Index and vehicle registrations. Additional announced grants from the Commonwealth Government totalling \$960 million do not directly impact expenditure as they are allocated for capital construction projects only, and not for operating expenditure which includes maintenance.

The outcomes produced by the transport network are significantly impacted by the peak nature of travel. A level of peak congestion is unavoidable in the absence of a massive increase in capacity and alteration of the urban environment. This is particularly the case in Sydney where new projects (including the nearly complete City orbital road network and the Epping Chatswood Rail Link) must use expensive tunnel systems to cross developed urban areas.

Nevertheless, a mixture of innovation (electronic tolling), new infrastructure and traffic management has resulted in relatively stable average motor vehicle speeds during peak periods across the seven major routes to and from Sydney.

PUBLIC ORDER AND SAFETY

The public order and safety sector has broadly two areas: the criminal justice system; and emergency services. The criminal justice system is the largest area with approximately 80 per cent of sector expenditure.

The key result for the criminal justice system is fostering a safer community. A safer community is achieved by reducing crime and improving public safety, providing a responsive judicial system that protects people's rights and a correctional system that reduces the risks of re-offending.

The services and performance of criminal justice agencies are often sequential and interdependent. The key results of one agency can be influenced by the performance of other agencies as a person moves from one agency to another until their matter is finalised.

Since 2002-03, expenditure on the public order and safety sector has grown steadily. Over this period expenditure in the sector has increased by 25.4 per cent driven mainly by more police and higher numbers of inmates in the correctional system.

In response to community concerns police numbers have increased from 13,716 at 30 June 2002 to 14,579 at 28 February 2006. Additional police have been deployed to specialised operations and taskforces such as Taskforce Gain, now the Middle Eastern Organised Crime Squad, and the Counter Terrorism Coordination Command. Other policing operations include high visibility policing such as Operation Vikings. The Vikings operations deploy large numbers of police into identified crime areas with the aim of reducing crime and anti-social behaviour. In the three years to 30 June 2006 NSW Police will have conducted around 1,350 Viking Operations at a total cost of over \$10.5 million.

NSW Police is approximately 40 per cent of the sector and is a major driver, both directly and indirectly, of the sector's expenditure growth with an increase of 25.3 per cent between 2002-03 and 2006-07. As well as increasing police numbers the growth in police expenditure is due to funding for the infrastructure that supports police operations, including equipment, maintenance and an extensive ongoing upgrade of information technology infrastructure.

In 2006-07 an additional \$48.2 million (\$67.7 million per annum) will be spent on training and deployment of an additional 750 police officers. Police numbers will increase to an average authorised number of 15,206 by 2007.

Increased policing activities and investigations have impacted on the courts system. Since 2002 the number of criminal cases finalised in the Supreme, District and Local Courts has increased by 24 per cent with the largest increase occurring in the Local Court.

The flow-on effect from legislative changes and the criminal courts is an increase in the number of inmates within correctional centres and offenders on community based programs. Between June 2002 and April 2006 the number of full time inmates has increased from 7,667 to in excess of 9,200 reflecting recent legislative amendments that impose longer prison sentences and make obtaining bail more difficult. Changes in bail laws have increased the number of people on remand from around 1,500 in June 2002 to around 2,150 in April 2006. Expenditure in the Department of Corrective Services has increased by 26 per cent from 2002-03 to 2006-07.

The outlook for expenditure growth is modest, reflecting the recent growth in police numbers. In addition, the Bureau of Crime Statistics and Research (BOCSAR) has been reporting reduced or stable crime rates in the majority of crime categories since 2002. The latest BOCSAR report shows that since December 2003 there were significant decreases in seven of the sixteen major crime categories and stability in eight of the remainder.

BOCSAR has also recently examined long term trends in property and violent crime. The analysis showed that robbery with firearm, burglary and car theft are at their lowest level in 15 years. Furthermore, compared to 1995 the rate of robbery with a firearm is 39 per cent lower, murder 37 per cent lower, motor vehicle theft 44 per cent lower, and break and enter dwelling 26 per cent lower.

COMMUNITY AND DISABILITY SERVICES

The Government provides community and disability services to support those who are most disadvantaged in our community or who are at a time of crisis. There is a wide range of responsive services including accommodation for people with a disability and people facing homelessness. Support and intervention services help families and children at risk and frail older people and also assist people with a disability to participate in community life and remain with their families.

Access to community and disability services that improve life outcomes is a priority for the Government. To meet this commitment, total expenditure in this area will reach \$3.4 billion in 2006-07, representing 7.9 per cent of general government expenditure.

The key results of community and disability agencies are inter-related with many people being assisted by more than one of these agencies at different stages of their lives. The Government recognises that interventions early in a person's life or early in the life-cycle of a problem can improve overall outcomes and reduce the severity of later problems.

Future directions in community and disability services are being informed by international research and trends in demand. For instance, early childhood interventions of high quality have been shown to have lasting effects on learning and motivation and hence life opportunities. Providing support when a family caring for a relative begins to face too many pressures can allow the family to continue to care for their relative in a home environment in the longer term.

In focussing on early intervention and prevention, key demand factors, especially for crisis-end services, need to be understood. For instance, increasing community concern and awareness of child abuse, legislative change and wider societal pressures explains increased demand for child protection services.

The Department of Community Services has seen a 555 per cent increase in child protection reports over the period 1995-96 to 2004-05. This has coincided with legislative change, the introduction of centralised reporting and greater community awareness. In December 2002, the Government responded by committing to a \$1.2 billion increase in funding for the Department over five years (\$308.4 million in 2006-07). A major focus has been on building case worker numbers and enhancing responses to child protection notifications. The package also supports at risk children and families before they reach notification status.

Over the next two years, \$97.5 million will be provided from the funding package for early intervention and prevention. This will support the development of children and young people, improving their families' capacity to care for them. A range of services will be provided to families including supported playgroups, centre-based childcare, sustained home visiting and parental education. Despite continuing demand pressures, over time, the package is expected to help moderate demand for child protection services.

The importance of developing social and learning skills early in life is now well documented. Within this context, the Government has an objective of improving access to a quality pre-school program in the year before school. Once the existing community pre-schools sector has been stabilised, an additional \$21 million per annum will be provided from 2008-09 to expand community-based services. This will provide subsidised pre-school programs for an extra 10,500 children, bringing levels of attendance at pre-school programs in New South Wales to 95 per cent, a level comparable with other States.

Spending on disability services has grown significantly over the last five years. For example, the period from 2001-02 to 2005-06 has seen an expenditure increase of over 38 per cent. This reflects demand pressures such as ageing carers and improved life expectancies for people with a disability, and wage and other service cost increases including in the non-government sector.

The Government has recently announced a new ten-year strategy *Stronger Together: A new direction for disability services*. *Stronger Together* will provide more assistance for people with disabilities to live in their own home and will also increase the range of options for people who require specialist accommodation. Expenditure by the Department of Ageing, Disability and Home Care will be \$1.8 billion in 2006-07, with five year funding allocated to initiatives under *Stronger Together*. There are more places and options including for respite care, therapy programs, day programs and intensive personal care (attendant care). There will be fairer and clearer ways to access services, greater accountability and more opportunities for innovation.

Aboriginal people within the community remain disadvantaged with various economic and social indicators showing considerable disparity in outcomes. The Government's continued commitment to Aboriginal communities has been demonstrated through roll-out of the \$40 million four year *Two Ways Together Package*, with \$9.5 million being provided in 2006-07. Priority issues including health, education, families and youth are targeted with a strong preventative and early intervention focus.

In addition, the Aboriginal Communities Development Program continues to provide infrastructure to raise the health and living standards of 22 selected, priority Aboriginal communities. This program has a strong prevention focus. For instance, *Housing for Health* improves the condition and safety of houses making them healthier environments in which to live. Completion of the ten year, \$240 million program is planned in 2007-08 with expenditure of \$37.6 million in 2006-07.

ENVIRONMENT

The environment policy area contrasts with other portfolios which tend to deliver immediate services to an identifiable set of clients (for example, public transport, schools, and hospitals). Environmental and related natural resource management strategies aim to protect and sustain the natural environment – water, air, land – and its natural life for the benefit of both current and future generations.

Expenditure is not demand driven. It is influenced by the changing values of the community, the absolute condition of the environment, the need to strike a balance between environmental protection and economic growth and by the opportunities available to the Government to generate a positive change.

Direct environmental expenditures constitute around 2 per cent per annum of total budget expenditures – and have grown by an average 4 per cent per annum over the last four years. However, year-on-year changes have been volatile reflecting the opportunities presented to the Government. For example, in 2002-03 expenditure grew by 24 per cent reflecting an increase of \$109 million for the remediation of the former BHP lands acquired in Newcastle.

In recent years the Government has pursued a broad range of initiatives aimed at reducing environmental degradation and pollution, conserving the State's natural and cultural heritage, fostering sustainable consumption, resource use and waste management and improving the management of the key natural resources of land and water, and of the coastal environment. Given the complexity of the environmental and natural resource issues which we face, these initiatives incorporate a number of different approaches. Much of Government activity relates to environmental and natural resource regulation, including regulation of resource access and the use of market instruments to alter individual behaviour. Other activities relate to direct intervention to halt environmental degradation and protect and restore the natural environment. In addition, substantial payments are being made to assist individuals and entities adjust to reductions in resource access aimed at protecting the resource base.

In its role of environmental regulator, the Government has sought to protect the environment from degradation by developing a sophisticated suite of regulatory mechanisms, including market instruments. It has also adopted a more integrated approach to land use development through the planning system to ensure environmental impacts are considered at the planning stage.

In line with its commitment to a comprehensive, adequate and representative reserve system, the Government has continued to expand the national park estate. Since 1995-96 some 350 parks and reserves have been created, primarily in eastern New South Wales, taking the estate to around 6.6 million hectares. Future expansion will occur predominantly in western New South Wales. This shift in focus is evident in the two most recent additions, the Brigalow and Nandewar Community Conservation Area in northern New South Wales and Yanga Station in south-western New South Wales.

In addition to a direct role in conserving the State's natural heritage, the Government is also pursuing innovative mechanisms for encouraging conservation on private land. The most recent is the Government's proposed Biodiversity Banking Scheme, which is currently under development.

A major challenge facing the State is dry-land salinity and allocation of the State's scarce water resources. In response, the Government has reformed the way in which land and water resources are allocated and managed. These reforms include the establishment of thirteen Catchment Management Authorities (CMAs) to engage communities in natural resource management and deliver projects to restore the natural resource base in their catchment, using both State and Commonwealth monies. The Government has also established the Natural Resources Commission as an independent source of advice on natural resource management issues, including providing a framework to guide the work of CMAs.

In December 2005, the Government commenced the *Native Vegetation Act 2003* as the cornerstone of the Government's commitment to end broad scale land clearing and preserve native vegetation. The Government is continuing delivery on the NSW commitment to water reform under the National Water Initiative, through continued implementation of the *Water Management Act 2000* and ongoing participation in the "Living Murray" and "Water for Rivers" programs.

Also in late 2005, the Government announced the \$439 million City and County Environment Restoration Program to commence from 1 July 2006, aimed at addressing key environmental and natural resource management issues, including preserving important wetland areas, continuing the Government's program of establishing marine parks and reducing the ecological footprint of urban centres.

In 2006-07, expenditure is budgeted to increase sharply, by 21 per cent. This is driven primarily by three factors:

- ◆ increases in the Department of Environment and Conservation's Environment and Protection program, due to the commencement of the City and Country Environment Restoration Program. Components to be implemented by the Department include the Riverbank program to secure water rights and sustainable water flows for conservation areas and initiatives to improve resource recovery and control the illegal disposal of waste;
- ◆ increases in the Environmental Trust's grants program, also under the City and Country Environment Restoration Program, including urban sustainability grants to local councils and grants to farmers as part of native vegetation reform; and
- ◆ increased expenditure by the thirteen CMAs as they roll out \$436 million in Commonwealth-State funding being channelled through the CMAs to meet catchment management priorities.

This step up in funding is unlikely to be matched by similar increases in future years unless offset by increases in revenue, for example, from environmental charges applied to modify environmentally damaging behaviour.

2.4 STRENGTHENING THE BUDGET SYSTEM

In the *Economic and Financial Statement* the Government committed to developing a new Performance Management and Budgeting System for implementation for the 2008-09 Budget process.

It is important that the Budget focuses on the outcomes the Government is seeking to achieve. The Government has already been working in this area through the development of agency Results and Services Plans.

The key objective of the new system will be to ensure that the Government is doing all it can to use expenditure to serve the public better.

What has been achieved so far

All budget dependent general government agencies now prepare a Results and Services Plan. These plans are being integrated with agency corporate planning and reporting processes.

The Results and Services Plans are used to inform Government decisions about the level of agency funding and any required budget enhancements or efficiencies. The Results and Services Plan is the way agencies can explain how funding proposals will impact on what they can achieve; it is also how the Government can assess the need for existing and new services.

To complement these enhancements to the Budget process, the Expenditure Review Committee of Cabinet was set up by the Premier in August 2005 to lead periodic review of agencies' allocations.

What will be done next

The new Performance Management and Budgeting System will build on the Results and Services Plan approach to establish even stronger links between planning and the funding, monitoring and reporting elements of a performance management cycle.

First, the new system will ensure that direct expenditure on services is clearly linked to Government priorities.

By end September this year the Government will publish its commitment to *Serving the Public Better*. This will be the basis for priority setting within Government. It will also provide a framework for agreeing performance expectations in Results and Services Plans in subsequent Budget years.

As a transitional measure, the 2006-07 Budget Papers have a stronger focus on the results to be achieved for the community. More information on these changes is available in Volume 1 of Budget Paper No. 3.

Second, the new system will continue the drive for efficiency and value for money, and strengthen accountability across Government for delivering high quality public services within budget allocations.

The Expenditure Review Committee of Cabinet will continue to play a critical role in reviewing the effectiveness of agencies' allocations and driving the focus on achieving value for money.

Third, the new system will promote the development of quantifiable measures of services that test and demonstrate the effectiveness of services and value for money.

The Results and Services Plan approach already encourages agencies to set measurable results and to develop a core set of performance indicators. The Government will continue to improve the quality of performance measurement by targeting further improvement in the performance information reported by the major budget dependent agencies.